PINNACLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2016

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MAULDIN & JENKINS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pinnacle Bancshares, Inc.
Jasper, Alabama

We have audited the accompanying consolidated financial statements of **Pinnacle Bancshares, Inc. and Subsidiary**, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 Pinnacle Bancshares, Inc. and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Birmingham, Alabama
March 1, 2017

PINNACLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 1,698,936	$ 1,718,147
Interest bearing deposits in banks	3,035,346	3,138,418
Securities available for sale	105,551,083	112,108,512
Restricted equity securities	722,100	934,600
Loans	91,268,924	87,543,012
Less allowance for loan losses	1,617,620	1,582,707
Loans, net	89,651,304	85,960,305
Premises and equipment, net	5,222,947	5,326,322
Goodwill	306,488	306,488
Bank owned life insurance	8,887,416	8,522,155
Accrued interest receivable	1,197,974	1,155,531
Other assets	287,692	338,808
Total assets	$ 216,561,286	$ 219,509,286
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 53,279,880	$ 48,001,274
Interest-bearing	136,244,690	136,915,937
Total deposits	189,524,570	184,917,211
Other borrowings	-	5,000,000
Subordinated debentures	3,093,000	3,093,000
Accrued interest payable	81,023	93,830
Other liabilities	104,336	567,308
Total liabilities	192,802,929	193,671,349
Stockholders' equity		
Common stock, $.01 par value, 2,400,000 shares authorized; 1,872,313 shares issued; 1,043,505 and 1,172,628 outstanding, respectively	18,723	18,723
Additional paid-in capital	8,923,223	8,923,223
Treasury stock, at cost (828,808 and 699,685 shares, respectively)	(11,464,104)	(8,532,831)
Retained earnings	26,417,216	24,640,492
Accumulated other comprehensive income (loss), net of tax	(136,701)	788,330
Total stockholders' equity	23,758,357	25,837,937
Total liabilities and stockholders' equity	$ 216,561,286	$ 219,509,286

See Notes to Consolidated Financial Statements.

PINNACLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2016 and 2015

	2016	2015
Interest income		
Loans, including fees	$ 4,442,953	$ 4,513,663
Taxable securities	2,061,457	1,995,900
Nontaxable securities	1,041,252	1,271,832
Other interest	63,144	42,234
Total interest income	7,608,806	7,823,629
Interest expense		
Deposits	422,337	448,711
Borrowings and repurchase agreements	12,362	24,597
Subordinated debentures	114,500	99,250
Total interest expense	549,199	572,558
Net interest income	7,059,607	7,251,071
Provision for loan losses	-	55,000
Net interest income after provision for loan losses	7,059,607	7,196,071
Other income		
Fees and service charges on deposit accounts	1,238,679	1,055,685
Servicing fee income, net	16,054	20,440
Bank owned life insurance	365,261	363,453
Mortgage fee income	44,724	32,318
Net gain on sales of securities	191,545	79,995
Total other income	1,856,263	1,551,891
Other expenses		
Salaries and employee benefits	3,212,375	3,075,370
Occupancy expenses	1,168,210	1,232,127
Marketing and professional expenses	258,355	315,863
Net loss on sales of other real estate owned	4,167	25,756
Net other operating expenses	1,421,301	1,436,296
Total other expenses	6,064,408	6,085,412
Income before income taxes	2,851,462	2,662,550
Income tax expense	567,395	441,776
Net income	$ 2,284,067	$ 2,220,774
Basic and diluted earnings per share	$ 1.99	$ 1.88
Cash dividends per share	$ 0.44	$ 0.44
Weighted-average basic and diluted shares outstanding	1,148,326	1,179,080

See Notes to Consolidated Financial Statements.

PINNACLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2016 and 2015

	2016	2015
Net income	**$ 2,284,067**	$ 2,220,774
Other comprehensive loss:		
Unrealized holding losses on securities available for sale arising during the period, net of tax benefits of $493,209 and $250,426, respectively	**(807,231)**	(409,639)
Reclassification adjustment for gains included in net income, net of tax of $73,745 and $30,798, respectively	**(117,800)**	(49,197)
Other comprehensive loss	**(925,031)**	(458,836)
Comprehensive income	**$ 1,359,036**	$ 1,761,938

See Notes to Consolidated Financial Statements.

PINNACLE BANCSHARES, INC.
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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2016 and 2015

	Common Stock		Additional Paid-in	Treasury	Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Par Value	Capital	Stock	Earnings	Income (Loss)	Equity
Balance, December 31, 2014	1,872,313	$ 18,723	$ 8,923,223	$ (8,380,575)	$ 22,938,150	$ 1,247,166	$ 24,746,687
Net income	-	-	-	-	2,220,774	-	2,220,774
Cash dividends declared, $0.44 per share	-	-	-	-	(518,432)	-	(518,432)
Purchase of treasury stock	-	-	-	(152,256)	-	-	(152,256)
Other comprehensive loss	-	-	-	-	-	(458,836)	(458,836)
Balance, December 31, 2015	1,872,313	18,723	8,923,223	(8,532,831)	24,640,492	788,330	25,837,937
Net income	-	-	-	-	2,284,067	-	2,284,067
Cash dividends declared, $0.44 per share	-	-	-	-	(507,343)	-	(507,343)
Purchase of treasury stock	-	-	-	(2,931,273)	-	-	(2,931,273)
Other comprehensive loss	-	-	-	-	-	(925,031)	(925,031)
Balance, December 31, 2016	1,872,313	$ 18,723	$ 8,923,223	$ (11,464,104)	$ 26,417,216	$ (136,701)	$ 23,758,357

See Notes to Consolidated Financial Statements.

