AliKat Investments, Inc. and Subsidiary

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2015 and 2014

BKD LLP
CPAs & Advisors

AliKat Investments, Inc. and Subsidiary

December 31, 2015 and 2014

Contents

BKD LLP
CPAs & Advisors

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Independent Auditor's Report

Board of Directors
AliKat Investments, Inc.
Gurnee, Illinois

We have audited the accompanying consolidated financial statements of AliKat Investments, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 AliKat Investments, Inc. and Subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Oakbrook Terrace, Illinois
February 22, 2016

AliKat Investments, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2015 and 2014

Assets

	2015	2014
Cash and cash equivalents		
Cash and due from banks	$ 3,009,215	$ 1,616,190
Interest bearing deposits in Federal Reserve Bank and other banks	33,171,432	28,321,916
Total cash and cash equivalents	36,180,647	29,938,106
Investment securities		
Available-for-sale	1,029,848	1,014,125
Held-to-maturity	6,630,192	10,676,493
Federal Home Loan Bank and Federal Reserve Bank stock	1,762,150	1,762,150
Loans	158,168,859	172,584,938
Allowance for loan losses	(4,325,521)	(4,442,250)
Premises and equipment, net	4,561,423	4,735,574
Other real estate owned	5,022,397	6,770,720
Accrued interest receivable	343,308	430,070
Net deferred tax assets	10,032,249	10,537,277
Bank owned life insurance	8,562,096	8,338,458
Refundable income taxes	-	312,652
Other assets	96,847	64,586
Total assets	$ 228,064,495	$ 242,722,899

See Notes to Consolidated Financial Statements

Liabilities and Shareholders' Equity

	2015	2014
Liabilities		
Deposits		
Non-interest bearing	$ 32,354,729	$ 28,513,668
Interest bearing	140,474,513	157,751,740
Total deposits	172,829,242	186,265,408
Long-term borrowings	13,500,000	15,950,000
Other liabilities	1,560,142	1,490,819
Total liabilities	187,889,384	203,706,227
Shareholders' Equity		
Preferred stock, par value $.01 per share; authorized 25,000 shares	-	-
Common stock, par value $.01 per share; authorized 1,200,000 shares; issued and outstanding 585,566 and 583,522 shares at December 31, 2015 and 2014, respectively	5,856	5,835
Additional paid-in capital	20,512,625	20,389,802
Common stock acquired by Rabbi Trusts for deferred compensation agreements; 92,014 and 89,970 shares at December 31, 2015 and 2014, respectively	(5,115,795)	(4,968,519)
Deferred compensation agreements; 92,014 and 89,970 shares at December 31, 2015 and 2014, respectively	5,115,795	4,968,519
Retained earnings	19,672,684	18,633,523
Accumulated other comprehensive loss	(16,054)	(12,488)
Total shareholders' equity	40,175,111	39,016,672
Total liabilities and shareholders' equity	$ 228,064,495	$ 242,722,899

AliKat Investments, Inc. and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2015 and 2014

	2015	2014
Interest Income		
Interest and fees on loans	$ 7,454,058	$ 8,944,694
Interest and dividends on investment securities	222,551	215,133
Interest on deposits in Federal Reserve Bank and other banks	112,037	97,541
Total interest income	7,788,646	9,257,368
Interest Expense		
Interest on deposits	256,801	320,089
Interest on short-term borrowings	24	3
Interest on long-term borrowings	334,954	1,392,130
Total interest expense	591,779	1,712,222
Net Interest Income	7,196,867	7,545,146
Recovery from Loan Losses	1,145,000	-
Net Interest Income after Recovery for Loan Losses	8,341,867	7,545,146
Other Income		
Fees for customer services	202,068	261,196
Other operating income	359,682	374,071
Securities gain	-	15,000
Debt retirement gain	-	1,627,658
Total other income	561,750	2,277,925
Other Expenses		
Salaries and employee benefits	3,122,309	3,173,644
Occupancy and equipment expense	803,051	805,989
Other real estate owned and repossessed asset expense	1,676,065	2,030,954
FDIC assessment	305,000	290,000
Other	1,437,874	1,422,218
Total other expenses	7,344,299	7,722,805
Income before Income Taxes	1,559,318	2,100,266
Income Tax Expense	520,157	810,817
Net Income	$ 1,039,161	$ 1,289,449

AliKat Investments, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2015 and 2014

	2015	2014
Net Income	$ 1,039,161	$ 1,289,449
Other Comprehensive Income (Loss), Net of Tax		
Unrealized holding gains (losses) arising during the period	(3,566)	29,754
Less reclassification adjustment for gains included in net income	-	(15,000)
Other comprehensive income (loss)	(3,566)	14,754
Comprehensive Income	$ 1,035,595	$ 1,304,203

AliKat Investments, Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2015 and 2014

	Common Stock		Additional Paid-In	Common Stock Acquired by
	Shares	Amount	Capital	Rabbi Trusts
Balance, January 1, 2014	581,361	$ 5,814	$ 20,264,485	$ (4,843,181)
Net income	-	-	-	-
Other comprehensive income	-	-	-	-
Shares sold	2,161	21	125,317	-
Shares acquired by Rabbi Trusts for deferred compensation agreements	-	-	-	(125,338)
Balance, December 31, 2014	583,522	5,835	20,389,802	(4,968,519)
Net income	-	-	-	-
Other comprehensive loss	-	-	-	-
Shares sold	2,044	21	122,823	-
Shares acquired by Rabbi Trusts for deferred compensation agreements	-	-	-	(147,276)
Balance, December 31, 2015	585,566	$ 5,856	$ 20,512,625	$ (5,115,795)

