



2015 Annual Report



To Our Shareholders:

We are pleased to report that 2015 was yet another successful year for Jacksonville Bancorp, Inc. The company's solid operating results included earning net income of \$3 million, a return on average assets of 0.99%, and finishing the year with total assets of approximately \$308 million. Net income exceeded 2014 by over \$53,000 and earnings per share rose to \$1.71. In December, these results, coupled with the bank's strong capital position, enabled our board of directors to declare a special January 2016, dividend of \$1.00 per share.

While many factors contributed to 2015's strong financial performance, loan growth and asset quality were at the top of the list. Net loans increased \$8.3 million or 4.5%. Our total portfolio which remains well diversified among residential mortgage, commercial, consumer, and agriculture credits, ended the year at \$193.0 million. The bank's nonperforming assets to total assets ratio declined to 0.76% at December 31, 2015, and loan loss expense was reduced by \$100,000. Both measures are a clear indication of our lending department's continued emphasis on quality loan production and high underwriting standards.

Developing and maintaining local core deposits to fund bank operations is an organization wide priority and one of the keys to maintaining a profitable interest rate margin. In 2015, Jacksonville Bancorp, Inc. adopted a strategy of allowing high priced certificates of deposit to roll off the books, while at the same time attempting to attract and retain less expensive sources of funds. As a result, the bank's low-cost transaction accounts (checking and money markets) increased by \$8.7 million in 2015 while its relatively more expensive time deposits fell \$15.5 million. At year end, although total deposits declined by 2.7% to \$239.3 million, the bank's interest rate spread increased to 3.54%.

Another contributing factor to the company's financial success is the non-interest income generated by our mortgage banking operation, our securities brokerage service, Financial Resources Group, Inc., and our trust department. As a result of the good work of the staff members in these departments, Jacksonville Bancorp's non-interest income again substantially exceeded that of our peers.

In 2015, we continued to invest in new technology in order to create operational efficiencies, enhance security, and provide improved financial products. In the third quarter, the bank completed a conversion to EMV MasterCard. All existing debit card customers were issued new chip replacement cards. Industrywide, the goal of switching to chip cards is to both reduce fraudulent transactions and minimize the expense and inconvenience to cardholders.

We look forward to celebrating our centennial year in 2016. One hundred years ago, in October of 1916, Jacksonville Savings and Loan Association was organized for the purpose of financing local home ownership and promoting thrift. We are proud of this tradition and pledge to continue to deliver the finest financial services to the depositors and borrowers in the markets we serve.

We appreciate the loyalty and support of our shareholders and look forward to continued success in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew F. Applebee".

Andrew F. Applebee
Chairman of the Board

A handwritten signature in black ink, appearing to read "Richard A. Foss".

Richard A. Foss
President and CEO

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BUSINESS OF THE COMPANY

Jacksonville Bancorp, Inc. (the “Company”) is a Maryland corporation. On July 14, 2010, Jacksonville Bancorp, Inc. completed its conversion from the mutual holding company structure and the related public offering and is now a stock holding company that is fully owned by the public. The Company owns 100% of Jacksonville Savings Bank.

Jacksonville Savings Bank is an Illinois-chartered savings bank headquartered in Jacksonville, Illinois. We conduct our business from our main office and five branches, two of which are located in Jacksonville and one of which is located in each of the following Illinois communities: Virden, Litchfield, and Chapin. We were originally chartered in 1916 as an Illinois-chartered mutual savings and loan association and converted to a mutual savings bank in 1992. In 1995, Jacksonville Savings Bank converted to an Illinois-chartered stock savings bank and reorganized into the mutual holding company form of organization. We have been a member of the Federal Home Loan Bank System since 1932. Our deposits are insured by the Federal Deposit Insurance Corporation.

We are a community-oriented savings bank engaged primarily in the business of attracting retail deposits from the general public in our market area and using such funds, together with borrowings and funds from other sources, to originate mortgage loans secured by one-to-four family residential real estate, commercial and agricultural real estate and home equity loans. We also originate commercial and agricultural business loans and consumer loans. Additionally, we invest in United States Government agency securities, bank-qualified, general obligation municipal issues, and mortgage-backed securities issued or guaranteed by the United States Government or enterprises thereof. We maintain a portion of our assets in liquid investments, such as overnight funds at the Federal Home Loan Bank.

Our principal sources of funds are customer deposits, proceeds from the sale of loans, short-term borrowings, funds received from the repayment and prepayment of loans and mortgage-backed securities, and the sale, call, or maturity of investment securities. Principal sources of income are interest income on loans and investments, sales of loans and securities, service charges, commissions, card interchange income and other fees. Our principal expenses are interest paid on deposits, employee compensation and benefits, occupancy and equipment expense, and data processing and telecommunications expense.

We operate a full service trust department and an investment center. The investment center is operated through Financial Resources Group, Inc., Jacksonville Savings Bank’s wholly-owned subsidiary.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth certain information concerning the consolidated financial position, consolidated data from operations and performance ratios of the Company at the dates and for the years indicated. Selected quarterly financial data for each of the last two years is set forth at Note 20 to the Consolidated Financial Statements.

	At December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Selected Financial Condition Data:					
Total assets.....	\$ 308,642	\$ 311,925	\$ 318,419	\$ 321,446	\$ 307,289
Cash and cash equivalents	4,103	9,612	6,099	7,294	11,388
Investment securities	64,295	55,265	60,639	63,431	62,258
Mortgage-backed securities.....	23,178	41,420	48,346	51,956	40,364
Loans, net ⁽¹⁾	193,579	184,954	180,902	174,465	171,312
Federal Home Loan Bank of					
Chicago stock, at cost.....	1,114	1,114	1,114	1,114	1,114
Foreclosed assets, net	331	177	282	137	435
Bank owned life insurance	7,094	6,913	6,815	6,613	4,403
Deposits	239,282	245,942	251,738	258,521	254,240
Federal Home Loan Bank of					
Chicago advances.....	8,500	5,000	10,800	700	—
Short-term borrowings	6,632	8,822	8,810	12,041	6,518
Stockholders' equity.....	45,567	45,016	41,139	44,120	41,165

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share amounts)				
Selected Operating Data:					
Interest income.....	\$ 11,514	\$ 11,892	\$ 12,078	\$ 12,791	\$ 13,867
Interest expense.....	1,127	1,451	1,782	2,303	2,879
Net interest income	10,387	10,441	10,296	10,488	10,988
Provision for loan losses.....	140	240	170	490	625
Net interest income after					
provision for loan losses.....	10,247	10,201	10,126	9,998	10,363
Noninterest income	4,187	3,919	4,443	4,882	3,996
Noninterest expense	10,341	10,213	10,167	9,976	9,814
Income before income tax	4,093	3,907	4,402	4,904	4,545
Provision for income taxes	1,067	934	1,188	1,337	1,259
Net income.....	\$ 3,026	\$ 2,973	\$ 3,214	\$ 3,567	\$ 3,286
Earnings per share:					
Basic	\$ 1.71	\$ 1.66	\$ 1.73	\$ 1.89	\$ 1.74
Diluted	\$ 1.70	\$ 1.65	\$ 1.73	\$ 1.89	\$ 1.74
Dividends per share.....	\$ 1.32	\$ 0.32	\$ 0.31	\$ 0.40	\$ 0.30

(1) Includes loans held for sale of \$539,000, \$236,000, \$262,000, \$712,000, and \$447,000, at December 31, 2015, 2014, 2013, 2012, and 2011, respectively.

At or For the Years Ended December 31,

	2015	2014	2013	2012	2011
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets (ratio of net income to average total assets).....	0.99%	0.96%	1.02%	1.14%	1.08%
Return on average equity (ratio of net income to average equity).....	6.57%	6.80%	7.51%	8.25%	8.57%
Interest rate spread ⁽¹⁾	3.54%	3.48%	3.38%	3.46%	3.68%
Net interest margin ⁽²⁾	3.65%	3.61%	3.51%	3.62%	3.87%
Efficiency ratio ⁽³⁾	70.95%	71.12%	68.98%	64.90%	65.50%
Dividend pay-out ratio.....	77.88%	19.20%	17.60%	21.00%	17.14%
Non-interest expense to average total assets.....	3.39%	3.29%	3.23%	3.20%	3.23%
Average interest-earning assets to average interest-bearing liabilities.....	127.68%	124.52%	121.63%	119.76%	118.84%
Average equity to average total assets.....	15.11%	14.08%	13.58%	13.86%	12.60%
Asset Quality Ratios:					
Nonperforming assets to total assets.....	0.76%	0.78%	0.65%	0.73%	0.92%
Nonperforming loans to total loans.....	1.03%	1.21%	0.97%	1.25%	1.38%
Allowance for loan losses to nonperforming loans.....	144.45%	130.57%	191.14%	150.85%	137.33%
Allowance for loan losses to gross loans ⁽⁴⁾	1.49%	1.57%	1.85%	1.88%	1.89%
Capital Ratios (Bank):					
Total capital (to risk-weighted assets).....	19.15%	18.81%	18.15%	17.72%	16.67%
Tier I capital (to risk-weighted assets).....	17.90%	17.56%	16.89%	16.46%	15.42%
Common equity Tier I capital (to risk-weighted assets).....	17.90%	—	—	—	—
Tier I capital (to total assets).....	12.82%	12.25%	11.51%	10.89%	10.35%
Other Data:					
Number of offices.....	6	6	6	7	7
Full time equivalent employees.....	93	96	98	104	104

- (1) The interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted- average cost of interest-bearing liabilities for the year.
- (2) The net interest margin represents net interest income as a percent of average interest-earning assets for the year.
- (3) The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.
- (4) Gross loans include loans held for sale.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding our financial condition and results of operations. The information contained in this section should be read in conjunction with our consolidated financial statements and the accompanying notes.

Certain statements in this annual report and throughout Management's Discussion and Analysis of Financial Condition and Results of Operations are "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and involve known and unknown risk, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward looking statement. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and experiences of the Company, are generally identified by use of the words "believe", "expect", "intend", "anticipate", "estimate", "project", or similar expressions. Factors that impact such forward looking statements include, among others, changes in general economic conditions, changes in interest rates and competition. We decline any obligation to publicly announce future events or developments that may affect the forward-looking statements herein.

OPERATING STRATEGY – OVERVIEW

Our business consists principally of attracting deposits from the general public and using deposits and borrowings to originate mortgage loans secured by one-to-four family residences, commercial real estate and agricultural real estate. In addition, we originate commercial and agricultural business loans and consumer loans. Our net income, like other financial institutions, is primarily dependent on our net interest income, which is the difference between the income earned on our interest-earning assets, such as loans and investments, and the cost of our interest-bearing liabilities, primarily deposits and borrowings. Our net income is also affected by provisions for loan losses and other noninterest income and expenses. General economic conditions, particularly changes in market interest rates, government legislation, monetary policies, and attendant actions of the regulatory authorities are the external influences affecting many of the factors of our net income.