PINNACLE BANCSHARES, INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES		
Net income	**$ 2,284,067**	$ 2,220,774
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**375,247**	378,357
Provision for loan losses	**-**	55,000
Deferred income taxes	**(54,368)**	(37,033)
Net amortization and accretion of securities	**603,372**	549,814
Gain on sales of securities available for sale, net	**(191,545)**	(79,995)
Bank owned life insurance	**(365,261)**	(363,453)
Loss on sale of other real estate owned, net	**4,167**	25,756
Change in valuation allowance of other real estate owned	**(25,000)**	-
Increase in accrued interest receivable	**(42,443)**	(80,062)
(Decrease) increase in accrued interest payable	**(12,807)**	768
Net other operating activities	**141,282**	61,407
Net cash provided by operating activities	**2,716,711**	2,731,333
INVESTING ACTIVITIES		
Net decrease (increase) in interest-bearing deposits in banks	**103,072**	(1,675,978)
Purchase of securities available for sale	**(18,280,495)**	(21,209,428)
Proceeds from sales of securities available for sale	**7,867,285**	9,257,675
Proceeds from maturities, calls, or paydowns of securities available for sale	**15,066,827**	15,792,514
Net redemption (purchase) of restricted equity securities	**212,500**	(112,400)
Net increase in loans	**(3,690,999)**	(3,431,433)
Purchase of premises and equipment	**(271,872)**	(217,287)
Proceeds from sales of other real estate owned	**89,017**	103,175
Net cash provided by (used in) investing activities	**1,095,335**	(1,493,162)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**4,607,359**	(5,280,198)
(Decrease) increase in other borrowings	**(5,000,000)**	5,000,000
Purchase of treasury stock	**(2,931,273)**	(152,256)
Payments of cash dividends	**(507,343)**	(518,432)
Net cash used in financing activities	**(3,831,257)**	(950,886)
Net (decrease) increase in cash and cash equivalents	**(19,211)**	287,285
Cash and cash equivalents at beginning of year	**1,718,147**	1,430,862
Cash and cash equivalents at end of year	**$ 1,698,936**	$ 1,718,147
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	**$ 562,006**	$ 571,790
Taxes	**$ 565,134**	$ 652,192
OTHER NONCASH TRANSACTIONS		
Other real estate owned acquired in settlement of loans	**$ -**	$ 100,211

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following is a description of the business and the more significant accounting policies followed by Pinnacle Bancshares, Inc. (the "Company") and its wholly-owned subsidiary Pinnacle Bank (the "Bank") in presenting the consolidated financial statements.

Nature of Operations

Pinnacle Bancshares, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Pinnacle Bank. The Bank is primarily in the business of obtaining funds in the form of various savings, demand deposit, and time deposit products and investing those funds in mortgage, consumer, and commercial loans. The Bank operates in seven offices in the central and northwest portions of Alabama and originates its loans in this market area. The Company's principal activities do not constitute separate reportable segments of its business, but encompass traditional banking activities which offer similar products and services within the same primary geographic area and regulatory and economic environment.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned and deferred taxes, other-than-temporary impairments of securities, and the fair value of financial instruments. In connection with the determination of the estimated losses on loans and the valuation of other real estate owned, management obtains independent appraisals for significant collateral.

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.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent 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 Company 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 changes that is reasonably possible cannot be estimated.

The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through March 1, 2017, the date these financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents, and Cash Flows

For purposes of reporting consolidated cash flows, cash and cash equivalents includes cash on hand, cash items in process of collection, and amounts due from banks. Cash flows from loans, interest-bearing deposits in banks, restricted equity securities, deposits, and other borrowings are reported net.

The Bank is required to maintain average balances in cash or on deposit with the Federal Reserve Bank. The total of those reserve balances was approximately $2,032,000 and $1,773,000 at December 31, 2016 and 2015, respectively.

Securities

All securities are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates investment securities for other-than-temporary impairment ("OTTI") using relevant accounting guidance on a regular basis. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer including an evaluation of credit ratings, (3) the impact of changes in market interest rates, (4) the intent of the Company to sell a security, and (5) whether it is more likely than not the Company will have to sell the security before recovery of its cost basis. If the Company intends to sell an impaired security, or if it is more likely than not the Company will have to sell the security before recovery of its cost basis, the Company records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost in earnings. Otherwise, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income (loss).

The Company pledges assets to collateralize secured financings such as public deposits and other short-term borrowings. The carrying value and classification of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge at December 31 are as follows:

	December 31,	
	2016	2015
Securities available for sale	**$ 28,908,591**	$ 28,242,828

Restricted Equity Securities

The Company is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, the stock has no quoted market value and is carried at cost. At their discretion, these entities may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks. Investments in restricted equity securities consist of the following:

	December 31,	
	2016	2015
Federal Home Loan Bank stock	**$ 197,100**	$ 409,600
First National Banker's Bankshares, Inc. stock	**525,000**	525,000
	$ 722,100	$ 934,600

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of specific direct origination costs, are recognized at the time the loan is placed on the books.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or charged to the allowance, unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms generally for a period of not less than six months.

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 expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for other qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

A loan is considered impaired when it is probable, based on current information and events; the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower's request, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are not generally classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The Company's homogeneous loan pools include commercial real estate loans, real estate construction and development loans, residential real estate loans, other real estate loans, commercial loans, and consumer loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit and; (5) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio and the total dollar amount of the loans in the pool.

Troubled Debt Restructurings

A loan is considered a troubled debt restructuring ("TDR") based on individual facts and circumstances. The Company designates loan modifications as TDRs when for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date, and other actions intended to minimize potential losses.

In determining whether a borrower is experiencing financial difficulties, the Company considers if the borrower is in payment default or would be in payment default in the foreseeable future without the modification, the borrower declared or is in the process of declaring bankruptcy, the borrower's projected cash flows will not be sufficient to service any of its debt, or the borrower cannot obtain funds from sources other than the Company at a market rate for debt with similar risk characteristics.