See Notes to Consolidated Financial Statements

Deferred Compensation Agreements	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
$ 4,843,181	$ 17,344,074	$ (27,242)	$ 37,587,131
-	1,289,449	-	1,289,449
-	-	14,754	14,754
-	-	-	125,338
125,338	-	-	-
4,968,519	18,633,523	(12,488)	39,016,672
-	1,039,161	-	1,039,161
-	-	(3,566)	(3,566)
-	-	-	122,844
147,276	-	-	-
$ 5,115,795	$ 19,672,684	$ (16,054)	$ 40,175,111

AliKat Investments, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Net income	$ 1,039,161	$ 1,289,449
Items not requiring (providing) cash		
Net premium amortization	13,838	14,780
Provision for depreciation	187,785	182,544
Recovery from loan losses	(1,145,000)	-
Gain on sale of investment securities	-	(15,000)
Loss on sale of other real estate owned	59,953	489,913
Provision for loss on other real estate owned and repossessed assets	1,400,000	2,692,206
Provision for deferred income tax	507,291	797,416
Income from bank owned life insurance	(223,638)	(238,196)
Debt retirement gain	-	(1,627,658)
Decrease in accrued interest receivable	86,762	77,422
(Increase) decrease in refundable income taxes	312,652	(90,000)
(Increase) decrease in other assets	(7,829)	68,235
Increase (decrease) in other liabilities	44,891	(6,574,003)
Net cash provided by (used in) operating activities	2,275,866	(2,932,892)
Investing Activities		
Proceeds from securities held-to-maturity	4,423,219	3,545,557
Proceeds from securities available-for-sale	-	90,000
Purchase of securities held-to-maturity	(4,389,671)	(5,593,040)
Purchase of securities available-for-sale	(21,552)	(21,551)
Net purchase of commercial paper	3,998,915	369,213
Redeemed Federal Home Loan Bank stock	-	79,900
Net decrease in loans	15,284,475	14,538,292
Proceeds from sale of other real estate owned	448,245	6,501,207
Capital expenditures	(13,634)	(116,304)
Net cash provided by investing activities	19,729,997	19,393,274

AliKat Investments, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Financing Activities		
Net decrease in deposits	(13,436,166)	(26,906,267)
Payment on long-term debt	(2,450,000)	(10,472,342)
Issuance of stock	122,844	125,338
Net cash used in financing activities	(15,763,322)	(37,253,271)
Net Increase (Decrease) in Cash and Cash Equivalents	6,242,541	(20,792,889)
Cash and Cash Equivalents at Beginning of Year	29,938,106	50,730,995
Cash and Cash Equivalents at End of Year	$ 36,180,647	$ 29,938,106
Supplemental Schedule of Noncash Investing and Financing Activities		
Net earnings of the 401(k) trusts	$ 147,276	$ 46,073
Net unrealized gain (loss) on investment securities available-for-sale, net of deferred income taxes	$ (3,566)	$ 14,754
Transfer from loans to other real estate owned and repossessed assets	$ 159,875	$ -
Supplemental Cash Flow Information		
Cash payments for		
Interest on deposits	$ 260,222	$ 330,900
Interest on borrowings	469,799	6,318,814
Income taxes	26,267	90,000
Cash received from		
Income taxes	312,652	-

Note 1: Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles and conform to practices within the banking industry.

Nature of Operations

AliKat Investments, Inc. (Company) is a bank holding company and through its banking subsidiary, NorthSide Community Bank, offers a broad range of financial services to customers in the Illinois counties of Cook and Lake. The financial services offered are principally orientated toward individual consumers and small and medium sized businesses and are typical of those offered by a commercial bank.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, NorthSide Community Bank (Bank). Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

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

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

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

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise from transactions and other events from non-shareholder sources. Comprehensive income (loss) includes net income (loss) and other changes in shareholders' equity, which bypass the statement of income. For all periods presented, other comprehensive income (loss) includes only one component, the change in unrealized gains (losses) on available-for-sale investment securities.

Cash and Cash Equivalents

Cash and cash equivalents include interest bearing and non-interest bearing amounts due from depository banks and federal funds sold with original maturities of three months or less.

Interest-bearing Deposits in Other Banks

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

Investment Securities

Accounting principles generally accepted in the United States of America require that debt and equity securities be classified into one of three reporting categories and accounted for as follows: (1) held-to-maturity securities reported at amortized cost, (2) trading securities reported at fair value with unrealized gains and losses included in earnings, and (3) available-for-sale securities reported at fair value with unrealized gains and losses net of related taxes reported as an increase or decrease in other comprehensive income.

Securities held-to-maturity are securities that the Company has the intent and ability to hold to maturity and are carried at cost adjusted for amortization of premium and accretion of discount, generally computed using the interest method.

The amortization of premiums and accretion of discounts are recognized as adjustments to interest income in a manner that approximates the level-yield method. Realized gains and losses on securities sold are computed based on the adjusted cost of the specific securities sold.

Securities available-for-sale are securities that are intended to be held for indefinite periods of time but which may not be held to maturity. These securities may be used as a part of the Company's asset/liability management strategy and may be sold in response to changes in interest rates, deterioration of issuer's creditworthiness, or due to a desire to increase capital or liquidity.

Realized securities gains and losses are determined on a specific identification basis and are reported in the consolidated statement of operations as securities gains and losses.

Loans

The Company's loan portfolio includes commercial, commercial real estate, residential real estate, installment and other segments. Commercial real estate includes classes for construction, multi-family, industrial/manufacturing, retail and restaurant, and other commercial real estate loans. Residential real estate includes classes for 1-4 family and home equity lines of credit.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on all loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: commercial, commercial real estate, residential real estate, installment and other. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Commercial

Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Commercial Real Estate

Loans in this segment are primarily income-producing properties throughout the Chicago area. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans. Loans in this segment also include speculative real estate development loans for which payment is derived from sale of the property.