Management has implemented various strategies designed to enhance our profitability. These strategies include reducing our exposure to interest rate risk by selling fixed-rate loans, offering other fee-based services to our customers, and improving operating efficiencies. We recognize the need to establish and adhere to strict loan underwriting criteria and guidelines. We generally limit our investment portfolio to securities issued by the United States Government and Government sponsored enterprises, mortgage-backed securities collateralized by United States Government sponsored enterprises, and bank-qualified general obligation municipal issues.

We continue to service our existing borrowers and originate new loans to credit-worthy borrowers in an effort to meet the credit needs of our community. We intend to remain a community-oriented financial institution dedicated to meeting the credit and financial services needs of our customers in our market area.

CRITICAL ACCOUNTING POLICIES AND USE OF SIGNIFICANT ESTIMATES

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in preparing our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. Management believes the following discussion addresses our most critical accounting policies and significant estimates, which are those that are most important to the portrayal of our financial condition and results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Allowance for Loan Losses. We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgments and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is a material estimate that is particularly susceptible to significant changes in the near term and is established through a provision for loan losses. The allowance is based upon past loan experience and other factors which, in management's judgment, deserve current recognition in estimating loan losses. The evaluation includes a review of all loans on which full collectability may not be reasonably assured. Other factors considered by management include the size and character of the loan portfolio, concentrations of loans to specific borrowers or industries, existing economic conditions and historical losses on each portfolio category. In connection with the determination of the allowance for loan losses, management uses independent appraisals for significant properties, which collateralize loans. Management uses the available information to make such determinations. If circumstances differ substantially from the assumptions used in making determinations, future adjustments to the allowance for loan losses may be necessary and results of operations could be affected. While we believe we have established our existing allowance for loan losses in conformity with accounting principles generally accepted in the United States of America, there can be no assurance that regulators, in reviewing our loan portfolio, will not request an increase in the allowance for loan losses. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases to the allowance will not be necessary if loan quality deteriorates.

Foreclosed Assets. Foreclosed assets, consisting of real estate owned acquired through loan foreclosures, are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing fair value when the asset is acquired, the actual fair value of the foreclosed asset could differ from the original estimate. If it is determined that the fair value has declined subsequent to foreclosure, the asset is written down through a charge to noninterest expense. Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of foreclosed assets are netted and posted to noninterest expense.

Deferred Income Tax Assets/Liabilities. Our net deferred income tax asset arises from differences in the dates that items of income and expense enter into our reported income and taxable income. Deferred tax assets and liabilities are established for these items as they arise. From an accounting standpoint, deferred tax assets are reviewed to determine that they are realizable based upon the historical level of our taxable income, estimates of our future taxable income and the reversals of deferred tax liabilities. In most cases, the realization of the deferred tax asset is based on our future profitability. If we were to experience net operating losses for tax purposes in a future period, the realization of our deferred tax assets would be evaluated for a potential valuation reserve.

Impairment of Goodwill. Goodwill, an intangible asset with an indefinite life, was recorded on our balance sheet in prior periods as a result of acquisition activity. Goodwill is evaluated for impairment annually,

unless there are factors present that indicate a potential impairment, in which case, the goodwill impairment test is performed more frequently. During 2015, goodwill was evaluated quarterly due to market conditions.

Mortgage Servicing Rights. Mortgage servicing rights are very sensitive to movements in interest rates as expected future net servicing income depends on the projected outstanding principal balances of the underlying loans, which can be greatly reduced by prepayments. Prepayments usually increase when mortgage interest rates decline and decrease when mortgage interest rates rise.

Fair Value Measurements. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. We estimate the fair value of financial instruments using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, we estimate fair value. Other factors such as model assumptions and market dislocations can affect estimates of fair value.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The update provides a five-step revenue recognition model for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and must be applied either retrospectively or using the modified retrospective approach. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date, which provides a one-year deferral of ASU 2014-09. Management is evaluating the new guidance, but does not expect the adoption of this guidance to have a material impact on the Company’s consolidated financial statements. Early adoption would be permitted, but not before the original public entity effective date.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860) – Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures. ASU No. 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. ASU 2014-11 was effective for the first interim or annual period beginning after December 15, 2014. In addition, the disclosure of certain transactions accounted for as a sale was effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The Company adopted ASU 2014-11 and included additional disclosures.

In April 2015, the FASB issued ASU No. 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing agreement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the

accounting for a customer's accounting for service contracts. ASU No. 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company's current method of accounting for fees paid in a cloud computing arrangement is consistent with the accounting guidance provided by ASU No. 2015-05. Therefore, the adoption of ASU No. 2015-05 is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

RECENT DEVELOPMENTS

On July 2, 2013, the Board of Governors of the Federal Reserve System announced its approval of the final rule to implement the Basel III regulatory capital reforms, among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Federal Deposit Insurance Corporation adopted the new rule on July 9, 2013. The new rule became applicable to Jacksonville Savings Bank beginning in January 2015. The new rule includes a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, as well as a capital conservation buffer of 2.5% of risk-weighted assets. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking institutions. The capital conservation buffer will be phased in beginning in the first quarter of 2016 at 0.625% and will be fully phased in beginning in the first quarter of 2019.

FINANCIAL CONDITION

Total assets at December 31, 2015 were \$308.6 million, a decrease of \$3.3 million, or 1.1%, from \$311.9 million at December 31, 2014. The decrease in total assets was primarily due to an \$18.2 million decrease in mortgage-backed securities, partially offset by increases of \$9.0 million in investment securities and \$8.3 million in net loans.

Available-for-sale mortgage-backed securities decreased \$18.2 million, or 44.0%, to \$23.2 million at December 31, 2015 from \$41.4 million at December 31, 2014. Available-for-sale investment securities increased \$9.0 million, or 16.3%, to \$64.3 million at December 31, 2015 from \$55.3 million at December 31, 2014. The net decrease in investment and mortgage-backed securities was primarily used to fund new loan originations and deposit withdrawals. Cash and cash equivalents decreased \$5.5 million, or 57.3%, to \$4.1 million at December 31, 2015, reflecting a \$3.7 million decrease in federal funds sold. The decrease in cash and cash equivalents was partially offset by an increase of \$2.7 million in interest-earning time deposits in banks.

Net loans increased \$8.3 million, or 4.5%, to \$193.0 million at December 31, 2015 from \$184.7 million at December 31, 2014. The increase in loans was primarily due to increases of \$4.3 million in agricultural business loans, which reflected both delays in grain sales and prepayments of 2016 crop inputs, \$2.8 million in residential real estate loans and \$1.1 million in agricultural real estate loans.

At December 31, 2015 and 2014, we had \$2.7 million recorded in goodwill. At these dates our goodwill was not impaired. At December 31, 2015, we also had \$598,000 in mortgage servicing rights, net of the valuation allowance. Our mortgage servicing rights asset represented approximately 45 basis points of the \$131.4 million in loans that we serviced. We obtain an independent valuation of the mortgage servicing rights at least annually. Our most recent valuation was obtained as of December 31, 2015, which reported a market value of approximately \$871,000.

Total deposits decreased \$6.7 million, or 2.7%, to \$239.3 million at December 31, 2015. The decrease was primarily due to a \$15.5 million decrease in time deposits, reflecting an industry-wide trend as customers have withdrawn funds or shown a preference for shorter-term deposits. The decrease in time deposits was partially offset by an increase of \$8.8 million in low-cost transaction accounts (consisting of checking, savings and money market accounts). Borrowings, which consisted of \$8.5 million in overnight FHLB advances and \$6.6 million in overnight repurchase agreements, increased a total of \$1.3 million during 2015. The FHLB advances have been used as a low-cost, short-term source of funding. The repurchase agreements are a cash management service provided to our commercial deposit customers.

Stockholders' equity increased \$550,000, or 1.2%, to \$45.6 million at December 31, 2015. The increase in stockholders' equity was primarily the result of net income of \$3.0 million and \$383,000 from the exercise of stock options, partially offset by \$2.4 million in cash dividends paid and \$765,000 in stock repurchases. Stockholders' equity also benefitted from an increase of \$79,000 in accumulated other comprehensive income during 2015. Other comprehensive income consisted of the increase in net unrealized gains, net of tax, on available-for-sale securities reflecting changes in market prices for securities in our portfolio. Other comprehensive income does not include changes in the fair value of other financial instruments included on the balance sheet. Our tangible book value per share increased to \$23.91 as of December 31, 2015 from \$23.50 at December 31, 2014.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

GENERAL

Net income for the year ended December 31, 2015 totaled \$3.03 million, or \$1.71 per basic common share and \$1.70 per diluted common share, compared to net income for the year ended December 31, 2014 of \$2.97 million, or \$1.66 per basic common share and \$1.65 per diluted common share. Net income increased \$53,000 during 2015, which reflected an increase of \$158,000 in noninterest income and a decrease of \$100,000 in the provision for loan losses, partially offset by a decrease of \$53,000 in net interest income and increases of \$19,000 in noninterest expense and \$133,000 in income taxes.

INTEREST INCOME

Interest income decreased \$377,000, or 3.2%, to \$11.5 million for the year ended December 31, 2015 from \$11.9 million for the year ended December 31, 2014. The \$377,000 decrease in interest income resulted from decreased income of \$108,000 on investment securities and \$439,000 on mortgage-backed securities, partially offset by increases in interest income of \$137,000 on loans and \$33,000 on other interest-earning assets.

Interest income on loans increased \$137,000 to \$9.3 million for the year ended December 31, 2015 from \$9.2 million for the year ended December 31, 2014 primarily due to an increase in the average balance of loans. The average balance of the loan portfolio increased \$8.7 million to \$189.7 million during 2015. The increase in the average balance of loans was primarily due to growth in the average balance of agricultural real estate and commercial real estate loans. The increase in the average balance was partially offset by a decrease of 16 basis points in the average yield on loans to 4.90% during 2015 from 5.06% during 2014. The decrease in the average yield reflected lower market rates of interest and the competitive lending environment.

Interest income on investment securities decreased \$108,000 to \$1.6 million for the year ended December 31, 2015. The decrease resulted primarily from decreases in both the average balance and average yield of the investment portfolio. The average balance of the investment portfolio decreased \$2.0 million to \$56.9

million during 2015. The decrease in the average balance of investment securities reflected the use of investment proceeds to fund loan growth and the decrease in deposits during this same time frame. The average yield of investment securities decreased to 2.89% during 2015 compared to 2.97% during 2014. The majority of our investment portfolio consists of municipal bonds which are exempt from federal taxation, resulting in a reduction in income tax expense. Adjusting for this benefit, the tax equivalent yield of the investment portfolio equaled 4.12% for 2015 compared to 4.31% for 2014.