In determining whether the Company has granted a concession, the Company assesses, if it does not expect to collect all amounts due, whether the current value of the collateral will satisfy the amounts owed, whether additional collateral or guarantees from the borrower will serve as adequate compensation for other terms of the restructuring, and whether the borrower otherwise has access to funds at a market rate for debt with similar risk characteristics.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are reflected in income.

	Years
Buildings	15-39
Furniture and equipment	3-10

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent write-downs to the value are expensed. Other real estate owned was carried at $1 and $68,185 as of December 31, 2016 and 2015, respectively, and is included in other assets on the consolidated balance sheets.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets and liabilities acquired in a business combination or acquisition. Goodwill is not amortized over an estimated useful life, but rather is tested annually for impairment, or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. The goodwill impairment test is performed in two steps. The first step is used to identify potential impairment and the second step, if required, measures the amount of impairment by comparing the carrying amount of goodwill to its implied fair value. In the event of impairment, the amount by which the carrying amount exceeds the fair value would be charged to earnings.

The Company assessed various factors and determined it was not more likely than not that its fair value was less than its carrying amount.

Bank Owned Life Insurance

The Company has bank owned life insurance on certain current and former key officers of the Company. The life insurance policies were purchased to reduce costs associated with certain existing employee benefits. Increases in the cash surrender value of the policies, as well as insurance proceeds received, are recorded as a component of other income.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. Management believes that the Company will generate sufficient operating earnings to realize the deferred tax benefits.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. There were no potential common shares as of December 31, 2016 and 2015.

Treasury Stock

The Company’s acquisition of shares of its common stock is recorded at cost as treasury stock and result in a reduction of stockholders’ equity. When treasury shares are reissued, the Company uses a first-in, first-out method and any difference in repurchase cost and reissuance price is recorded as an increase or reduction in capital surplus.

Comprehensive Income

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

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTE 2. SECURITIES

The amortized cost, unrealized gains and losses, and estimated fair value of securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2016:				
Municipal securities	**$ 80,401,808**	**$ 804,960**	**$ (1,001,662)**	**$ 80,205,106**
U.S. Government-sponsored enterprises (GSEs)	**2,710,453**	**-**	**(104,099)**	**2,606,354**
Corporate securities	**2,829,387**	**19,951**	**(85,769)**	**2,763,569**
Mortgage-backed securities	**19,829,920**	**233,344**	**(87,210)**	**19,976,054**
Total securities	**$ 105,771,568**	**$ 1,058,255**	**$ (1,278,740)**	**$ 105,551,083**
December 31, 2015:				
Municipal securities	$ 80,648,339	$ 1,469,712	$ (312,080)	$ 81,805,971
U.S. Government-sponsored enterprises (GSEs)	103,811	-	(120)	103,691
Corporate securities	3,869,853	3,337	(367,763)	3,505,427
Mortgage-backed securities	26,215,010	510,617	(32,204)	26,693,423
Total securities	$ 110,837,013	$ 1,983,666	$ (712,167)	$ 112,108,512

The amortized cost and estimated fair value of securities available for sale at December 31, 2016 by contractual maturity are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid with or without penalty. Therefore, these securities are not included in the maturity categories in the following summary:

	Amortized Cost	Fair Value
Due within one year	$ 1,861,500	$ 1,862,607
Due from one to five years	12,131,952	12,066,749
Due from five to ten years	26,711,446	26,531,396
Due in more than ten years	45,236,750	45,114,277
Mortgage-backed securities	19,829,920	19,976,054
	$ 105,771,568	$ 105,551,083

Gains and losses on sales of securities consist of the following:

	Years Ended December 31,	
	2016	2015
Gross gains	**$ 191,545**	$ 155,119
Gross losses	**-**	(75,124)
Net realized gains	**$ 191,545**	$ 79,995

NOTE 2. SECURITIES (Continued)

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016 and 2015.

Available for sale securities that have been in a continuous unrealized loss position are as follows:

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2016					
Municipal securities	**$ (1,001,124)**	**$ 44,599,613**	**$ (538)**	**$ 129,680**	**$ (1,001,662)**
U.S. Government-sponsored enterprises (GSEs)	**(104,099)**	**2,606,354**	**-**	**-**	**(104,099)**
Corporate securities	**-**	**-**	**(85,769)**	**996,450**	**(85,769)**
Mortgage-backed securities	**(87,210)**	**8,168,606**	**-**	**-**	**(87,210)**
Total	**$ (1,192,433)**	**$ 55,374,573**	**$ (86,307)**	**$ 1,126,130**	**$ (1,278,740)**
December 31, 2015					
Municipal securities	$ (210,060)	$ 17,602,677	$ (102,020)	$ 9,019,387	$ (312,080)
U.S. Government-sponsored enterprises (GSEs)	(120)	103,691	-	-	(120)
Corporate securities	(42,005)	1,704,740	(325,758)	782,500	(367,763)
Mortgage-backed securities	(32,204)	4,231,865	-	-	(32,204)
Total	$ (284,389)	$ 23,642,973	$ (427,778)	$ 9,801,887	$ (712,167)

The unrealized losses on one hundred twenty securities were caused by interest rate changes. Because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost bases, which may be maturity, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2016.

Other-Than-Temporary Impairment

Upon acquisition of a security, the Company evaluates for impairment under the accounting guidance for investments in debt and equity securities. The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Factors included in the evaluation process may include geographic concentrations, credit ratings, and other performance indicators of the underlying asset. As of December 31, 2016 and 2015, no securities within the Company's investment securities portfolio was considered other-than-temporarily impaired.