Residential Real Estate

Loans in this segment primarily include owner-occupied 1-4 family residences secured by 1st liens. The Company generally does not originate loans with a loan-to-value ratio greater than 75 percent and does not generally grant loans that would be classified as subprime upon origination. All loans in this segment are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower or borrowers. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Installment

Loans in this segment are generally to individuals and are supported by non-real estate collateral. The repayment is dependent on the credit quality of the individual borrower.

Other

Loans in this segment consist of overdrafts and term federal funds sold.

Allocated Component

The allocated component relates to loans that are classified as impaired. Based on internal credit ratings, loans are evaluated for impairment on a loan-by-loan basis. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDRs are classified as impaired.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

<u>Credit-Related Financial Instruments</u>

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under lines of credit and standby letters of credit. Such instruments are recorded when they are funded.

<u>Premises and Equipment</u>

Premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line method based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized.

<u>Other Real Estate Owned</u>

Property acquired in satisfaction of debts or through foreclosure is valued at the lower of fair value or the recorded investment in the related loan. At foreclosure, if the fair value of the property acquired is less than the recorded investment in the related loan, a write down is recognized by a charge to the allowance for possible loan losses. The cost of carrying the assets subsequent to foreclosure and any decrease in the market value occurring after that date are treated as charges to operations in the year incurred. When the property is not in a condition for use or sale at the time of foreclosure, completion and holding costs necessary to bring it into such a state are capitalized, provided that such costs do not in aggregate exceed the lower of fair value or the recorded investment in the related loan. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Income Taxes

The Company files consolidated income tax returns with its subsidiary, NorthSide Community Bank. Each member of the consolidated group provides for income taxes on a separate return basis and is charged or credited by the Company with the tax or tax benefit shown in a separate return. The provision for income taxes is based on amounts reported in the statement of operations adjusted for differences that do not enter into the computation of taxes payable under applicable laws. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of the Company's assets and liabilities. Measurement of deferred tax assets and liabilities is based upon the provision of enacted tax laws and the effects of future changes in tax laws or rates. The Company recognizes the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before the 2012 tax year.

Note 2: Investment Securities

The amortized cost of securities and their approximate fair values as of December 31, 2015 and 2014, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Available-for-sale				
Mutual funds - CRA Fund	$ 1,056,088	$ -	$ 26,240	$ 1,029,848
Held-to-maturity				
U.S. Government agencies	$ 2,000,000	$ 541	$ -	$ 2,000,541
State and political subdivisions	4,630,192	1,959	2,971	4,629,180
	$ 6,630,192	$ 2,500	$ 2,971	$ 6,629,721

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
Available-for-sale				
Mutual funds - CRA Fund	$ 1,034,536	$ -	$ 20,411	$ 1,014,125
Held-to-maturity				
U.S. Government agencies	$ 1,000,000	$ -	$ 4,021	$ 995,979
Commercial paper	3,998,915	-	-	3,998,915
State and political subdivisions	5,677,578	666	6,434	5,671,810
	$ 10,676,493	$ 666	$ 10,455	$ 10,666,704

The amortized cost and fair value of the securities at December 31, 2015, by contractual maturity, are as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -	$ 2,760,935	$ 2,761,037
Due after one year through five years	-	-	3,004,730	3,004,157
Due after five years through ten years	-	-	864,527	864,527
Due after ten years	-	-	-	-
Equity securities and mutual funds	1,056,088	1,029,848	-	-
	$ 1,056,088	$ 1,029,848	$ 6,630,192	$ 6,629,721

Federal Home Loan Bank and Federal Reserve Bank stock are carried at amortized cost as no market exists for the stock.

No securities were pledged to secure securities sold under agreements to repurchase or public funds.

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

	Less Than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2015						
Held-to-maturity						
State and political subdivisions	$ 798,792	$ 1,208	$ 410,050	$ 1,763	$ 1,208,842	$ 2,971
Available-for-sale						
Mutual funds - CRA Fund	$ -	$ -	$ 1,029,848	$ 26,240	$ 1,029,848	$ 26,240
December 31, 2014						
Held-to-maturity						
U.S. Government	$ 995,979	$ 4,021	$ -	$ -	$ 995,979	$ 4,021
State and political subdivisions	1,305,456	6,434	-	-	1,305,456	6,434
	$ 2,301,435	$ 10,455	$ -	$ -	$ 2,301,435	$ 10,455
Available-for-sale						
Mutual funds - CRA Fund	$ -	$ -	$ 1,014,125	$ 20,411	$ 1,014,125	$ 20,411

Management evaluates securities for other-than-temporary impairment as economic or market concerns warrant such evaluation. Consideration is given to the length of time and extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovering in fair value.

Note 3: Loans

Loans at December 31, 2015 and 2014, are summarized as follows:

	2015	2014
Commercial	$ 11,800,664	$ 12,238,113
Commercial real estate	118,938,935	127,670,784
Residential real estate	23,280,112	28,873,251
Installment and other	4,210,373	3,898,542
	158,230,084	172,680,690
Net deferred origination costs (fee income)	(61,225)	(95,752)
	$ 158,168,859	$ 172,584,938

Loans to directors, executive officers and certain associates of the Company were made in the ordinary course of business and were made on substantially the same terms, including rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability or present other unfavorable features.

As of December 31, 2015 and 2014, loans aggregating $7,010,033 and $14,726,340, respectively, were outstanding to directors, executive officers and certain associates. During 2015, new loans aggregating $2,022,595 and amounts collected of $9,738,902 were transacted with such parties.