Interest income on mortgage-backed securities decreased \$439,000 to \$542,000 for the year ended December 31, 2015 from \$981,000 for the year ended December 31, 2014. The decrease was primarily due to a decrease of \$15.7 million in the average balance of mortgage-backed securities to \$31.2 million during 2015. The decrease in the average balance reflected the use of sales and repayment proceeds to fund new loan originations and deposit withdrawals during this same time frame. The decrease in interest income on mortgage-backed securities also reflected a 35 basis points decrease in the average yield of mortgage-backed securities to 1.74% during 2015 from 2.09% during 2014. The average yield continues to be affected by low long-term rates and national prepayment speeds which affect the amortization of premiums on mortgage-backed securities.

Interest income from other interest-earning assets, which consisted of interest-earning demand and time deposits and federal funds sold, increased to \$35,000 during the year ended December 31, 2015, from \$2,000 for the year ended December 31, 2014. The \$33,000 increase was due to increases in the average yield and average balance of these investments. The average yield on these investments increased to 0.54% during 2015 from 0.06% during 2014, reflecting an increase in higher-yielding time deposit accounts with other banks during 2015. The average balance of other interest-earning assets increased \$3.7 million to \$6.5 million during 2015, reflecting the increase in the average balance of time deposit accounts with other banks.

INTEREST EXPENSE

Total interest expense decreased \$324,000, or 22.3%, to \$1.1 million during the year ended December 31, 2015 from \$1.4 million during the year ended December 31, 2014. The decrease in interest expense was due to a decrease of \$335,000 in the cost of deposits, partially offset by an increase of \$11,000 in the cost of borrowings.

Interest expense on deposits decreased \$335,000 to \$1.1 million during the year ended December 31, 2015 from \$1.4 million during the year ended December 31, 2014. The decrease in interest expense on deposits was primarily due to decreases in the both the average rate and average balance of deposits. The average rate paid on deposits decreased 12 basis points to 0.53% during 2015 from 0.65% during 2014. The decrease reflected the low rate environment, as well as a change in the composition of our deposits to lower-cost transaction accounts from higher-cost time deposits. The decrease in interest expense on deposits was also impacted by a decrease of \$13.0 million in the average balance of deposits to \$208.7 million during 2015 from \$221.7 million during 2014. The decrease in the average balance of deposits was primarily due to a \$16.3 million decrease in the average balance of time deposits, partially offset by a \$3.3 million increase in the average balance of lower-cost transaction accounts.

Interest paid on borrowed funds increased \$11,000 to \$26,000 during 2015 from \$15,000 during 2014. Borrowed funds consisted of overnight repurchase agreements and advances from the FHLB. The average balance of borrowed funds increased \$3.1 million to \$13.9 million during 2015, reflecting the increased use of advances from the FHLB. The average rate paid on borrowed funds increased to 0.19% during 2015 from 0.14% during 2014.

NET INTEREST INCOME

As a result of the changes in interest income and interest expense noted above, net interest income decreased by \$53,000, or 0.5%, to \$10.4 million in 2015. The decrease in net interest income reflected the impact of the decrease in interest income on mortgage-backed securities during 2015, compared to 2014. However, due to changes in average assets and a greater reduction in the average rate of interest-bearing liabilities, our interest rate spread and interest rate margin showed small increases during 2015. Our interest rate spread increased by 6 basis points to 3.54% during 2015 from 3.48% during 2014. Our net interest margin increased 4 basis points to 3.65% during 2015 from 3.61% during 2014. Our ratio of average interest earning assets to average interest bearing liabilities for the years ended December 31, 2015 and 2014 was 1.28x and 1.25x, respectively.

PROVISION FOR LOAN LOSSES

The provision for loan losses is determined by management as the amount needed to replenish the allowance for loan losses, after net charge-offs have been deducted, to a level considered adequate to absorb known and probable losses in the loan portfolio, in accordance with accounting principles generally accepted in the United States of America.

The allowance for loan losses decreased \$37,000 during 2015 to \$3.0 million as of December 31, 2015. The decrease was the result of net charge-offs exceeding the provision for loan losses. We recorded a provision for loan losses of \$140,000 for the year ended December 31, 2015, compared to \$240,000 during 2014. The \$100,000 decrease in the provision reflected the lower level of charge-offs and nonperforming loans. Net charge-offs decreased \$514,000 to \$177,000 during 2015 from \$690,000 during 2014.

The provisions in 2015 and 2014 were made to bring the allowance for loan losses to a level deemed adequate following management's evaluation of the repayment capacity and collateral protection afforded by each problem loan identified by management. The review also considered the local economy and the level of bankruptcies and foreclosures in our market area.

The following table sets forth the composition of our non-performing assets at December 31, 2015 and 2014, respectively.

	December 31, 2015	December 31, 2014
	<u>(Dollars in thousands)</u>	
Nonaccrual loans:		
Real estate loans:		
One- to four-family residential	\$ 911	\$ 995
Commercial	840	932
Agricultural	—	123
Home equity	119	121
Commercial business loans	9	22
Agricultural business loans	—	—
Consumer loans	<u>142</u>	<u>71</u>
Total nonaccrual loans	<u>2,021</u>	<u>2,264</u>
Loans delinquent 90 days or greater and still accruing:		
Real estate loans:		
One- to four-family residential	—	—
Commercial	—	—
Agricultural	—	—
Home equity	—	—
Commercial business loans	—	—
Agricultural business loans	—	—
Consumer loans	<u>—</u>	<u>—</u>
Total loans delinquent 90 days or greater and still accruing	<u>—</u>	<u>—</u>
Total nonperforming loans	<u>2,021</u>	<u>2,264</u>
Other real estate owned and foreclosed assets:		
Real estate loans:		
One- to four-family residential	217	40
Commercial	114	137
Agricultural	—	—
Home equity	—	—
Commercial business loans	—	—
Agricultural business loans	—	—
Consumer loans	<u>—</u>	<u>—</u>
Total other real estate owned and foreclosed assets	<u>331</u>	<u>177</u>
Total nonperforming assets	<u>\$ 2,352</u>	<u>\$ 2,441</u>
Ratios:		
Nonperforming loans to total loans	1.03%	1.21%
Nonperforming assets to total assets	0.76	0.78

Management monitors all past due loans and nonperforming assets. Such loans are placed under close supervision with consideration given to the need for additions to the allowance for loan losses and (if appropriate) partial or full charge-off. At December 31, 2015, we had no loans 90 days or more delinquent which were still accruing interest. Nonperforming assets decreased by \$89,000 to \$2.4 million at December 31, 2015. The decrease in the level of nonperforming assets reflected a decrease of \$243,000 in nonperforming loans, partially offset by an increase of \$154,000 in foreclosed assets. The decrease in nonperforming loans primarily reflected the payoff of an agricultural real estate loan and the foreclosure of several one- to four-family residential properties.

The allowance for loan losses as a percentage of nonperforming loans increased to 144.45% at December 31, 2015, as compared to 130.57% at December 31, 2014. The increase in this coverage ratio was primarily due to a decrease in nonperforming loans during 2015. The allowance for loan losses at \$3.0 million represented 1.49% of total loans at December 31, 2015. On this same date, nonperforming loans totaled 1.03% of total

loans. We have an experienced chief lending officer, collections, and independent loan review program which monitor the loan portfolio and seek to prevent any deterioration of asset quality.

The following table shows the principal amount of special mention and classified loans at December 31, 2015 and December 31, 2014.

	December 31, 2015	December 31, 2014
	(In thousands)	
Special Mention loans	\$ 3,781	\$ 2,096
Substandard loans	<u>5,020</u>	<u>5,454</u>
Total Special Mention and Substandard loans	<u>\$ 8,801</u>	<u>\$ 7,550</u>

The total amount of classified and special mention loans increased \$1.3 million to \$8.8 million at December 31, 2015 from \$7.5 million at December 31, 2014. The increase in classified and special mention loans during 2015 was due to an increase of \$1.7 million in special mention loans, partially offset by a decrease of \$434,000 in substandard loans. The increase in special mention loans reflected \$2.1 million in additional loans listed as special mention, partially offset by \$80,000 in principal reductions and \$176,000 in loans that were upgraded to a pass rating during 2015. The decrease in substandard loans was primarily related to \$1.0 million in principal reductions, \$164,000 in charge-offs, and \$213,000 transferred to foreclosed assets, partially offset by \$945,000 in additional loans classified as substandard during 2015.

NONINTEREST INCOME

Noninterest income increased \$158,000, or 3.9%, to \$4.2 million for the year ended December 31, 2015, compared to \$4.0 million for the year ended December 31, 2014. The increase in noninterest income resulted primarily from increases of \$213,000 in commission income and \$56,000 in net income from mortgage-banking operations, partially offset by decreases of \$88,000 in gains on the sale of available-for-sale securities and \$34,000 from service charges on deposits.

The increase in commission income reflected the improved market conditions and growth in assets under management during 2015. The increase in mortgage banking income was due to a higher volume of loan sales, as we sold \$16.8 million of loans in the secondary market during 2015, compared to \$12.5 million during 2014. The higher volume of sales reflected an increased volume of mortgage originations, which are affected by market interest rates. The decrease in gains on the sale of securities reflected changing market conditions. Securities totaling \$30.7 million were sold during 2015, compared to \$31.3 million during 2014. The sales during 2015 and 2014 were primarily made to reduce the volatility to interest rate changes in municipal bonds and to eliminate faster-paying mortgage-backed securities. The lower yielding bonds sold during 2015 generated smaller gains compared to those bonds sold during 2014. The decrease in service charges on deposits reflected a decrease in fees related to nonsufficient funds.

NONINTEREST EXPENSE

Total noninterest expense increased \$19,000, or 0.2%, to \$10.3 million for the year ended December 31, 2015, compared to the year ended December 31, 2014. The increase in noninterest expense was primarily due to increases of \$244,000 in compensation and benefits expense, \$78,000 in data processing and telecommunications expense, and \$22,000 in occupancy expense, partially offset by a decrease of \$340,000 in professional fees. The increase in compensation and benefits expense reflected normal cost increases and

higher commissions. Data processing fees were impacted by non-recurring expenses related to the redesign of our company website and our conversion to a new loan documentation program. The increase in occupancy expense primarily reflected higher service contracts on equipment. The decrease in professional fees reflected non-recurring legal and consulting expenses incurred during 2014.

INCOME TAXES

The provision for income taxes increased \$133,000 to \$1.1 million during 2015 compared to 2014. The increase in the income tax provision reflected an increase in taxable income. Our effective tax rate was 26.1% for 2015 and 23.9% for 2014, reflecting the impact of tax-exempt income.