NOTE 3. LOANS

Portfolio Segments and Classes

The composition of loans is summarized as follows:

	December 31, 2016	December 31, 2015
Real estate mortgages:		
Commercial	**$ 31,748,715**	$ 32,159,948
Construction and development	**6,294,634**	5,655,673
Residential	**25,499,527**	25,767,906
Other	**137,692**	433,737
Commercial	**19,933,944**	19,485,750
Consumer	**7,654,412**	4,039,998
	91,268,924	87,543,012
Allowance for loan losses	**(1,617,620)**	(1,582,707)
Loans, net	**$ 89,651,304**	$ 85,960,305

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are three loan portfolio segments; real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include commercial, construction and development, residential mortgages, and other real estate loans. The portfolio segments of non-real estate commercial and consumer loans have not been further segregated by class.

The following describe risk characteristics relevant to each of the portfolio segments:

Real Estate - As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Commercial real estate mortgage loans include both owner-occupied commercial real estate loans and other commercial real estate loans such as commercial loans secured by income producing properties. Owner-occupied commercial real estate loans made to operating businesses are long-term financing of land and buildings and are repaid by cash flows generated from business operations. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

- Loans for real estate construction and development are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

- Residential mortgage loans, including HELOCs and multifamily residential properties, are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

- Other real estate mortgage loans include real estate loans secured by farmland. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

NOTE 3. LOANS (Continued)

Portfolio Segments and Classes (Continued)

Commercial - The commercial non-real estate loan portfolio segment includes commercial, financial, agricultural, and municipal tax free loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations.

Consumer - The consumer loan portfolio segment includes direct consumer installment loans, overdrafts, and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

Credit Risk Management

Credit Risk Management and the Loan Loss Reserve Committee are both involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to manage the portfolios and reduce risk, particularly in the more problematic portfolios.

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by a comprehensive Board approved Loan Policy that provides for a consistent and prudent approach to underwriting and approvals of credits. Within the Loan Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios. To insure problem credits are identified on a timely basis, the Company has an external loan review performed each year to assess the larger adversely rated credits for proper risk rating and accrual status.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by management and the Loan Committee.

A description of the general characteristics of the risk categories used by the Company is as follows:

- **Pass** - Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk category would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

- **Management Attention** - Loans in this category include obligations that contain a greater than normal amount of risk and warrant more than the ordinary amount of supervision though they have not reached the more severe loan categories due to other mitigating factors.

- **Special Mention** - Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and/or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the Company's credit position. These loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

NOTE 3. LOANS (Continued)

Credit Risk Management (Continued)

- **Substandard** - Loans in this risk category include obligations considered to be inadequately protected by the current sound worth and debt service capacity of the borrower or of any pledged collateral. These obligations, even if apparently protected by collateral value, have well-defined weaknesses related to adverse financial, managerial, economic, market, or political conditions, which have clearly jeopardized repayment of principal and interest as originally intended. Furthermore, there is the possibility that the Company will sustain some future loss if such weaknesses are not corrected. Clear loss potential, however, does not have to exist in any individual assets classified as substandard.

- **Doubtful** - Loans include obligations with all the weaknesses found in substandard loans with the added provision that the weaknesses make collection of debt in full, based on current existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely. The possibility of loss is extremely high, but because of certain important, reasonably specific pending factors that may work to strengthen the loan, the loans' classification as estimated losses is deferred until a more exact status may be determined. There are no loans with a doubtful rating in the Company's portfolio as of December 31, 2016 and 2015.

- **Loss** - Loans in this risk category are considered to be non-collectible and of such little value that their continuance as active assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. There are no loans with a loss rating in the Company's portfolio as of December 31, 2016 and 2015.

The following tables summarize the risk categories of the Company's loan portfolio based upon on the most recent analysis performed as of December 31, 2016 and 2015:

	Pass	Management Attention	Special Mention	Substandard	Total
December 31, 2016					
Real estate mortgages:					
Commercial	**$ 30,446,732**	**$ 1,112,589**	**$ 189,394**	**$ -**	**$ 31,748,715**
Construction and development	**6,237,569**	**57,065**	**-**	**-**	**6,294,634**
Residential	**24,877,525**	**379,810**	**-**	**242,192**	**25,499,527**
Other	**37,222**	**-**	**100,470**	**-**	**137,692**
Commercial	**19,881,249**	**52,695**	**-**	**-**	**19,933,944**
Consumer	**7639,602**	**14,810**	**-**	**-**	**7,654,412**
Total:	**$ 89,119,899**	**$ 1,616,969**	**$ 289,864**	**$ 242,192**	**$ 91,268,924**
December 31, 2015					
Real estate mortgages:					
Commercial	$ 30,861,490	$ 1,298,458	$ -	$ -	$ 32,159,948
Construction and development	5,286,968	345,781	22,924	-	5,655,673
Residential	24,732,300	785,606	-	250,000	25,767,906
Other	328,425	-	105,312	-	433,737
Commercial	19,064,562	421,188	-	-	19,485,750
Consumer	3,993,199	46,799	-	-	4,039,998
Total:	$ 84,266,944	$ 2,897,832	$ 128,236	$ 250,000	$ 87,543,012

NOTE 3. LOANS (Continued)

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, we place loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans and leases as of December 31, 2016 and 2015:

		Past Due Status (Accruing Loans)					
	Current	**30-59 Days**	**60-89 Days**	**90+ Days**	**Total Past Due**	**Non-accrual**	**Total**
December 31, 2016							
Real estate mortgages:							
Commercial	**$ 31,748,299**	**$ 416**	**$ -**	**$ -**	**$ 416**	**$ -**	**$ 31,748,715**
Construction and development	**6,089,351**	**15,167**	**-**	**190,116**	**205,283**	**-**	**6,294,634**
Residential	**25,105,343**	**198,545**	**48,452**	**-**	**246,997**	**147,187**	**25,499,527**
Other	**137,692**	**-**	**-**	**-**	**-**	**-**	**137,692**
Commercial	**19,933,944**	**-**	**-**	**-**	**-**	**-**	**19,933,944**
Consumer	**7,628,270**	**15,471**	**4,724**	**-**	**20,195**	**5,947**	**7,654,412**
Total:	**$ 90,642,899**	**$ 229,599**	**$ 53,176**	**$ 190,116**	**$ 472,891**	**$ 153,134**	**$ 91,268,924**
December 31, 2015							
Real estate mortgages:							
Commercial	$ 31,813,843	$ 346,105	$ -	$ -	$ 346,105	$ -	$ 32,159,948
Construction and development	5,340,096	303,080	-	-	303,080	12,497	5,655,673
Residential	24,848,741	650,294	72,795	-	723,089	196,076	25,767,906
Other	433,737	-	-	-	-	-	433,737
Commercial	19,399,426	86,324	-	-	86,324	-	19,485,750
Consumer	3,969,436	67,854	2,708	-	70,562	-	4,039,998
Total:	$ 85,805,279	$ 1,453,657	$ 75,503	$ -	$ 1,529,160	$ 208,573	$ 87,543,012

NOTE 3. LOANS (Continued)

Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2016 and 2015. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Real Estate	Commercial	Consumer	Unallocated	Total
December 31, 2016					
Allowance for loan losses:					
Beginning balance	**$ 787,699**	**$ 401,788**	**$ 95,465**	**$ 297,755**	**$ 1,582,707**
Provision (credit) for loan losses	**(26,148)**	**(26,930)**	**17,113**	**35,965**	**-**
Loans charged off	**-**	**-**	**(19,942)**	**-**	**(19,942)**
Recoveries	**12,569**	**19,673**	**22,613**	**-**	**54,855**
Ending balance	**$ 774,120**	**$ 394,531**	**$ 115,249**	**$ 333,720**	**$ 1,617,620**
Ending balance – individually evaluated for impairment	**$ 33,502**	**$ -**	**$ -**	**$ -**	**$ 33,502**
Ending balance – collectively evaluated for impairment	**740,618**	**394,531**	**115,249**	**333,720**	**1,584,118**
Total ending balance	**$ 774,120**	**$ 394,531**	**$ 115,249**	**$ 333,720**	**$ 1,617,620**
Loans:					
Ending balance – individually evaluated for impairment	**$ 33,502**	**$ -**	**$ -**	**$ -**	**$ 33,502**
Ending balance – collectively evaluated for impairment	**63,647,066**	**19,933,944**	**7,654,412**	**-**	**91,235,422**
Total ending balance	**$ 63,680,568**	**$ 19,933,944**	**$ 7,654,412**	**$ -**	**$ 91,268,924**
December 31, 2015					
Allowance for loan losses:					
Beginning balance	$ 753,665	$ 296,283	$ 87,054	$ 438,912	$ 1,575,914
Provision (credit) for loan losses	77,302	108,027	10,828	(141,157)	55,000
Loans charged off	(144,612)	(43,893)	(6,458)	-	(194,963)
Recoveries	101,344	41,371	4,041	-	146,756
Ending balance	$ 787,699	$ 401,788	$ 95,465	$ 297,755	$ 1,582,707
Ending balance – individually evaluated for impairment	$ 35,078	$ -	$ -	$ -	$ 35,078
Ending balance – collectively evaluated for impairment	752,621	401,788	95,465	297,755	1,547,629
Total ending balance	$ 787,699	$ 401,788	$ 95,465	$ 297,755	$ 1,582,707
Loans:					
Ending balance – individually evaluated for impairment	$ 35,078	$ -	$ -	$ -	$ 35,078
Ending balance – collectively evaluated for impairment	63,982,186	19,485,750	4,039,998	-	87,507,934
Total ending balance	$ 64,017,264	$ 19,485,750	$ 4,039,998	$ -	$ 87,543,012

NOTE 3. LOANS (Continued)

Impaired Loans

A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail our impaired loans by portfolio class as of December 31, 2016 and 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016					
With no related allowance recorded:					
Real estate mortgages:					
Commercial	$ -	$ -	$ -	$ -	$ -
Construction and development	-	-	-	-	-
Residential	-	-	-	-	-
Other	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total with no related allowance recorded	-	-	-	-	-
With an allowance recorded:					
Real estate mortgages:					
Commercial	-	-	-	-	-
Construction and development	-	-	-	-	-
Residential	33,502	33,502	33,502	34,038	2,723
Other	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total with an allowance recorded	33,502	33,502	33,502	34,038	2,723
Total impaired loans:	$ 33,502	$ 33,502	$ 33,502	$ 34,038	$ 2,723
December 31, 2015					
With no related allowance recorded:					
Real estate mortgages:					
Commercial	$ -	$ -	$ -	$ -	$ -
Construction and development	-	-	-	-	-
Residential	-	-	-	-	-
Other	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total with no related allowance recorded	-	-	-	-	-
With an allowance recorded:					
Real estate mortgages:					
Commercial	-	-	-	-	-
Construction and development	-	-	-	-	-
Residential	35,078	35,078	35,078	35,638	2,851
Other	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total with an allowance recorded	35,078	35,078	35,078	35,638	2,851
Total impaired loans:	$ 35,078	$ 35,078	$ 35,078	$ 35,638	$ 2,851

NOTE 3. LOANS (Continued)

Troubled Debt Restructurings

The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. At December 31, 2016 and 2015, there were no impaired loans that were classified as troubled debt restructurings, and there were no troubled debt restructurings during 2016 or 2015.