Note 4: Allowance for Loan Losses and Credit Quality Disclosures

Changes in the allowance for loan losses and the related loan balance information as of and for the years ended December 31, 2015 and 2014, are as follows:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment and Other	Unallocated	Total
December 31, 2015						
Allowance for loan losses						
Allowance for loan losses, beginning of year	$ 206,581	$ 2,109,168	$ 1,029,038	$ 15,268	$ 1,082,195	$ 4,442,250
Recovery from loan losses	(240,081)	(1,948,730)	(636,796)	(55,173)	1,735,780	(1,145,000)
Loan recoveries	33,500	835,010	181,240	42,000	-	1,091,750
	-	995,448	573,482	2,095	2,817,975	4,389,000
Loans charged off	-	(58,031)	(5,448)	-	-	(63,479)
Allowance for loan losses, end of year	$ -	$ 937,417	$ 568,034	$ 2,095	$ 2,817,975	$ 4,325,521
Allowance for loan losses, end of year						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	-	937,417	568,034	2,095	2,817,975	4,325,521
Total allowance for loan losses	$ -	$ 937,417	$ 568,034	$ 2,095	$ 2,817,975	$ 4,325,521
Loan balance, end of year						
Individually evaluated for impairment	$ 946,283	$ 4,570,357	$ 62,444	$ -	$ -	$ 5,579,084
Collectively evaluated for impairment	10,854,381	114,368,578	23,217,668	4,210,373	-	152,651,000
Total loan balance	$ 11,800,664	$ 118,938,935	$ 23,280,112	$ 4,210,373	$ -	$ 158,230,084

	Commercial	Commercial Real Estate	Residential Real Estate	Installment and Other	Unallocated	Total
December 31, 2014						
Allowance for loan losses						
Allowance for loan losses, beginning of year	$ 29,478	$ 2,573,933	$ 922,765	$ 3,604	$ 1,483,948	$ 5,013,728
Provision for loan losses	27,587	256,229	106,273	11,664	(401,753)	-
Loan recoveries	151,926	621,008	-	-	-	772,934
	208,991	3,451,170	1,029,038	15,268	1,082,195	5,786,662
Loans charged off	(2,410)	(1,342,002)	-	-	-	(1,344,412)
Allowance for loan losses, end of year	$ 206,581	$ 2,109,168	$ 1,029,038	$ 15,268	$ 1,082,195	$ 4,442,250
Allowance for loan losses, end of year						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	206,581	2,109,168	1,029,038	15,268	1,082,195	4,442,250
Total allowance for loan losses	$ 206,581	$ 2,109,168	$ 1,029,038	$ 15,268	$ 1,082,195	$ 4,442,250
Loan balance, end of year						
Individually evaluated for impairment	$ 988,703	$ 8,770,349	$ 71,262	$ -	$ -	$ 9,830,314
Collectively evaluated for impairment	11,249,410	118,900,435	28,801,989	3,898,542	-	162,850,376
Total loan balance	$ 12,238,113	$ 127,670,784	$ 28,873,251	$ 3,898,542	$ -	$ 172,680,690

The Company uses a graded loan rating system as a means of identifying potential problem loans.

Pass

Loans in these categories are considered “pass” rated loans with low to average risk.

Watch

Loans in this category are internally designated by management as “watch.” These loans are starting to show signs of potential weakness and are being closely monitored by management.

Substandard

Loans in this category are considered “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Doubtful

Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weakness inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all loans. Annually, the Company engages an independent third party to review a significant portion of the loan portfolio. Management uses the results of this review as part of its annual review process.

The following presents the loan balance based upon the Company’s loan rating system as of December 31, 2015 and 2014:

	Pass	Watch	Substandard	Doubtful	Total
December 31, 2015					
Commercial	$ 10,854,381	$ -	$ 946,283	$ -	$ 11,800,664
Commercial real estate					
Vacant and farmland	5,638,016	-	4,570,357	-	10,208,373
Multi-family	18,019,799	-	-	-	18,019,799
Industrial/manufacturing	21,943,587	-	-	-	21,943,587
Retail and restaurants	54,534,765	-	-	-	54,534,765
Other	14,232,411	-	-	-	14,232,411
Residential real estate					
1-4 family	18,385,333	486,091	-	-	18,871,424
Home equity	4,408,688	-	-	-	4,408,688
Installment and other	4,210,373	-	-	-	4,210,373
	$ 152,227,353	$ 486,091	$ 5,516,640	$ -	$ 158,230,084
December 31, 2014					
Commercial	$ 8,997,732	$ 2,251,678	$ 988,703	$ -	$ 12,238,113
Commercial real estate					
Vacant and farmland	5,259,518	-	6,900,738	-	12,160,256
Multi-family	16,211,497	1,354,809	-	-	17,566,306
Industrial/manufacturing	19,142,481	-	37,523	-	19,180,004
Retail and restaurants	60,425,953	127,942	623,115	-	61,177,010
Other	16,472,442	719,929	394,837	-	17,587,208
Residential real estate					
1-4 family	23,749,920	241,540	-	-	23,991,460
Home equity	4,881,791	-	-	-	4,881,791
Installment and other	3,898,542	-	-	-	3,898,542
	$ 159,039,876	$ 4,695,898	$ 8,944,916	$ -	$ 172,680,690

AliKat Investments, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The aging of the Company's loan portfolio as of December 31, 2015 and 2014 is as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loan Balance	Recorded Investment > 90 Days and Accruing
December 31, 2015							
Commercial	$ -	$ -	$ -	$ -	$ 11,800,664	$ 11,800,664	$ -
Commercial real estate							
Vacant and farmland	-	-	-	-	10,208,373	10,208,373	-
Multi-family	-	-	-	-	18,019,799	18,019,799	-
Industrial/ manufacturing	-	-	-	-	21,943,587	21,943,587	-
Retail and restaurants	-	-	-	-	54,534,765	54,534,765	-
Other	-	-	-	-	14,232,411	14,232,411	-
Residential real estate							
1-4 family	16,898	-	-	16,898	18,854,526	18,871,424	-
Home equity	-	-	-	-	4,408,688	4,408,688	-
Installment and other	-	-	-	-	4,210,373	4,210,373	-
	$ 16,898	$ -	$ -	$ 16,898	$ 158,213,186	$ 158,230,084	$ -
December 31, 2014							
Commercial	$ -	$ -	$ -	$ -	$ 12,238,113	$ 12,238,113	$ -
Commercial real estate							
Vacant and farmland	-	-	-	-	12,160,256	12,160,256	-
Multi-family	-	-	-	-	17,566,306	17,566,306	-
Industrial/ manufacturing	-	-	-	-	19,180,004	19,180,004	-
Retail and restaurants	-	-	-	-	61,177,009	61,177,009	-
Other	-	-	204,623	204,623	17,382,586	17,587,209	-
Residential real estate							
1-4 family	-	-	-	-	23,991,460	23,991,460	-
Home equity	-	-	-	-	4,881,791	4,881,791	-
Installment and other	-	-	-	-	3,898,542	3,898,542	-
	$ -	$ -	$ 204,623	$ 204,623	$ 172,476,067	$ 172,680,690	$ -