AVERAGE BALANCES AND YIELDS

The following table sets forth, for the years indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin, and ratio of average interest-earning assets to average interest-bearing liabilities.

	For the Years Ended December 31,					
	2015		2014		2013	
	Average Outstanding Balance	Yield/ Rate	Average Outstanding Balance	Yield/ Rate	Average Outstanding Balance	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans ⁽¹⁾	\$ 189,667	4.90%	\$ 180,936	\$ 9,158	\$ 174,685	\$ 9,371
Investment securities ⁽²⁾	56,859	2.89	58,883	1,751	60,389	1,793
Mortgage-backed securities	31,248	1.74	46,939	981	50,762	877
Cash and cash equivalents	6,478	0.54	2,792	2	7,499	37
Total interest-earning assets	284,252	4.05%	289,550	11,892	293,335	12,078
Non-interest-earning assets	20,702		21,029		21,649	
Total assets	<u>\$ 304,954</u>		<u>\$ 310,579</u>		<u>\$ 314,984</u>	
Interest-bearing liabilities:						
Interest bearing checking	\$ 39,270	0.14%	\$ 38,080	\$ 54	\$ 37,595	\$ 53
Savings accounts	39,954	0.20	37,323	80	34,860	76
Certificates of deposit	86,614	0.98	102,890	1,180	116,036	1,512
Money market savings	34,947	0.29	35,408	110	33,554	112
Money market deposits	7,957	0.15	8,026	12	8,441	14
Total interest-bearing deposits	208,742	0.53	221,727	1,436	230,486	1,767
Federal Home Loan Bank advances	7,877	0.24	4,803	10	4,481	7
Short-term borrowings	6,009	0.12	5,996	5	6,196	8
Total borrowings	13,886	0.19	10,799	15	10,677	15
Total interest-bearing liabilities	222,628	0.51%	232,526	1,451	241,163	1,782
Non-interest-bearing liabilities	36,238		34,320		31,043	
Total liabilities	258,866		266,846		272,206	
Stockholders' equity	46,088		43,733		42,778	
Total liabilities and stockholders' equity	<u>\$ 304,954</u>		<u>\$ 310,579</u>		<u>\$ 314,984</u>	
Net interest income	<u>\$ 10,387</u>		<u>\$ 10,441</u>		<u>\$ 10,296</u>	
Net interest rate spread ⁽³⁾		3.54%				3.48%
Net interest-earning assets ⁽⁴⁾	<u>\$ 61,624</u>		<u>\$ 57,024</u>		<u>\$ 52,172</u>	
Net interest margin ⁽⁵⁾		3.65%				3.51%
Average interest-earning assets to average interest-bearing liabilities		127.68%				124.52%
						121.63%

(1) Includes non-accrual loans and loans held for sale and fees of \$104,000 for 2015, \$92,000 for 2014, and \$97,000 for 2013.

(2) Includes Federal Home Loan Bank stock and U.S. Agency securities.

(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(4) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by average total interest-earning assets.

RATE/VOLUME ANALYSIS

The following table presents the effects of changing rates and volumes on our net interest income for the fiscal years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Years Ended December 31, 2015 vs. 2014			Years Ended December 31, 2014 vs. 2013		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume		Rate	Volume	
	(In thousands)					
Interest-earning assets:						
Loans.....	\$ (296)	\$ 433	\$ 137	\$ (541)	\$ 328	\$ (213)
Investment securities.....	(49)	(59)	(108)	3	(45)	(42)
Mortgage-backed securities.....	(148)	(291)	(439)	173	(69)	104
Cash and cash equivalents.....	28	5	33	(20)	(15)	(35)
Total interest-earning assets.....	<u>\$ (465)</u>	<u>\$ 88</u>	<u>\$ (377)</u>	<u>\$ (385)</u>	<u>\$ 199</u>	<u>\$ (186)</u>
Interest-bearing liabilities:						
Interest bearing checking.....	\$ 1	\$ 2	\$ 3	\$ —	\$ 1	\$ 1
Savings accounts.....	(5)	5	—	(1)	5	4
Certificates of deposit.....	(155)	(173)	(328)	(170)	(161)	(331)
Money market savings.....	(8)	(1)	(9)	(8)	6	(2)
Money market deposits.....	(1)	—	(1)	(1)	(1)	(2)
Total interest-bearing deposits	(168)	(167)	(335)	(180)	(150)	(330)
Federal Home Loan Bank advances.....	2	7	9	3	—	3
Short-term borrowings.....	2	—	2	(3)	—	(3)
	4	7	11	—	—	—
Total interest-bearing liabilities.	<u>(164)</u>	<u>(160)</u>	<u>(324)</u>	<u>(180)</u>	<u>(150)</u>	<u>(330)</u>
Change in net interest income.....	<u>\$ (301)</u>	<u>\$ 248</u>	<u>\$ (53)</u>	<u>\$ (205)</u>	<u>\$ 349</u>	<u>\$ 144</u>

ASSET AND LIABILITY MANAGEMENT

As a financial institution, we face risk from interest rate volatility. Fluctuations in interest rates affect both our level of income and expense on a large portion of our assets and liabilities. Fluctuations in interest rates also affect the market value of all interest-earning assets.

The primary goal of our interest rate risk management strategy is to maximize net interest income while maintaining an acceptable interest rate risk profile. We seek to coordinate asset and liability decisions so that, under changing interest rate scenarios, net interest income remains within an acceptable range.

Our policy in recent years has been to reduce our interest rate risk by better matching the maturities of our interest rate sensitive assets and liabilities, selling our long-term fixed-rate residential mortgage loans with terms of 15 years or more to the secondary market, originating adjustable rate loans, and originating consumer and commercial business loans, which typically are for a shorter duration and at higher rates of interest than one- to four-family residential mortgage loans. Our portfolio of mortgage-backed securities also provides monthly cash flow. The remaining investment portfolio has been structured to better match the maturities and rates of our interest-bearing liabilities. With respect to liabilities, we have attempted to increase our savings and transaction deposit accounts, which management believes are more resistant to changes in interest rates than time deposit accounts. The board of directors appoints the Asset-Liability Management Committee (“ALCO”), which is responsible for reviewing our asset and liability management policies. The ALCO meets quarterly to review interest rate risk and trends, as well as liquidity and capital requirements.

We use comprehensive asset/liability software provided by a third-party vendor to perform interest rate sensitivity analysis for all product categories. The primary focus of our analysis is the effect of interest rate increases and decreases on net interest income. Management believes that this analysis reflects the potential effects on current earnings of interest rate changes. Call criteria and prepayment assumptions are taken into consideration for investment securities and loans. All of our interest sensitive assets and liabilities are analyzed by product type and repriced based upon current offering rates. The software performs interest rate sensitivity analysis by performing rate shocks of plus or minus 300 basis points in 100 basis point increments. As a result of the historically low interest rate environment, the table below only shows the change in our assets and liabilities based upon a 100 basis point decrease in interest rates.

The following table shows projected results at December 31, 2015 and 2014, of the impact on net interest income from an immediate change in interest rates, as well as the benchmarks established by the ALCO. The results are shown as a dollar and percentage change in net interest income over the next twelve months.

Rate Shock	Change in Net Interest Income				ALCO Benchmark
	December 31, 2015		December 31, 2014		
	\$ Change	% Change	\$ Change	% Change	
	(Dollars in thousands)				
+300 basis points	(344)	(3.00)%	(167)	(1.47)%	>(20.00)%
+200 basis points	(242)	(2.10)	(116)	(1.02)	>(20.00)%
+100 basis points	(119)	(1.04)	(46)	(0.40)	>(12.50)%
(100) basis points	(88)	(0.76)	(180)	(1.59)	>(12.50)%

The table above indicates that at December 31, 2015, in the event of a 200 basis point increase in interest rates, we would experience a 2.10% decrease in net interest income. In the event of a 100 basis point decrease in interest rates, we would experience a 0.76% decrease in net interest income.

The effects of interest rates on net interest income are not predictable. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, prepayments, and deposit run-offs, and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in these computations. Although some assets and liabilities may have similar maturity or periods of repricing, they may react at different times and in different degrees to changes in market interest rates. Rates on other types of assets and liabilities may lag behind changes in market interest rates. Assets, such as adjustable rate mortgage loans, generally have features that restrict changes in interest rates on a short-term basis and over the life of the asset. After a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making the calculations set forth above. Additionally, increased credit risk may result if our borrowers are unable to meet their repayment obligations as interest rates increase.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability to meet current and future short-term financial obligations. Our ALCO Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs of our customers as well as unanticipated contingencies. At December 31, 2015, we had access to immediately available funds of an additional \$79.4 million from the Federal Home Loan Bank of Chicago and approximately \$45.4 million in overnight federal funds purchased.

We regularly adjust our investments in liquid assets based upon our assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities, and the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, and investing activities. At December 31, 2015 and 2014, cash and cash equivalents totaled \$4.1 million and \$9.6 million, respectively. Our primary sources of funds include customer deposits, proceeds from sales of loans, maturities and sales of investments, and principal repayments from loans and mortgage-backed securities (both scheduled and prepayments). During the years ended December 31, 2015 and 2014, the most significant sources of funds have been loan sales, investment sales and principal payments, and short-term borrowings.

Our cash and cash equivalents decreased \$5.5 million during the year ended December 31, 2015, compared to an increase of \$3.5 million during the year ended December 31, 2014. Net cash provided by operating activities decreased to \$3.2 million during 2015 from \$5.5 million during 2014. Net cash used in investing activities increased to \$2.4 million during 2015 from the \$10.8 million in cash provided during 2014. Cash provided by sales and maturities of investment and mortgage-backed securities, net of purchases, decreased to \$9.0 million during 2015 from the \$15.2 million cash provided during 2014. Cash used in net loan originations and payments increased to \$8.7 million during 2015 from \$4.4 million during 2014. Cash used in financing activities decreased to \$6.3 million during 2015 from the \$12.8 million in cash used during 2014. The decrease was primarily due to an increase in short-term borrowings during 2015.

While loan sales and principal repayments on mortgage-backed securities are relatively predictable, deposit flows and early prepayments are more influenced by interest rates, general economic conditions, and competition. We attempt to price our deposits to meet asset/liability objectives and stay competitive with local market conditions.

Liquidity management is both a short- and long-term responsibility of management. We adjust our investments in liquid assets based upon management's assessment of expected loan demand, projected purchases of investment and mortgage-backed securities, expected deposit flows, yields available on interest-earning deposits, and liquidity of its asset/liability management program. Excess liquidity is generally invested in interest-earning overnight deposits, federal funds sold, and other short-term U.S. agency obligations. We use securities sold under agreements to repurchase as an additional funding source. The agreements represent our obligations to third parties and are secured by investments which we pledge as collateral. At December 31, 2015, we had \$6.6 million in outstanding repurchase agreements, which were utilized for overnight funding.