Related Party Transactions

In the ordinary course of business, the Company has granted loans to certain related parties, including directors, executive officers, and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans for the year ended December 31, 2016 and 2015 are as follows:

	Years Ended December 31,	
	2016	2015
Balance, beginning of year	**$ 993,233**	$ 873,165
Advances	**47,152**	690,070
Repayments	**(560,401)**	(570,002)
Change in Director	**1,278,536**	-
Balance, end of year	**$ 1,758,520**	$ 993,233

NOTE 4. OTHER REAL ESTATE OWNED

A summary of other real estate owned is presented as follows:

	Years Ended December 31,	
	2016	2015
Balance, beginning of year	**$ 68,185**	$ 96,905
Additions	**-**	100,211
Disposals	**(89,017)**	(103,175)
Net loss on sale	**(4,167)**	(33,138)
Change in valuation allowance	**25,000**	7,382
Balance, end of year	**$ 1**	$ 68,185

Other real estate owned consisted of 1-4 family residential properties as of December 31, 2016 and 2015.

NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31, 2016	December 31, 2015
Land	**$ 1,219,463**	$ 1,219,463
Buildings and leasehold improvements	**8,717,282**	8,587,657
Furniture, fixtures, and equipment	**3,017,702**	2,979,418
Construction in process	**146,095**	42,133
Automobiles	**-**	23,679
	13,100,542	12,852,350
Less accumulated depreciation	**(7,877,595)**	(7,526,028)
	$ 5,222,947	$ 5,326,322

At December 31, 2016, the in-process amount was primarily related to renovations at the Company's main office in Jasper, Alabama. Costs to complete construction are approximately $5,000 with an expected completion date of January 2017.

The Company had noncancelable operating leases for the main and branch office sites. Occupancy expenses for the fiscal years ended December 31, 2016 and 2015 include rental expense under these leases of $126,144 and $124,665, respectively. Future rental payments subject to periodic renegotiations required under these leases are as follows:

2017	$ 116,122
2018	92,051
2019	93,562
2020	95,133
2021	96,767
Thereafter	568,891
	$ 1,062,526

The Company has a sublease agreement for the building in which the main office branch is located that generated income of $110,069 and $108,710 for the years ended December 31, 2016 and 2015.

NOTE 6. DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2016 and 2015 was $20,292,575 and $21,203,632, respectively. Brokered deposits totaled $15,934,000 and $16,586,000 at December 31, 2016 and 2015. The scheduled maturities of time deposits at December 31, 2016 are as follows:

2017	$ 42,473,726
2018	4,012,573
2019	1,879,961
2020	522,030
2021	415,292
	$ 49,303,582

At December 31, 2016 and 2015, overdraft demand and savings deposits reclassified to loans totaled $97,128 and $99,353, respectively.

NOTE 7. SUBORDINATED DEBENTURES

On December 22, 2003, the Company established Pinnacle Capital Trust I ("Trust"), a wholly-owned statutory business trust. The Company is the sole sponsor of the Trust and acquired the Trust's common securities for $93,000. The Trust was created for the exclusive purpose of issuing 30-year capital trust securities ("Trust Preferred Securities") in the aggregate amount of $3,000,000 and using proceeds to purchase $3,093,000 of junior subordinated debentures ("Subordinated Debentures") issued by the Company. The sole assets of the Trust are the Subordinated Debentures. The Company's $93,000 investment in the Trust is included in other assets in the accompanying consolidated balance sheets.

The Trust Preferred Securities bear a floating interest rate of 2.85% over 3-month LIBOR (3.73% at December 31, 2016) which is set each quarter and matures on December 22, 2033. Distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. The Company guarantees the payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by the Trust. Pinnacle Bancshares, Inc.'s obligation under the subordinated debentures together with the guarantee and other back-up obligation, in aggregate, constitute a full and unconditional guarantee by the Company of the obligations of the Trust under the Trust Preferred Securities.

The subordinated debentures are unsecured, bear an interest rate equal to the spread paid by the Trust on the Trust Preferred Securities which is set each quarter and matures on December 30, 2033. Interest is payable quarterly. The Company may defer the payment of interest at any time for a period not exceeding 20 consecutive quarters provided that deferral period does not extend past the stated maturity. During any such deferral period, distributions on the Trust Preferred Securities will also be deferred and the Company's ability to pay dividends on the common shares will be restricted.

Subject to approval by the Federal Reserve Bank of Atlanta, the Trust Preferred Securities may be redeemed prior to maturity at the Company's option. The Trust Preferred Securities may also be redeemed at any time in whole (but not in part) in the event of unfavorable changes in laws or regulations that result in (1) the Trust becoming subject to federal income tax on income received on the Subordinated Debentures, (2) interest payable by the Company on the subordinated debentures becoming non-deductible for federal tax purposes, or (3) the requirement for Trust Preferred Securities as "Tier I Capital" under the Federal Reserve capital adequacy guidelines.

NOTE 8. BORROWINGS

Federal Home Loan Bank Advances

Federal Home Loan Bank advances consist of the following:

	December 31,	
	2016	2015
Short-term fixed rate Federal Home Loan Bank advance with interest and principal payments due in 2016 and an interest rate of 0.38%	**$ -**	$ 5,000,000
	$ -	$ 5,000,000

Available Funding

The Company has an available unused line of credit with First National Banker's Bank totaling $7,300,000 at December 31, 2016. There were no advances outstanding at December 31, 2016 or 2015.

The Company maintains a credit facility with the Federal Home Loan Bank of Atlanta for borrowings up to approximately $12,823,000 as of December 31, 2016 subject to certain collateral requirements. As of December 31, 2016 and 2015, there were $0 and $5,000,000 outstanding under this arrangement.

NOTE 8. BORROWINGS (Continued)

Available Funding (Continued)

In addition to the federal funds line of credit mentioned above, the Company has an available unused line of credit with the Federal Reserve Bank. Under the agreement with the Federal Reserve, the Company is allowed to borrow up to the fair market value of the available for sale securities pledged to the Federal Reserve Bank. There were no outstanding advances at December 31, 2016 and 2015, and thus no securities were required to be pledged to the Federal Reserve Bank.