AliKat Investments, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following presents loans individually evaluated for impairment as of December 31, 2015 and 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015					
With no related allowance recorded					
Commercial	$ 946,283	$ 946,283	$ -	$ 967,921	$ -
Commercial real estate					
Vacant and farmland	4,570,357	10,332,757	-	4,960,729	-
Residential real estate					
1-4 family	62,444	121,305	-	66,521	4,158
	$ 5,579,084	$ 11,400,345	$ -	$ 5,995,171	$ 4,158
December 31, 2014					
With no related allowance recorded					
Commercial	$ 988,703	$ 988,703	$ -	$ 979,747	$ -
Commercial real estate					
Vacant and farmland	6,900,738	12,863,138	-	7,477,576	-
Multi-family	1,354,809	2,183,916	-	1,398,268	46,075
Industrial/manufacturing	37,523	37,523	-	38,340	2,313
Retail and restaurants	82,441	82,441	-	-	-
Other	394,838	1,110,296	-	829,490	14,710
Residential real estate					
1-4 family	71,262	130,123	-	75,098	4,694
	$ 9,830,314	$ 17,396,140	$ -	$ 10,798,519	$ 67,792

Nonaccrual loans at December 31, 2015 and 2014, are summarized as follows:

	2015	2014
Commercial	$ 946,283	$ 988,703
Commercial real estate		
Vacant and farmland	4,570,357	6,900,738
Retail and restaurants	-	204,623
	$ 5,516,640	$ 8,094,064

The following is a summary of loans modified as troubled debt restructurings during the years ended December 31, 2015 and 2014.

	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
2014 Troubled debt restructurings			
Commercial real estate	3	$ 1,949,205	$ 1,949,205

The troubled debt restructurings provide for modifications to the repayment terms, which include interest rates, payment structure and extension of maturity dates. The restructurings did not result in a forgiveness of principal. Management performs an impairment analysis on troubled debt restructurings. Any reserve required is recorded through the provision for loan losses.

The recorded investment of outstanding troubled debt restructurings as of December 31, 2015 and 2014, were $4,570,357 and $8,483,284, respectively.

The following is a summary of troubled debt restructurings modified during 2015 and 2014 that subsequently defaulted in the past 12 months.

	Number of Contracts	Recorded Investment
2015 Defaults on troubled debt restructurings		
Commercial real estate	1	$ 184,875

Note 5: Premises and Equipment

Premises and equipment are summarized as follows:

	2015	2014
Land	$ 1,428,206	$ 1,428,206
Building and improvements	4,955,893	4,948,743
Leasehold improvements	142,505	142,505
Equipment	1,796,912	1,790,428
	8,323,516	8,309,882
Accumulated depreciation	3,762,093	3,574,308
	$ 4,561,423	$ 4,735,574

Depreciation charged to operations amounted to $187,785 in 2015 and $182,544 in 2014.

The Company leases banking facilities under operating leases expiring through December 31, 2018. Under the terms of the leases, the Company is responsible for the tenants' share of operating expenses.

Minimum future obligations under noncancellable leases in effect at December 31, 2015, are as follows:

2016	$ 188,179
2017	182,400
2018	182,400
	$ 552,979

Rent expense amounted to $241,013 and $219,217 in 2015 and 2014, respectively.

Note 6: Foreclosed Assets for Sale

At December 31, 2015, the balance of real estate owned was $5,022,397, which includes $0 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2015, there were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Note 7: Deposits

Time certificates of deposit $100,000 and over included in interest-bearing deposits at December 31, 2015 and 2014, amounted to approximately $15,842,000 and $18,883,000, respectively.

The following table sets forth the maturities of the Company's time deposits at December 31, 2015:

Three months or less	$ 11,646,877
Over three months to one year	22,876,923
Over one year through three years	5,057,511
Over three years	1,146,751
Total	$ 40,728,062

Note 8: Long-term Borrowings

At December 31, 2015 and 2014, long-term borrowings consisted of the following:

	2015	2014
Arrangement with the Federal Home Loan Bank (FHLB) whereby the FHLB will make advances to the Bank with repayment terms from overnight to five years. The advances to the Bank are collateralized by all qualified one to four family first lien mortgages and multi-family, totaling approximately $24,814,000 at December 31, 2014. Outstanding advances at December 31, 2014 were as follows:		
FHLB advances, 2.01%, interest payable monthly, due in quarterly payments of $150,000 with balance due August 3, 2015.	$ -	$ 2,450,000
Junior Subordinated Debentures due June 24, 2035, interest payable quarterly at 5.91% until June 24, 2012, then at three-month LIBOR rate plus 1.75%. In 2009, the Company exercised its option to suspend payment of interest. During 2014, interest payments were made current.	10,000,000	10,000,000
Fixed/Floating Rate Junior Subordinated Deferrable Interest Debenture due September 15, 2037, interest payable quarterly at 6.64% until June 2017, then at three-month LIBOR rate plus 1.57%. In 2009, the Company exercised its option to suspend payment of interest. During 2014 interest payments were made current. During 2014, the Company purchased $6,500,000 for $4,872,342 resulting in a gain of $1,627,658 included in statement of operations.	3,500,000	3,500,000
	$ 13,500,000	$ 15,950,000

Future payments are payable in each of the years as follows:

2035	$ 10,000,000
2037	3,500,000
	$ 13,500,000

Note 9: Employee Retirement Benefit Plans

The Company's subsidiary has a Savings and Investment Plan Trust which covers all employees who have completed one year of service and 1,000 hours of service within the plan year. All employees of the Company on July 1, 1997 were immediately eligible to participate in the Plan. Subject to the limitations of the Internal Revenue Code, each eligible employee is allowed to contribute up to 75% of their annual compensation to the Plan. In addition, the Company may make a matching contribution equal to a discretionary percentage, as determined by management, of the participant's eligible salary. The contributions charged to operations amounted to $72,000 in 2015 and $66,775 in 2014.