If we require funds beyond our ability to generate them internally, we have the ability to borrow funds from the Federal Home Loan Bank. We may borrow from the Federal Home Loan Bank under a blanket agreement which assigns all investments in Federal Home Loan Bank stock as well as qualifying loans as collateral to secure the amounts borrowed. This borrowing arrangement is limited to the lesser of 35% of our total assets, the balance of qualifying loans, or twenty times the balance of Federal Home Loan Bank stock held by us. At December 31, 2015, we had \$8.5 million in outstanding advances and a remaining borrowing capacity of approximately \$79.4 million.

We maintain levels of liquid assets as established by the board of directors. Our liquidity ratio, adjusted for pledged assets, at December 31, 2015 and 2014 was 32.0% and 37.6%, respectively. This ratio represents the volume of short-term liquid assets as a percentage of net deposits and borrowings due within one year.

We must also maintain adequate levels of liquidity to ensure the availability of funds to satisfy loan commitments. We anticipate that we will have sufficient funds available to meet our current commitments principally through the use of current liquid assets and through our borrowing capacity discussed above. The following table summarizes our outstanding loan commitments at December 31, 2015 and 2014.

	<u>December 31, 2015</u>		<u>December 31, 2014</u>
	(In thousands)		
Commitments to fund loans	\$	36,997	\$ 34,734
Standby letters of credit		110	255

Quantitative measures established by regulation to ensure capital adequacy require Jacksonville Savings Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier I, and common equity Tier 1 capital to risk-weighted assets and Tier I capital to average assets. At December 31, 2015, Jacksonville Savings Bank met all capital adequacy requirements to which it is subject.

The Director of the Illinois Department of Financial and Professional Regulation is authorized to require a savings bank to maintain a minimum capital level based upon the savings bank's financial condition or history, management or earnings. If a savings bank's core capital ratio falls below the required level, the Director may direct the savings bank to adhere to a specific written plan established by the Director to correct the savings bank's capital deficiency, as well as a number of other restrictions on the savings bank's operations, including a prohibition on the declaration of dividends by the savings bank's board of directors. At December 31, 2015, Jacksonville Savings Bank's core capital ratio was 12.82% of total adjusted average assets, which exceeded the required ratio of 4.00%.

As of December 31, 2015, the Federal Deposit Insurance Corporation categorized Jacksonville Savings Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Jacksonville Savings Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or

events since that notification that management believes have changed Jacksonville Savings Bank’s category. Jacksonville Savings Bank’s actual capital ratios at December 31, 2015 and 2014 are presented in the table below.

	<u>Well Capitalized</u>	<u>December 31, 2015 Actual</u>	<u>December 31, 2014 Actual</u>
Tier 1 Capital to Average Assets	5.00%	12.82%	12.25%
Common Equity Tier 1 Capital to Risk-Weighted Assets	6.50%	17.90%	—
Tier 1 Capital to Risk-Weighted Assets	8.00%	17.90%	17.56%
Total Capital to Risk-Weighted Assets	10.00%	19.15%	18.81%

EFFECT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related notes of Jacksonville Bancorp, Inc. have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors, and Stockholders
Jacksonville Bancorp, Inc.
Jacksonville, Illinois

We have audited the accompanying consolidated balance sheets of Jacksonville Bancorp, Inc. (Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jacksonville Bancorp, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Decatur, Illinois
March 10, 2016

Jacksonville Bancorp, Inc.
Consolidated Balance Sheets
December 31, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Cash and due from banks	\$ 2,385,846	\$ 6,427,536
Interest-earning demand deposits in banks	<u>1,717,586</u>	<u>3,184,102</u>
Cash and cash equivalents	<u>4,103,432</u>	<u>9,611,638</u>
Interest-earning time deposits in banks	2,724,000	—
Available-for-sale securities:		
Investment securities	64,294,937	55,264,976
Mortgage-backed securities	23,178,395	41,419,921
Other investments	62,223	73,766
Loans held for sale	539,000	235,600
Loans, net of allowance for loan losses of \$2,919,594 and \$2,956,264 at December 31, 2015 and 2014	193,039,879	184,718,612
Premises and equipment, net of accumulated depreciation of \$6,126,823 and \$5,742,785 at December 31, 2015 and 2014	4,728,157	4,945,983
Federal Home Loan Bank stock	1,113,800	1,113,800
Foreclosed assets held for sale, net	330,981	176,671
Cash surrender value of life insurance	7,093,640	6,912,917
Interest receivable	1,715,676	1,713,243
Deferred income taxes	1,583,067	1,486,206
Mortgage servicing rights, net of valuation allowance of \$47,354 and \$56,969 as of December 31, 2015 and 2014	597,713	632,634
Goodwill	2,726,567	2,726,567
Other assets	<u>811,007</u>	<u>892,118</u>
Total assets	<u>\$ 308,642,474</u>	<u>\$ 311,924,652</u>

Jacksonville Bancorp, Inc.
Consolidated Balance Sheets
December 31, 2015 and 2014

Liabilities and Stockholders' Equity

	2015	2014
Liabilities		
Deposits		
Demand	\$ 31,426,710	\$ 30,976,025
Savings, NOW and money market	128,800,696	120,365,974
Time	<u>79,054,524</u>	<u>94,599,563</u>
Total deposits	<u>239,281,930</u>	<u>245,941,562</u>
Short-term borrowings	15,131,710	13,821,730
Deferred compensation	4,492,594	4,252,720
Advances from borrowers for taxes and insurance	990,917	962,762
Interest payable	118,335	166,052
Income taxes payable	49,291	200,781
Dividends Payable	1,934,834	143,959
Other liabilities	<u>1,076,363</u>	<u>1,418,988</u>
Total liabilities	<u>263,075,974</u>	<u>266,908,554</u>
Stockholders' Equity		
Preferred stock, \$.01 par value, authorized 10,000,000 shares; none issued and outstanding	—	—
Common stock, \$.01 par value; authorized 25,000,000 shares; issued 1,791,513 – December 31, 2015 and 1,799,483 – December 31, 2014	17,915	17,995
Additional paid-in capital	13,664,914	13,900,743
Retained earnings	31,305,040	30,635,787
Accumulated other comprehensive income	790,341	711,483
Unallocated ESOP shares	<u>(211,710)</u>	<u>(249,910)</u>
Total stockholders' equity	<u>45,566,500</u>	<u>45,016,098</u>
Total liabilities and stockholders' equity	<u>\$ 308,642,474</u>	<u>\$ 311,924,652</u>

Jacksonville Bancorp, Inc.
Consolidated Statements of Income
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Interest and Fee Income		
Loans, including fees	\$ 9,294,256	\$ 9,157,672
Debt securities		
Taxable	287,066	225,722
Tax-exempt	1,356,056	1,525,723
Mortgage-backed securities	542,453	981,032
Other	<u>35,033</u>	<u>1,759</u>
Total interest income	<u>11,514,864</u>	<u>11,891,908</u>
Interest Expense		
Deposits	1,101,262	1,436,803
Short-term borrowings	7,130	5,085
Federal Home Loan Bank advances	<u>18,981</u>	<u>9,570</u>
Total interest expense	<u>1,127,373</u>	<u>1,451,458</u>
Net Interest Income	10,387,491	10,440,450
Provision for Loan Losses	<u>140,000</u>	<u>240,000</u>
Net Interest Income After Provision for Loan Losses	<u>10,247,491</u>	<u>10,200,450</u>
Noninterest Income		
Fiduciary activities	289,153	290,681
Commission income	1,414,840	1,201,869
Service charges on deposit accounts	680,022	714,425
Mortgage banking operations, net	180,872	124,564
Net realized gains on sales of available-for-sale securities	320,585	408,753
Loan servicing fees	344,019	361,586
Increase in cash surrender value of life insurance	175,428	185,986
ATM and bank card interchange income	628,882	604,037
Other	<u>153,089</u>	<u>136,875</u>
Total noninterest income	<u>4,186,890</u>	<u>4,028,776</u>

Jacksonville Bancorp, Inc.
Consolidated Statements of Income
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Noninterest Expense		
Salaries and employee benefits	\$ 6,724,334	\$ 6,480,468
Occupancy and equipment	996,460	974,361
Data processing and telecommunications	609,835	531,554
Professional	191,969	532,096
Marketing	116,568	112,713
Postage and office supplies	229,438	235,090
Deposit insurance premium	149,366	153,137
ATM and bank card expense	408,148	392,251
Other	<u>915,115</u>	<u>910,756</u>
Total noninterest expense	<u>10,341,233</u>	<u>10,322,426</u>
Income Before Income Taxes	4,093,148	3,906,800
Provision for Income Taxes	<u>1,067,025</u>	<u>934,046</u>
Net Income	<u>\$ 3,026,123</u>	<u>\$ 2,972,754</u>
Basic Earnings Per Share	<u>\$ 1.71</u>	<u>\$ 1.66</u>
Diluted Earnings Per Share	<u>\$ 1.70</u>	<u>\$ 1.65</u>
Cash Dividends Per Share	<u>\$ 1.32</u>	<u>\$ 0.32</u>

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Net Income	<u>\$ 3,026,123</u>	<u>\$ 2,972,754</u>
Other Comprehensive Income		
Unrealized appreciation on available-for-sale securities, net of taxes of \$149,623 and \$1,219,994 for 2015 and 2014, respectively	290,444	2,368,224
Less: reclassification adjustment for realized gains included in net income, net of taxes of \$108,999 and \$138,976 for 2015 and 2014, respectively	<u>211,586</u>	<u>269,777</u>
	<u>78,858</u>	<u>2,098,447</u>
Comprehensive Income	<u>\$ 3,104,981</u>	<u>\$ 5,071,201</u>

Jacksonville Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Issued Common Stock		Additional Paid-in Capital	Retained Earnings
	Shares	Amount		
Balance, January 1, 2014	1,832,860	18,329	14,561,085	28,233,876
Net income	—	—	—	2,972,754
Other comprehensive income	—	—	—	—
Stock repurchases	(48,478)	(485)	(1,028,203)	—
Exercise of stock options	15,101	151	230,827	—
Tax benefit of nonqualified options	—	—	3,513	—
Stock-based compensation expense	—	—	90,163	—
Common shares held by ESOP, committed to be released	—	—	43,358	—
Dividends on common stock, \$0.32 per share	—	—	—	(570,843)
Balance, December 31, 2014	1,799,483	17,995	13,900,743	30,635,787
Net income	—	—	—	3,026,123
Other comprehensive income	—	—	—	—
Stock repurchases	(32,685)	(327)	(764,984)	—
Exercise of stock options	24,715	247	382,374	—
Tax benefit of nonqualified options	—	—	4,169	—
Stock-based compensation expense	—	—	90,163	—
Common shares held by ESOP, committed to be released	—	—	52,449	—
Dividends on common stock, \$1.32 per share	—	—	—	(2,356,870)
Balance, December 31, 2015	<u>1,791,513</u>	<u>\$ 17,915</u>	<u>\$ 13,664,914</u>	<u>\$ 31,305,040</u>