NOTE 9. INCOME TAXES

The allocation of income tax expense between current and deferred income taxes is as follows:

	Years Ended December 31,	
	2016	2015
Current	**$ 621,763**	$ 478,809
Deferred	**(54,368)**	(37,033)
Income tax expense	**$ 567,395**	$ 441,776

The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

	Years Ended December 31,	
	2016	2015
Tax provision at federal statutory rate	**$ 969,497**	$ 905,267
Tax-exempt interest	**(361,042)**	(420,381)
Cash surrender value income	**(124,189)**	(123,574)
State income taxes	**75,381**	73,755
Other items, net	**7,748**	6,709
Income tax expense	**$ 567,395**	$ 441,776

The components of the net deferred tax assets are as follows:

	December 31,	
	2016	2015
Deferred tax assets:		
Alternative minimum tax credit	**$ 662,692**	$ 657,045
Loan loss reserves	**619,387**	606,019
Unrealized loss on securities available for sale	**83,784**	-
Other real estate losses	**8,621**	18,193
	1,374,484	1,281,257
Deferred tax liabilities:		
Depreciation	**(609,603)**	(653,503)
Unrealized gain on securities available for sale	**-**	(483,170)
Other	**(28,851)**	(29,877)
	(638,454)	(1,166,550)
Net deferred tax assets	**$ 736,030**	$ 114,707

The Company and its subsidiary are subject to U.S. federal income tax, as well as income tax within the State of Alabama. The Company is no longer subject to examination by taxing authorities for years before 2013.

NOTE 10. COMPENSATION AND BENEFITS

The Company maintains a noncontributory profit sharing plan and a contributory 401(k) plan. The Company's contributions to these plans were $71,715 and $72,457 in fiscal years ended December 31, 2016 and 2015, respectively.

The Company has an employment agreement with the chief executive officer which provides for compensation and benefits in the event the chief executive officer is terminated. The maximum aggregate liability at December 31, 2016 for termination is approximately $536,000.

NOTE 11. LOAN COMMITMENTS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Company's exposure to credit loss is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. A summary of the Company's commitments is as follows:

	December 31,	
	2016	2015
Commitments to extend credit	**$ 18,527,350**	$ 16,155,014

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 amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

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. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies and is required in instances which the Company deems necessary. The Company had no standby letters of credit commitments as of December 31, 2016 or 2015.

NOTE 12. CONTINGENCIES

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

NOTE 13. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, commercial real estate, residential real estate, and consumer loans to customers in its primary market areas. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas.

Seventy percent of the Company's loan portfolio is secured by real estate, of which a substantial portion is secured by real estate in the Company's market area. Accordingly, the ultimate collectibility of the Company's loan portfolio is susceptible to changes in market conditions in the Company's primary market area. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Company's secured legal lending limit to any single borrower or group of related borrowers is 20% of total capital, as defined, or approximately $5,279,000. The Company's unsecured legal lending limit to any single borrower or group of related borrowers is 10% of total capital, as defined, or approximately $2,640,000.

NOTE 14. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2016, approximately $342,000 of retained earnings were available for dividend declaration without regulatory approval.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the 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 its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Regulatory capital rules now include a capital conservation buffer designed to absorb losses during periods of economic stress. When fully phased-in on January 1, 2019, the capital conservation buffer of 2.5% will be added on top of each of the minimum risk-based capital ratios. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and will be phased-in over a three-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019) as presented in the table below. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The minimum capital ratios, including the phase-in of the capital conservation buffer, for capital adequacy purposes are as follows:

Year	Total Capital to Risk-Weighted Assets	Tier 1 Capital to Risk-Weighted Assets	CET1 Capital to Risk-Weighted Assets	Tier 1 Capital to Average Total Assets
2015	8.000 %	6.000 %	4.500 %	4.000 %
2016	8.625 %	6.625 %	5.125 %	4.000 %
2017	9.250 %	7.250 %	5.750 %	4.000 %
2018	9.875 %	7.875 %	6.375 %	4.000 %
2019	10.500 %	8.500 %	7.000 %	4.000 %

NOTE 14. REGULATORY MATTERS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total, Tier 1 and CET1 capital to risk-weighted assets, as defined, and of Tier 1 capital to average total assets (leverage ratio), as defined. Management believes, as of December 31, 2016 and 2015, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total, Tier 1 and CET1 risk-based capital ratios and Tier 1 leverage capital ratios as set forth in the following table and not be subject to any formal enforcement action. There are no conditions or event since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios 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**
			(Dollars in Thousands)			
December 31, 2016:						
Total Capital to Risk-Weighted Assets	**$ 26,397**	**18.85%**	**$ 11,202**	**8.00%**	**$ 14,003**	**10.00%**
Tier 1 Capital to Risk-Weighted Assets	**$ 24,779**	**17.70%**	**$ 8,402**	**6.00%**	**$ 11,202**	**8.00%**
CET1 Capital to Risk-Weighted Assets	**$ 24,779**	**17.70%**	**$ 6,301**	**4.50%**	**$ 9,102**	**6.50%**
Tier 1 Capital to Average Total Assets	**$ 24,779**	**11.22%**	**$ 8,834**	**4.00%**	**$ 11,042**	**5.00%**
December 31, 2015:						
Total Capital to Risk-Weighted Assets	$ 27,969	19.91%	$ 11,238	8.00%	$ 14,047	10.00%
Tier 1 Capital to Risk-Weighted Assets	$ 26,386	18.78%	$ 8,428	6.00%	$ 11,238	8.00%
CET1 Capital to Risk-Weighted Assets	$ 26,386	18.78%	$ 6,321	4.50%	$ 9,131	6.50%
Tier 1 Capital to Average Total Assets	$ 26,386	11.67%	$ 9,040	4.00%	$ 11,300	5.00%

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Determination of Fair Value (Continued)

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents and Interest-Bearing Deposits in Banks: The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

Securities: Where quoted prices are available in an active market, we classify the securities within level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include highly liquid government bonds and exchange-traded equities.