The Company had a stock incentive plan under which options to purchase up to 50,000 shares of AliKat Investments, Inc.'s common stock were granted to certain directors and employees. Options were awarded over a period of time through the year ending 2007. The option price was determined by the Board of Directors and may not be less than the fair value of the shares at the date of the grant, except for those options, which do not vest until such time when certain specified conditions were met within a seven and one-half year period, were granted at $1.00 per share. All options expire ten years from date of grant. The following summarizes stock option activities for the years ended December 31, 2015 and 2014:

	$70.00 Per Share	$82.00 Per Share	$98.00 Per Share	$115.00 Per Share	Total
Balance at January 1, 2014	1,021	871	750	3,029	5,671
Granted in 2014	-	-	-	-	-
Exercised in 2014	-	-	-	-	-
Expired in 2014	(1,021)	-	-	-	(1,021)
Balance at December 31, 2014	-	871	750	3,029	4,650
Granted in 2015	-	-	-	-	-
Exercised in 2015	-	-	-	-	-
Expired in 2015	-	(871)	(750)	-	(1,621)
Balance at December 31, 2015	-	-	-	3,029	3,029

As of December 31, 2015, 45,350 options have been exercised or expired.

The Company has two Phantom Stock Appreciation Rights Plans. The two plans were established in January 2007 for the benefit of management personnel and employees. The following summarizes stock appreciation rights activities for the years ended December 31, 2015 and 2014:

	Plan A					Plan B		
	$67 Per Share	$83 Per Share	$84 Per Share	$91 Per Share	Total	$67 Per Share	$84 Per Share	Total
Balance, January 1, 2014	7,405	1,750	4,675	150	13,980	2,468	435	2,903
Granted in 2014	-	-	-	-	-	-	-	-
Expired in 2014	-	-	-	-	-	-	-	-
Exercised in 2014	-	-	-	-	-	-	-	-
Balance, December 31, 2014	7,405	1,750	4,675	150	13,980	2,468	435	2,903
Granted in 2015	-	-	-	-	-	-	-	-
Expired in 2015	-	-	-	-	-	(2,468)	(435)	(2,903)
Exercised in 2015	-	-	-	-	-	-	-	-
Balance, December 31, 2015	7,405	1,750	4,675	150	13,980	-	-	-

Plan A has a five-year vesting period and Plan B has a five-year vesting period and then additional benefits occur. As of December 31, 2015, no rights have been exercised.

The Company has nonqualified retirement plans (AliKat Investments, Inc. 401(k) Rabbi Trust and NorthSide Community Bank 401(k) Rabbi Trust) to permit certain directors and key officers to defer current compensation in order to provide retirement and other benefits for such individuals. A participant's deferral is fully vested at all times. The Plan is administered by an outside trustee appointed by the Board of Directors and requires that all plan assets consist primarily of Company stock. At December 31, 2015 and 2014, 92,014 and 89,970 common shares, respectively, are held in the Plan and are valued in the Plan at fair value at the time of contribution. Plan assets and corresponding liability to plan participants are included as components of shareholders' equity in the accompanying consolidated balance sheets depending on the nature of the underlying assets held in the plan. Total deferred compensation accumulated under these plans at December 31, 2015 and 2014, amounted to $5,115,795 and $5,041,094, respectively.

Note 10: Income Taxes

Income tax expense (benefit) is comprised of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Current income tax expense (benefit)		
Federal	$ 12,866	$ (5,969)
State	-	19,370
	12,866	13,401
Deferred income tax expense		
Federal	447,771	595,865
State	59,520	201,551
	507,291	797,416
Total income tax expense	$ 520,157	$ 810,817

The reason for the difference between the actual income tax expense and the amount computed at the applicable statutory federal tax rate of 34% is as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Federal income tax expense at statutory rate	$ 530,168	$ 714,090
Nondeductible expenditures and other items	(10,011)	83,949
State income tax, net of federal income tax benefit	-	12,778
Income tax expense	$ 520,157	$ 810,817

The deferred tax assets and liabilities as of December 31, 2015 and 2014, are as follows:

	2015	2014
Deferred tax assets		
Deferred compensation	$ 2,067,530	$ 2,013,203
Loan loss deduction	1,679,081	1,724,393
Deferred loan origination costs, net	23,766	37,169
Depreciation	356,155	348,513
Nonaccrued interest	81,924	76,058
Other real estate owned	2,013,247	2,302,263
Investment securities available-for-sale	10,187	7,924
Federal net operating loss carryforward	1,923,864	2,618,191
State net operating loss carryforward	2,069,476	1,602,544
	10,225,230	10,730,258
Deferred tax liabilities		
FHLB stock dividend	192,981	192,981
Net deferred tax assets	$ 10,032,249	$ 10,537,277

As of December 31, 2015, the Company has federal net operating loss carryforwards of approximately $6,467,000 which will begin to expire in 2033 and state net operating loss carryforwards of approximately $28,000,000 which will begin to expire in 2029.