Jacksonville Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Accumulated Other Comprehensive Income (Loss)	Unallocated ESOP	Total
Balance, January 1, 2014	(1,386,964)	(287,530)	41,138,796
Net income	—	—	2,972,754
Other comprehensive income	2,098,447	—	2,098,447
Stock repurchases	—	—	(1,028,688)
Exercise of stock options	—	—	230,978
Tax benefit of nonqualified options	—	—	3,513
Stock-based compensation expense	—	—	90,163
Common shares held by ESOP, committed to be released	—	37,620	80,978
Dividends on common stock, \$0.32 per share	—	—	(570,843)
Balance, December 31, 2014	711,483	(249,910)	45,016,098
Net income	—	—	3,026,123
Other comprehensive income	78,858	—	78,858
Stock repurchases	—	—	(765,311)
Exercise of stock options	—	—	382,621
Tax benefit of nonqualified options	—	—	4,169
Stock-based compensation expense	—	—	90,163
Common shares held by ESOP, committed to be released	—	38,200	90,649
Dividends on common stock, \$1.32 per share	—	—	(2,356,870)
Balance, December 31, 2015	<u>\$ 790,341</u>	<u>\$ (211,710)</u>	<u>\$ 45,566,500</u>

Jacksonville Bancorp, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Net income	\$ 3,026,123	\$ 2,972,754
Items not requiring (providing) cash		
Depreciation and amortization	386,063	385,385
Provision for loan losses	140,000	240,000
Amortization of premiums and discounts on securities and loans	652,730	724,332
Deferred income taxes	(137,484)	135,886
Net realized gains on available-for-sale securities	(320,585)	(408,753)
Amortization of mortgage servicing rights	127,800	127,647
Increase in cash surrender value of life insurance, net	(180,723)	(97,858)
Gains on sales of foreclosed assets	(49,975)	(9,122)
Shares held by ESOP committed to be released	90,649	80,978
Stock-based compensation expense	90,163	90,163
Changes in		
Interest receivable	(2,433)	104,172
Other assets	(216,149)	(89,576)
Interest payable	(47,717)	(44,174)
Other liabilities	(254,242)	1,153,196
Origination of loans held for sale	(16,942,428)	(12,358,997)
Proceeds from sales of loans held for sale	<u>16,845,646</u>	<u>12,543,780</u>
Net cash provided by operating activities	<u>3,207,438</u>	<u>5,549,813</u>
Investing Activities		
Net change in interest-earning time deposits	(2,724,000)	—
Purchases of available-for-sale securities	(29,989,452)	(23,850,584)
Proceeds from maturities and payments of available-for-sale securities	8,303,432	7,764,734
Proceeds from the sales of available-for-sale investments and other investments	30,695,946	31,257,071
Net change in loans	(8,749,699)	(4,387,125)
Purchase of premises and equipment	(168,237)	(152,390)
Proceeds from the sale of foreclosed assets	<u>182,378</u>	<u>176,737</u>
Net cash provided by (used in) investing activities	<u>(2,449,632)</u>	<u>10,808,443</u>

Jacksonville Bancorp, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	\$ 8,885,407	\$ 7,755,177
Net decrease in certificates of deposit	(15,545,039)	(13,552,006)
Net increase (decrease) in short-term borrowings	1,309,981	(5,788,567)
Net increase in advances from borrowers for taxes and insurance	28,155	104,948
Stock repurchase	(765,311)	(1,028,688)
Proceeds from stock options exercised	386,790	234,491
Dividends paid	<u>(565,995)</u>	<u>(570,843)</u>
Net cash used in financing activities	<u>(6,266,012)</u>	<u>(12,845,488)</u>
Increase (Decrease) in Cash and Cash Equivalents	(5,508,206)	3,512,768
Cash and Cash Equivalents, Beginning of Year	<u>9,611,638</u>	<u>6,098,870</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,103,432</u></u>	<u><u>\$ 9,611,638</u></u>
Supplemental Cash Flows Information		
Interest paid	\$ 1,175,090	\$ 1,495,632
Income taxes paid	\$ 1,356,000	\$ 632,000
Sale and financing of foreclosed assets	\$ 81,700	\$ 298,000
Real estate acquired in settlement of loans	\$ 379,825	\$ 374,116
Dividends declared not paid	\$ 1,934,834	\$ 143,959
Exercise and retirement of shares in stock option plan	\$ 153,271	\$ 101,130

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Jacksonville Bancorp, Inc. (the “Company”) is a Maryland corporation. The Company owns 100% of Jacksonville Savings Bank (the “Bank”). The Bank was founded in 1916 as an Illinois-chartered savings and loan association and converted to an Illinois-chartered savings bank in 1992. The Bank is headquartered in Jacksonville, Illinois and operates five branches in addition to its main office. The Bank’s deposits have been federally insured since 1945 by the Federal Deposit Insurance Corporation (“FDIC”). The Bank has been a member of the Federal Home Loan Bank (“FHLB”) System since 1932.

The Bank is a community-oriented savings bank engaged primarily in the business of attracting retail deposits from the general public in the Bank’s market area and using such funds together with borrowings and funds from other sources to originate consumer loans and mortgage loans secured by one-to-four family residential real estate. The Bank also originates commercial real estate loans, multi-family real estate loans, commercial business loans, and agricultural loans. When possible, the Bank emphasizes the origination of mortgage loans with adjustable interest rates (“ARM”), as well as fixed-rate balloon loans with terms ranging from three to five years, consumer loans, which are primarily home equity loans secured by second mortgages, commercial business loans, and agricultural loans. The Bank also offers trust and investment services. The investment center, Berthel Fisher and Company Financial Services, Inc., is operated through the Bank’s wholly-owned subsidiary, Financial Resources Group, Inc.

The Company is subject to competition from other financial institutions and nonfinancial institutions providing financial products. Additionally, the Company is subject to the regulations of certain regulatory agencies and undergoes periodic examinations by those regulatory agencies.

The significant accounting and reporting policies of the Company and its subsidiary follow:

Principles of Consolidation and Financial Statement Presentation

The consolidated financial statements include the accounts of the Company, the Bank and the Bank’s wholly owned subsidiary, Financial Resources Group, Inc. Significant intercompany accounts and transactions have been eliminated in consolidation. Based on the Company’s approach to decision making, it has decided that its business is comprised of a single segment.

The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America and conform to predominate practice within the banking industry.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the 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 relate to the determination of the allowance for loan losses, fair value of securities, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of loan servicing rights, valuation of deferred tax assets and goodwill impairment.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of federal funds sold and interest-earning demand deposits in banks.

At December 31, 2015, the Company's cash accounts did not exceed federally insured limits.

Interest-earning Time Deposits in Banks

Interest-earning time deposits in banks are generally short-term and are carried at cost.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. 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 settlement date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Other Investments

Other investments at December 31, 2015 and 2014 include local municipal bonds and equity investments in local community development organizations. The municipal bonds mature ratably through the year 2020. These securities have no readily ascertainable market value and are carried at cost.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on loans is generally 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 or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are 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 income. Loan losses are charged against the allowance when management believes collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, 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.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. 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.

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. Impairment is measured on a loan-by-loan basis for commercial and construction loans 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.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35-40 years
Equipment	3-5 years

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in income or expense from foreclosed assets.

Bank-owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheets at the estimated cash surrender value. Changes in the cash surrender value are reflected in noninterest income in the consolidated statements of income.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. The goodwill was not deemed impaired as of December 31, 2015 or 2014.

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
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The Company subsequently measures each class of servicing asset using either the fair value or the amortization method. The Company has elected to subsequently measure the mortgage servicing rights under the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date. Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported as a separate line item in noninterest expense on the consolidated income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned in loan servicing fees in non-interest income. The amortization of mortgage servicing rights is netted from the gains on sale of loans, both cash gains as well as the capitalized gains, and is included in mortgage banking operations, net in non-interest income.

Stock Options

At December 31, 2015 and 2014, the Company recognizes the fair value (calculated value) of stock-based awards to employees as compensation cost over the requisite service period. The stock-based employee compensation plan is described more fully in Note 15.

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.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The 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 reduced by 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.

Tax positions 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 the management's judgment. With a few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2012.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation on available-for-sale securities.

Trust Assets

Assets held in fiduciary or agency capacities are not included in the consolidated balance sheets since such items are not assets of the Company. Fees from trust activities are recorded as revenue over the period in which the service is provided. Fees are a function of the market value of assets managed and administered, the volume of transactions, and fees for other services rendered, as set forth in the underlying client agreement with the Trust Department. This revenue recognition involves the use of estimates and assumptions, including components that are calculated based on estimated asset valuations and transaction volumes. Generally, the actual trust fee is charged to each account on a monthly basis. Any out of pocket expenses or services not typically covered by the fee schedule for trust activities are charged directly to the trust account on a gross basis as trust revenue is incurred. The Company managed or administered approximately 124 and 114 trust accounts with assets totaling approximately \$90.7 million and \$78.6 million at December 31, 2015 and 2014, respectively.

Reclassifications

Certain amounts included in the 2014 consolidated statements have been reclassified to conform to the 2015 presentation.

Recent and Future Accounting Requirements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The update provides a five-step revenue recognition model for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and must be applied either retrospectively or using the modified retrospective approach. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date, which provides a one-year deferral of ASU 2014-09. Management is evaluating the new guidance, but does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements. Early adoption would be permitted, but not before the original public entity effective date.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860) – Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures. ASU No. 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

transactions would all be accounted for as secured borrowings. ASU 2014-11 was effective for the first interim or annual period beginning after December 15, 2014. In addition, the disclosure of certain transactions accounted for as a sale was effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The Company adopted ASU 2014-11 and included additional disclosures.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing agreement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. ASU No. 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company's current method of accounting for fees paid in a cloud computing arrangement is consistent with the accounting guidance provided by ASU No. 2015-05. Therefore, the adoption of ASU No. 2015-05 is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

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Note 2: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2015 and 2014, was \$1,524,000 and \$1,402,000, respectively.