If quoted market prices are not available, we estimate fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include GSE obligations, corporate bonds, municipal securities, and other securities. Mortgage-backed securities are included in level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Company would classify those securities in level 3.

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value Hierarchy (Continued)

Restricted Equity Securities: The carrying amount of restricted equity securities with no readily determinable fair value approximates fair value based on the redemption provisions of the issuers which is cost.

Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair values of fixed rate loans is estimated based on discounted contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of impaired loans is based on discounted contractual cash flows or underlying collateral values, where applicable.

Deposits: The fair values disclosed for demand deposits (for example, interest and noninterest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Subordinated Debentures: The carrying amount of subordinated debentures approximates its fair value.

Other Borrowings: Current market rates for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. Fair value of long-term debt is based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Credit-Related Instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Assets Measured at Fair Value on a Recurring Basis

The following tables present financial assets measured at fair value on a recurring basis:

		Fair Value Measurements at December 31, 2016 Using		
	Assets Measured at Fair Value December 31, 2016	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available for sale securities	**$ 105,551,083**	**$ -**	**$ 105,551,083**	**$ -**

		Fair Value Measurements at December 31, 2015 Using		
	Assets Measured at Fair Value December 31, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 112,108,512	$ -	$ 112,108,512	$ -

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances management makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following tables present the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy, for which a nonrecurring change in fair value has been recorded:

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

	Fair Value Measurements at December 31, 2015 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ -	$ -	$ -	$ -
Other real estate owned	68,185	-	-	68,185

Impaired Loans

Loans considered impaired under ASC 310-10-35, *Receivables*, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent.

The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Impaired loans, which are usually measured for impairment using the fair value of collateral, had a carrying amount of $33,502 and $35,078, with a specific valuation allowance of $33,502 and $35,078 at December 31, 2016 and 2015, respectively. Of the $33,502 and $35,078, the entire amount was carried at fair value as a result of charge-offs and/or specific valuation allowances at December 31, 2016 and 2015, respectively. Changes in specific valuation allowances during 2016 and 2015 on impaired loans carried at fair value did not result in any additional provision for loan loss expense.

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis (Continued)

Other Real Estate Owned

Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans, are initially recorded at the lower of the loan's carrying amount or the fair value less estimated costs to sell upon transfer of the loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value less costs to sell. Fair values are generally based on third party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

Fair Value of Financial Instruments

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

	December 31,			
	2016		2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash and cash equivalents	**$ 1,699**	**$ 1,699**	$ 1,718	$ 1,718
Interest-bearing deposits in banks	**3,035**	**3,035**	3,138	3,138
Securities available for sale	**105,551**	**105,551**	112,109	112,109
Restricted equity securities	**722**	**722**	935	935
Loans receivable, net	**89,651**	**87,956**	85,960	86,011
Accrued interest receivable	**1,198**	**1,198**	1,156	1,156
Financial liabilities:				
Deposits	**189,525**	**189,474**	184,917	185,547
Other borrowings	**-**	**-**	5,000	5,000
Subordinated debentures	**3,093**	**3,093**	3,093	3,093
Accrued interest payable	**81**	**81**	94	94

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed statements of condition of Pinnacle Bancshares, Inc. as of December 31, 2016 and 2015 and the condensed statements of income and cash flows for the years then ended.

CONDENSED STATEMENTS OF CONDITION

	2016	2015
	(Dollars in Thousands)	
Assets		
Cash and cash equivalents	**$ 1,772**	$ 1,315
Investment in unconsolidated subsidiary	**93**	93
Investment in Pinnacle Bank	**24,949**	27,480
Other assets	**84**	81
Total assets	**$ 26,898**	$ 28,969
Liabilities and stockholders' equity		
Subordinated debentures	**$ 3,093**	$ 3,093
Other liabilities	**47**	38
Total liabilities	**3,140**	3,131
Stockholders' equity	**23,758**	25,838
Total liabilities and stockholders' equity	**$ 26,898**	$ 28,969

CONDENSED STATEMENTS OF INCOME

	2016	2015
	(Dollars in Thousands)	
Income		
Dividend income from Pinnacle Bank	**$ 3,976**	$ 770
Interest income	**6**	5
	3,982	775
Expense		
Interest	**113**	97
Other	**29**	26
	142	123
Income before income tax benefit and undistributed (distributions in excess of) earnings of subsidiary	**3,840**	652
Income tax benefit	**(50)**	(44)
Income before undistributed (distributions in excess of) earnings of subsidiary	**3,890**	696
Equity in undistributed (distributions in excess of) earnings of subsidiary	**(1,606)**	1,525
Net income	**$ 2,284**	$ 2,221

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	2016	2015
	(Dollars in Thousands)	
OPERATING ACTIVITIES		
Net income	**$ 2,284**	$ 2,221
Adjustments to reconcile net income to net cash provided by operating activities:		
(Equity in) distributions in excess of undistributed earnings of subsidiary	**1,606**	(1,525)
Net other operating activities	**5**	12
Net cash provided by operating activities	**3,895**	708
FINANCING ACTIVITIES		
Purchase of treasury stock	**(2,931)**	(152)
Dividends paid	**(507)**	(518)
Net cash used in financing activities	**(3,438)**	(670)
Net increase in cash and cash equivalents	**457**	38
Cash and cash equivalents at beginning of year	**1,315**	1,277
Cash and cash equivalents at end of year	**$ 1,772**	$ 1,315