Note 11: Commitments, Contingent Liabilities and Credit Risk

Financial Instruments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and stand-by letters of credit. These instruments involve elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank did not hold any off-balance-sheet-derivative financial instruments, such as futures, forwards, swaps or option contracts, at December 31, 2015 and 2014.

The Bank’s exposure to credit loss, in the event of non-performance by the other party to the financial instrument for commitments to extend credit, is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

At December 31, 2015 and 2014, financial instruments whose contract amounts represent credit risk were:

	2015	2014
Commitments to extend credit	$ 27,422,000	$ 20,087,000
Letters of credit	619,000	267,000

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

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. The lines of credit can be uncollateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements and generally have terms of more than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments if deemed necessary. At December 31, 2015 and 2014, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

Concentration of Credit Risk

The Bank maintains deposits in the normal course of business with certain correspondent financial institutions in excess of federally insured limits. These financial institutions are deemed by management to be financially sound.

The Bank makes commercial, consumer and residential loans to their customers throughout northern Illinois. The majority of loans made are secured by specific collateral. Collateral held varies but may include deposits held in financial institutions; U.S. treasury securities; other marketable securities; income-producing commercial properties; accounts receivable; and property, plant and equipment.

Interest Rate Risk

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair values of the Bank's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

Litigation

Due to the nature of their business activities, the Company and the Bank are at times subject to legal action which arises in the normal course of business. In the opinion of management, the ultimate resolution of these matters is not expected to have a material effect on the financial position or results of operations of the Company or the Bank.

Cash Requirements

The Bank is required to maintain certain average cash reserve balances with the Federal Reserve Bank. The required balance at December 31, 2015 and 2014, was $570,000 and $356,000, respectively.

Note 12: Restrictions on Dividends

The Company's primary source of cash is dividends received from the Bank. By regulation the Bank is restricted on the amount of dividends it can pay without prior regulatory approval. As a practical matter, dividends distributed by the Bank are restricted to amounts that allow the Bank to maintain prudent capital levels.

Note 13: Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to adjusted total assets (as defined). Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

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

The Company's capital amounts and ratios as of December 31, 2015 and 2014 are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total Capital (to Risk-Weighted Assets)	$ 51,392,000	26.5%	$ 15,525,000	8.0%	$ 19,406,000	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	48,912,000	25.2%	7,762,000	4.0%	11,644,000	6.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	48,912,000	25.2%	8,733,000	4.5%	12,614,000	6.5%
Tier 1 Capital (to Adjusted Total Assets)	48,912,000	21.2%	9,225,000	4.0%	11,532,000	5.0%
As of December 31, 2014						
Total Capital (to Risk-Weighted Assets)	$ 45,817,000	23.5%	$ 15,570,000	8.0%	$ 19,462,000	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	43,359,000	22.8%	7,785,000	4.0%	11,677,000	6.0%
Tier 1 Capital (to Adjusted Total Assets)	43,359,000	18.4%	9,633,000	4.0%	12,042,000	5.0%

Note 14: Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Interest-Bearing Deposits in Banks

The carrying amounts of interest-bearing deposits maturing within ninety days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Investment Securities

For investment securities, fair value equals quoted market price if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The carrying value of Federal Home Loan Bank and Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank and Federal Reserve Bank.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits

The fair value of demand deposits, savings accounts, NOW and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Short-Term and Long-Term Borrowings

The fair value of short-term and long-term borrowings is estimated by discounting the future cash flows using the current interest rates at which similar borrowings could be made for the same maturities.

Commitments to Extend Credit and Letters of Credit

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

The estimated carrying amount and fair value of the Company's financial instruments at December 31, 2015 is as follows:

	Carrying Amount	Fair Value
Financial assets		
Cash and due from banks	$ 3,009,215	$ 3,009,215
Interest-bearing deposits with banks	33,171,432	33,171,432
Investment securities		
Available-for-sale	1,029,848	1,029,848
Held-to-maturity	6,630,192	6,629,721
Federal Home Loan Bank and Federal Reserve Bank stock	1,762,150	1,762,150
Loans	153,843,338	153,263,492
Financial liabilities		
Deposits	172,829,242	172,274,245
Long-term borrowings	13,500,000	13,500,000
Off-balance-sheet items		
Commitments to extend credit	-	-
Letters of credit	-	-

The estimated carrying amount and fair value of the Company's financial instruments at December 31, 2014, is as follows:

	Carrying Amount	Fair Value
Financial assets		
Cash and due from banks	$ 1,616,190	$ 1,616,190
Interest-bearing deposits with banks	28,321,916	28,321,916
Investment securities		
Available-for-sale	1,014,125	1,014,125
Held-to-maturity	10,676,493	10,666,704
Federal Home Loan Bank and Federal Reserve Bank stock	1,762,150	1,762,150
Loans	168,142,688	168,799,718
Financial liabilities		
Deposits	186,265,408	186,866,000
Long-term borrowings	15,950,000	15,822,000
Off-balance-sheet items		
Commitments to extend credit	-	-
Letters of credit	-	-

Changes in the methods and assumptions used to estimate the fair values of each class of financial instruments above may have a material effect on those estimated values. Also, it should be noted that reasonable comparability between financial institutions may not be likely due to the various valuation techniques permitted and numerous estimates which must be made given the absence of secondary markets for many of the financial instruments. The lack of uniform methods also introduces a greater degree of subjectivity to these estimated fair values.

Note 15: Fair Value Measurements

Generally accepted accounting principles provide a uniform framework for the definition, measurement and disclosure of fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an 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. Such accounting guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted market 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, and other inputs that are observable or can be corroborated by observable market data.

Level 3 Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. Recurring Level 1 securities would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and mutual funds. Recurring Level 2 securities include U.S. government agency securities, U.S. government sponsored agency securities, mortgage-backed securities, collateralized mortgage obligations and municipal bonds. Where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Changes in fair market value are recorded in other comprehensive income as the securities are available for sale.