Note 3: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale Securities				
December 31, 2015:				
U.S. Government and federal agencies	\$ 15,979,475	\$ 44,972	\$ (85,750)	\$ 15,938,697
Mortgage-backed securities (Government- sponsored enterprises - residential)	23,067,200	211,987	(100,792)	23,178,395
Municipal bonds	<u>47,229,171</u>	<u>1,306,328</u>	<u>(179,259)</u>	<u>48,356,240</u>
	<u>\$ 86,275,846</u>	<u>\$ 1,563,287</u>	<u>\$ (365,801)</u>	<u>\$ 87,473,332</u>
December 31, 2014:				
U.S. Government and federal agencies	\$ 10,031,683	\$ 65,328	\$ (138,738)	\$ 9,958,273
Mortgage-backed securities (Government- sponsored enterprises - residential)	41,196,695	433,757	(210,531)	41,419,921
Municipal bonds	<u>44,378,515</u>	<u>1,457,977</u>	<u>(529,789)</u>	<u>45,306,703</u>
	<u>\$ 95,606,893</u>	<u>\$ 1,957,062</u>	<u>\$ (879,058)</u>	<u>\$ 96,684,897</u>

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The amortized cost and fair value of available-for-sale securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale Amortized Cost	Fair Value
Within one year	\$ 1,526,439	\$ 1,528,936
One to five years	11,435,457	11,703,893
Five to ten years	34,788,426	35,343,736
After ten years	15,458,324	15,718,372
	63,208,646	64,294,937
Mortgage-backed securities	23,067,200	23,178,395
Totals	\$ 86,275,846	\$ 87,473,332

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$25,681,115 at December 31, 2015 and \$21,121,613 at December 31, 2014.

The carrying value of securities sold under agreement to repurchase amounted to \$7,591,475 at December 31, 2015 and \$9,165,462 at December 31, 2014.

Gross gains of \$352,983 and \$429,105 and gross losses of \$(32,398) and \$(20,352) resulting from sales of available-for-sale securities were realized for 2015 and 2014, respectively. The tax provision applicable to these net realized gains amounted to \$108,999 and \$138,976, respectively.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2015 and 2014, was \$30,676,768 and \$40,587,408, which is approximately 35% and 42%, respectively, of the Company's available-for-sale investment portfolio. The declines primarily resulted from recent changes in market interest rates.

Management believes the declines in fair value for these securities are temporary.

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The following table shows the Company's investments' 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, 2015 and 2014:

Description of Securities	December 31, 2015				Total	
	Less than 12 Months		12 Months or More		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Available-for-sale Securities						
U.S. Government agencies	\$ 8,591,014	\$ (49,205)	\$ 1,809,745	\$ (36,545)	\$ 10,400,759	\$ (85,750)
Mortgage-backed securities (Government-sponsored enterprises - residential)	5,843,754	(45,886)	2,257,674	(54,906)	8,101,428	(100,792)
Municipal bonds	<u>5,440,291</u>	<u>(48,383)</u>	<u>6,734,290</u>	<u>(130,876)</u>	<u>12,174,581</u>	<u>(179,259)</u>
Total temporarily impaired securities	<u>\$19,875,059</u>	<u>\$ (143,474)</u>	<u>\$ 10,801,709</u>	<u>\$ (222,327)</u>	<u>\$ 30,676,768</u>	<u>\$ (365,801)</u>

Description of Securities	December 31, 2014				Total	
	Less than 12 Months		12 Months or More		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Available-for-sale Securities						
U.S. Government agencies	\$ 2,955,829	\$ (28,208)	\$ 3,949,940	\$ (110,530)	\$ 6,905,769	\$ (138,738)
Mortgage-backed securities (Government-sponsored enterprises - residential)	2,061,203	(13,358)	13,725,099	(197,173)	15,786,302	(210,531)
Municipal bonds	<u>3,953,168</u>	<u>(44,654)</u>	<u>13,942,169</u>	<u>(485,135)</u>	<u>17,895,337</u>	<u>(529,789)</u>
Total temporarily impaired securities	<u>\$ 8,970,200</u>	<u>\$ (86,220)</u>	<u>\$ 31,617,208</u>	<u>\$ (792,838)</u>	<u>\$ 40,587,408</u>	<u>\$ (879,058)</u>

U.S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

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Residential Mortgage-backed Securities

The unrealized losses on the Company's investment in residential mortgage-backed securities were caused by interest rate increases. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

Municipal Bonds

The unrealized losses on the Company's investments in securities of municipal bonds were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

Note 4: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

	<u>2015</u>	<u>2014</u>
Mortgage loans on real estate		
Residential 1-4 family	\$ 47,395,344	\$ 44,561,089
Commercial	40,381,680	40,474,855
Agricultural	41,223,190	40,119,130
Home equity	<u>11,691,545</u>	<u>11,283,264</u>
Total mortgage loans on real estate	140,691,759	136,438,338
Commercial loans	25,453,058	26,813,880
Agricultural	16,102,856	11,844,973
Consumer	<u>13,741,093</u>	<u>12,587,101</u>
	195,988,766	187,684,292
Less		
Net deferred loan fees	29,293	9,416
Allowance for loan losses	<u>2,919,594</u>	<u>2,956,264</u>
Net loans	<u>\$ 193,039,879</u>	<u>\$ 184,718,612</u>

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The Company's loan portfolio includes loan participations purchased from other institutions. The outstanding balance of these purchased loans totaled \$11,696,320 and \$14,064,902 as of December 31, 2015 and 2014, respectively. Participations purchased during the years ended December 31, 2015 and 2014 totaled \$2,609,280 and \$2,677,750, respectively.

The Company believes that sound loans are a necessary and desirable means of employing funds available for investment. Recognizing the Company's obligations to its depositors and to the communities it serves, authorized personnel are expected to seek to develop and make sound, profitable loans that resources permit and that opportunity affords. The Company maintains lending policies and procedures in place designed to focus lending efforts on the types, locations, and duration of loans most appropriate for the business model and markets. The Company's principal lending activities include the origination of one-to four-family residential mortgage loans, multi-family loans, commercial real estate loans, agricultural loans, home equity lines of credits, commercial business loans, and consumer loans. The primary lending market includes the Illinois counties of Morgan, Macoupin and Montgomery. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid from cash flows of the borrowers or from proceeds from the sale of selected assets of the borrowers.

Loan originations are derived from a number of sources such as real estate broker referrals, existing customers, builders, attorneys and walk-in customers. Upon receipt of a loan application, a credit report is obtained to verify specific information relating to the applicant's employment, income, and credit standing. In the case of a real estate loan, an appraisal of the real estate intended to secure the proposed loan is undertaken by an independent appraiser approved by the Company. A loan application file is first reviewed by a loan officer in the loan department who checks applications for accuracy and completeness, and verifies the information provided. The financial resources of the borrower and the borrower's credit history, as well as the collateral securing the loan, are considered an integral part of each risk evaluation prior to approval. All residential real estate loans are then verified by our loan risk management department prior to closing. The board of directors has established individual lending authorities for each loan officer by loan type. Loans over an individual officer's lending limit must be approved by the officers' loan committee consisting of the chairman of the board, president, chief lending officer and all lending officers, which meets three times a week, and has lending authority up to \$750,000 depending on the type of loan. Loans to borrowers with an aggregate principal balance over this limit, up to \$1.0 million, must be approved by the directors' loan committee, which meets weekly and consists of the chairman of the board, president, senior vice president, chief lending officer and at least two outside directors, plus all lending officers as non-voting members. The board of directors approves all loans to borrowers with an aggregate principal balance over \$1.0 million. The board of directors ratifies all loans that are originated. Once the loan is approved, the applicant is informed and a closing date is scheduled. Loan commitments are typically funded within 45 days.

If the loan is approved, the borrower must provide proof of fire and casualty insurance on the property serving as collateral which insurance must be maintained during the full term of the loan; flood insurance is required in certain instances. Title insurance is generally required on loans secured by real property.

One-to-Four Family Mortgage Loans - Historically, the primary lending origination activity has been one-to-four family, owner-occupied, residential mortgage loans secured by property located in the Company's market area. The Company generates loans through marketing efforts, existing customers

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and referrals, real estate brokers, builders and local businesses. Generally, one-to-four family loan originations are limited to the financing of loans secured by properties located within the Company's market area.

Fixed-rate one-to-four family residential mortgage loans are generally conforming loans, underwritten according to secondary market guidelines. The Company generally originates both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits established by the Federal Housing Finance Agency for the secondary market.

The Company originates for resale to the secondary market fixed-rate one-to-four family residential mortgage loans with terms of 15 years or more. The fixed-rate mortgage loans amortize monthly with principal and interest due each month. Residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The Company offers fixed-rate one-to-four family residential mortgage loans with terms of up to 30 years without prepayment penalty.

The Company currently offers adjustable-rate mortgage loans for terms ranging up to 30 years. They generally offer adjustable-rate mortgage loans that adjust between one and five years on the anniversary date of origination. Interest rate adjustments are up to two hundred basis points per year, with a cap of up to six hundred basis points on interest rate increases over the life of the loan. In a rising interest rate environment, such rate limitations may prevent adjustable-rate mortgage loans from repricing to market interest rates, which would have an adverse effect on the net interest income. In the low interest rate environment that has existed over the past two years, the adjustable-rate portfolio has repriced downward resulting in lower interest income from this portion of the loan portfolio. The Company has used different interest indices for adjustable-rate mortgage loans in the past such as the average yield on U.S. Treasury securities, adjusted to a constant maturity of either one-year, three-years or five-years. The origination of fixed-rate mortgage loans versus adjustable-rate mortgage loans is monitored on an ongoing basis and is affected significantly by the level of market interest rates, customer preference, interest rate risk position and competitors' loan products.

Adjustable-rate mortgage loans make the loan portfolio more interest rate sensitive and provides an alternative for those borrowers who meet the underwriting criteria, but are unable to qualify for a fixed-rate mortgage. However, as the interest income earned on adjustable-rate mortgage loans varies with prevailing interest rates, such loans do not offer predictable cash flows in the same manner as long-term, fixed-rate loans. Adjustable-rate mortgage loans carry increased credit risk associated with potentially higher monthly payments by borrowers as general market interest rates increase. It is possible that during periods of rising interest rates that the risk of delinquencies and defaults on adjustable-rate mortgage loans may increase due to the upward adjustment of interest costs to the borrower, resulting in increased loan losses.

Residential first mortgage loans customarily include due-on-sale clauses, which gives the Company the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells or otherwise disposes of the underlying real property serving as collateral for the loan. Due-on-sale clauses are a means of imposing assumption fees and increasing the interest rate on mortgage portfolio during periods of rising interest rates.