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, on occasion, a loan is considered impaired and an allowance for loan loss is established. A loan is considered impaired when it is probable that all of the principal and interest due under the original terms of the loan may not be collected. Once a loan is identified as impaired, management will measure impairment. The fair value of loans 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 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. 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. Impaired loans that are valued based on the present value of future cash flows are not considered in the fair value hierarchy.

Other Real Estate Owned and Repossessed Assets

The Company does not record other real estate owned and repossessed assets at fair value on a recurring basis. Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the carrying amount or fair value less cost to sell. Fair value is commonly based on recent real estate appraisals which are typically updated no less frequently than annually. 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 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. Repossessed assets may be valued using an appraisal, auction values, management knowledge of assets or other sales comparison approach, resulting in Level 3 fair value classification. Other real estate owned properties and repossessed assets are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2015 and 2014, are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2015				
Securities available-for-sale	$ 1,029,848	$ -	$ 1,029,848	$ -
December 31, 2014				
Securities available-for-sale	$ 1,014,125	$ -	$ 1,014,125	$ -

Fair values of assets and liabilities measured on a nonrecurring basis at December 31, 2015 and 2014, are as follows:

	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
December 31, 2015					
Impaired loans	$ 5,579,084	$ -	$ -	$ 5,579,084	$ -
Other real estate owned	5,022,397	-	-	5,022,397	(1,390,000)
	$ 10,601,481	$ -	$ -	$ 10,601,481	$ (1,390,000)
December 31, 2014					
Impaired loans	$ 9,830,314	$ -	$ -	$ 9,830,314	$ (629,343)
Other real estate owned	6,770,720	-	-	6,770,720	(1,474,114)
	$ 16,601,034	$ -	$ -	$ 16,601,034	$ (2,103,457)

The following represents impairment charges recognized during the period.

Impaired loans that were considered collateral dependent had a carrying amount of $5,579,084 and $9,830,314, with no valuation allowance as of December 31, 2015 and 2014, respectively. Collateral dependent impaired loans were adjusted to the fair value, less costs to sell, of the underlying collateral securing these loans resulting in certain losses. The losses are not recorded directly as an adjustment to current earnings, but rather as a component in determining the allowance for loan losses.

Other real estate owned and repossessed assets, which are measured using the fair value of the collateral, had a carrying amount of $5,022,397 and $6,770,720 as of December 31, 2015 and 2014, respectively. Other real estate owned and repossessed assets were adjusted to the fair value, less costs to sell, resulting in losses recorded directly as an adjustment to current earnings.

The valuation technique and significant unobservable inputs used to measure non-recurring Level 3 fair value measurements at December 31, 2015, were as follows:

	Fair Value	Valuation Methodology	Significant Unobservable Input	Range of Input (Weighted Average)
December 31, 2015				
Impaired loans	$ 5,579,084	Sales comparison approach	Market value discounts and selling costs	8% to 33% (12.2%)
Other real estate owned	5,022,397	Sales comparison approach	Market value discounts and selling costs	8% to 36% (24.0%)

Note 16: Parent Company Statements

Presented below are the condensed balance sheets and the condensed statements of operations and cash flows for the Parent Company:

Condensed Balance Sheets

	2015	2014
Assets		
Cash	$ 300,262	$ 735,110
Investment in subsidiary	52,933,790	51,684,683
Investment in Alikat Capital Trusts	620,000	620,000
Other assets	502,283	372,283
Total assets	$ 54,356,335	$ 53,412,076
Liabilities and shareholders' equity		
Other liabilities	$ 61,224	$ 275,404
Long-term debt	14,120,000	14,120,000
Total liabilities	14,181,224	14,395,404
Shareholders’ equity	40,175,111	39,016,672
Total liabilities and shareholders’ equity	$ 54,356,335	$ 53,412,076

AliKat Investments, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Condensed Statements of Operations and Comprehensive Income	**2015**	**2014**
Operating Income		
Interest income	$ 846	$ 2,044
Dividend income	-	10,175,000
Securities gain	-	15,000
Debt retirement gain	-	1,627,658
Total operating income	846	11,819,702
Operating expense		
Interest expense	308,000	1,254,715
Other	36,358	39,854
Total operating expense	344,358	1,294,569
Income (loss) before equity in undistributed income of subsidiary	(343,512)	10,525,133
Equity in undistributed income (loss) of subsidiary	1,252,673	(9,152,085)
Income before income taxes	909,161	1,373,048
Applicable income tax expense (benefit)	(130,000)	83,599
Net income	$ 1,039,161	$ 1,289,449
Comprehensive income	$ 1,035,595	$ 1,304,203

AliKat Investments, Inc. and Subsidiary
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Condensed Statements of Cash Flows	2015	2014
Operating activities		
Net income	$ 1,039,161	$ 1,289,449
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale of investment securities	-	(15,000)
Debt retirement gain	-	(1,627,658)
Deferred income tax benefit	(130,000)	-
Decrease in other liabilities	(214,180)	(4,828,611)
Undistributed income (loss) of subsidiary	(1,252,673)	9,152,085
Net cash provided by (used in) operating activities	(557,692)	3,970,265
Investing activities		
Proceeds from securities available-for-sale	-	90,000
Financing activities		
Payment on long-term debt	-	(4,872,342)
Proceeds from issuance of stock	122,844	125,338
Net cash provided by (used in) financing activities	122,844	(4,747,004)
Net increase (decrease) in cash	(434,848)	(686,739)
Cash at beginning of year	735,110	1,421,849
Cash at end of year	$ 300,262	$ 735,110

Note 17: Subsequent Events

The Company evaluated its December 31, 2015 consolidated financial statements for subsequent events through the date of the Independent Auditor’s Report, which is the date the consolidated financial statements were available to be issued. The Company is not aware of any subsequent events that would require recognition in its consolidated financial statements.