When underwriting residential real estate loans, the Company reviews and verifies each loan applicant's income and credit history. Management believes that stability of income and past credit history are integral parts in the underwriting process. Generally, the applicant's total monthly

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mortgage payment, including all escrow amounts, is limited to 30% of the applicant's total monthly income. In addition, total monthly obligations of the applicant, including mortgage payments, should not generally exceed 43% of total monthly income. Written appraisals are generally required on real estate property offered to secure an applicant's loan. For one-to-four family real estate loans with loan to value ratios of over 80%, private mortgage insurance is generally required. Fire and casualty insurance is also required on all properties securing real estate loans. Title insurance may be required, as circumstances warrant.

The Company does not offer an "interest only" mortgage loan product on one-to-four family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). They also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. The Company does not offer a "subprime loan" program (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation).

Commercial and Agricultural Real Estate Loans - The Company originates and purchases commercial and agricultural real estate loans. Commercial and agricultural real estate loans are secured primarily by improved properties such as farms, retail facilities and office buildings, churches and other non-residential buildings. The maximum loan-to-value ratio for commercial and agricultural real estate loans originated is generally 75%. The commercial and agricultural real estate loans are generally written up to terms of five years with adjustable interest rates. The rates are generally tied to the prime rate and generally have a specified floor. Many of the adjustable-rate commercial real estate loans are not fully amortizing and therefore require a "balloon" payment at maturity. The Company purchases from time to time commercial real estate loan participations primarily from outside the Company's market area. All participation loans are approved following a review to ensure that the loan satisfies the underwriting standards.

Underwriting standards for commercial and agricultural real estate loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The income approach is primarily utilized to determine whether income generated from the applicant's business or real estate offered as collateral is adequate to repay the loan. There is an emphasis on the ratio of the property's projected net cash flow to the loan's debt service requirement (generally requiring a minimum ratio of 120%). In underwriting a loan, the value of the real estate offered as collateral in relation to the proposed loan amount is considered. Generally, the loan amount cannot be greater than 75% of the value of the real estate. Written appraisals are usually obtained from either licensed or certified appraisers on all commercial and agricultural real estate loans in excess of \$250,000. Creditworthiness of the applicant is assessed by reviewing a credit report, financial statements and tax returns of the applicant, as well as obtaining other public records regarding the applicant.

Loans secured by commercial and agricultural real estate generally involve a greater degree of credit risk than one-to-four family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the effects of general economic conditions on income producing properties and the successful operation or management of the properties securing the

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loans. Furthermore, the repayment of loans secured by commercial and agricultural real estate is typically dependent upon the successful operation of the related business and real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Commercial and Agricultural Business Loans - The Company originates commercial and agricultural business loans to borrowers located in the Company's market area which are secured by collateral other than real estate or which can be unsecured. Commercial business loan participations are also purchased from other lenders, which may be made to borrowers outside the Company's market area. Commercial and agricultural business loans are generally secured by accounts receivable, equipment, and inventory and generally are offered with adjustable rates tied to the prime rate or the average yield on U.S. Treasury securities, adjusted to a constant maturity of either one-year, three-years or five-years and various terms of maturity generally from three years to five years. Unsecured business loans are originated on a limited basis in those instances where the applicant's financial strength and creditworthiness has been established. Commercial and agricultural business loans generally bear higher interest rates than residential loans, but they also may involve a higher risk of default since their repayment is generally dependent on the successful operation of the borrower's business. Personal guarantees are generally obtained from the borrower or a third party as a condition to originating its business loans.

Underwriting standards for commercial and agricultural business loans include a determination of the applicant's ability to meet existing obligations and payments on the proposed loan from normal cash flows generated in the applicant's business. Financial strength of each applicant is assessed through the review of financial statements and tax returns provided by the applicant. The creditworthiness of an applicant is derived from a review of credit reports as well as a search of public records. Business loans are periodically reviewed following origination. Financial statements are requested at least annually and reviewed for substantial deviations or changes that might affect repayment of the loan. Loan officers also visit the premises of borrowers to observe the business premises, facilities, and personnel and to inspect the pledged collateral. Underwriting standards for business loans are different for each type of loan depending on the financial strength of the applicant and the value of collateral offered as security.

Home Equity and Consumer Loans – The Company originates home equity and other consumer loans. Home equity loans and lines of credit are generally secured by the borrower's principal residence. The maximum amount of a home equity loan or line of credit is generally 95% of the appraised value of a borrower's real estate collateral including the amount of any prior mortgages or related liabilities. Home equity loans and lines of credit are approved with both fixed and adjustable interest rates which are determined based upon market conditions. Such loans may be fully amortized over the life of the loan or have a balloon feature. Generally, the maximum term for home equity loans is 10 years.

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The principal types of other consumer loans offered are loans secured by automobiles, deposit accounts, and mobile homes. Unsecured consumer loans are also generated. Consumer loans are generally offered on a fixed-rate basis. Automobile loans with maturities of up to 60 months are offered for new automobiles. Loans secured by used automobiles will have maximum terms which vary depending upon the age of the automobile. Automobile loans with a loan-to-value ratio below the greater of 80% of the purchase price or 100% of NADA loan value are generally originated, although the loan-to-value ratio may be greater or less depending on the borrower's credit history, debt to income ratio, home ownership and other banking relationships with the Company.

Underwriting standards for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. The length of employment with the borrower's present employer is also considered, as well as the amount of time the borrower has lived in the local area. Creditworthiness of the applicant is of primary consideration; however, the underwriting process also includes a comparison of the value of the collateral in relation to the proposed loan amount.

Consumer loans entail greater risks than one-to-four family residential mortgage loans, particularly consumer loans secured by rapidly depreciating assets such as automobiles or loans that are unsecured. In such cases, collateral repossessed after a default may not provide an adequate source of repayment of the outstanding loan balance because of damage, loss or depreciation. Further, consumer loan payments are dependent on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Such events would increase the risk of loss on unsecured loans. Finally, the application of various Federal and state laws, including Federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans in the event of a default.

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2015 and 2014:

December 31, 2015

	1-4 Family	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Home Equity	Consumer	Unallocated	Total
Allowance for loan losses:									
Balance, beginning of year	\$ 999,260	\$ 855,463	\$ 195,546	\$ 421,809	\$ 57,934	\$ 205,577	\$ 167,319	\$ 53,356	\$ 2,956,264
Provision charged to expense	(10,386)	29,238	6,372	(35,327)	105,412	(53,188)	49,289	48,590	140,000
Losses charged off	(199,392)	(27,464)	—	—	—	(13,724)	(53,249)	—	(293,829)
Recoveries	40,122	60,289	—	138	—	10,588	6,022	—	117,159
Balance, end of year	<u>\$ 829,604</u>	<u>\$ 917,526</u>	<u>\$ 201,918</u>	<u>\$ 386,620</u>	<u>\$ 163,346</u>	<u>\$ 149,253</u>	<u>\$ 169,381</u>	<u>\$ 101,946</u>	<u>\$ 2,919,594</u>
Ending balance: individually evaluated for impairment	<u>\$ 176,079</u>	<u>\$ 487,205</u>	<u>\$ —</u>	<u>\$ 127,458</u>	<u>\$ —</u>	<u>\$ 9,922</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 800,664</u>
Ending balance: collectively evaluated for impairment	<u>\$ 653,525</u>	<u>\$ 430,321</u>	<u>\$ 201,918</u>	<u>\$ 259,162</u>	<u>\$ 163,346</u>	<u>\$ 139,331</u>	<u>\$ 169,381</u>	<u>\$ 101,946</u>	<u>\$ 2,118,930</u>
Loans:									
Ending balance	<u>\$47,395,344</u>	<u>\$40,381,680</u>	<u>\$ 41,223,190</u>	<u>\$25,453,058</u>	<u>\$ 16,102,856</u>	<u>\$ 11,691,545</u>	<u>\$ 13,741,093</u>	<u>\$ —</u>	<u>\$195,988,766</u>
Ending balance: individually evaluated for impairment	<u>\$ 658,734</u>	<u>\$ 1,598,530</u>	<u>\$ 839,546</u>	<u>\$ 277,628</u>	<u>\$ 406,950</u>	<u>\$ 58,340</u>	<u>\$ 428</u>	<u>\$ —</u>	<u>\$ 3,840,156</u>
Ending balance: collectively evaluated for impairment	<u>\$46,736,610</u>	<u>\$38,783,150</u>	<u>\$ 40,383,644</u>	<u>\$25,175,430</u>	<u>\$ 15,695,906</u>	<u>\$ 11,633,205</u>	<u>\$ 13,740,665</u>	<u>\$ —</u>	<u>\$192,148,610</u>

December 31, 2014

	1-4 Family	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Home Equity	Consumer	Unallocated	Total
Allowance for loan losses:									
Balance, beginning of year	\$ 856,144	\$ 745,760	\$ 175,028	\$ 1,034,189	\$ 52,798	\$ 201,993	\$ 184,848	\$ 155,674	\$ 3,406,434
Provision charged to expense	241,875	392,009	20,518	(327,057)	5,136	5,887	3,950	(102,318)	240,000
Losses charged off	(100,319)	(287,474)	—	(285,411)	—	(5,403)	(25,781)	—	(704,388)
Recoveries	1,560	5,168	—	88	—	3,100	4,302	—	14,218
Balance, end of year	<u>\$ 999,260</u>	<u>\$ 855,463</u>	<u>\$ 195,546</u>	<u>\$ 421,809</u>	<u>\$ 57,934</u>	<u>\$ 205,577</u>	<u>\$ 167,319</u>	<u>\$ 53,356</u>	<u>\$ 2,956,264</u>
Ending balance: individually evaluated for impairment	<u>\$ 183,196</u>	<u>\$ 348,240</u>	<u>\$ —</u>	<u>\$ 154,089</u>	<u>\$ —</u>	<u>\$ 9,982</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 695,507</u>
Ending balance: collectively evaluated for impairment	<u>\$ 816,064</u>	<u>\$ 507,223</u>	<u>\$ 195,546</u>	<u>\$ 267,720</u>	<u>\$ 57,934</u>	<u>\$ 195,595</u>	<u>\$ 167,319</u>	<u>\$ 53,356</u>	<u>\$ 2,260,757</u>
Loans:									
Ending balance	<u>\$44,561,089</u>	<u>\$40,474,855</u>	<u>\$ 40,119,130</u>	<u>\$26,813,880</u>	<u>\$ 11,844,973</u>	<u>\$ 11,283,264</u>	<u>\$ 12,587,101</u>	<u>\$ —</u>	<u>\$187,684,292</u>
Ending balance: individually evaluated for impairment	<u>\$ 713,962</u>	<u>\$ 1,690,251</u>	<u>\$ 1,009,889</u>	<u>\$ 240,805</u>	<u>\$ 258,140</u>	<u>\$ 37,531</u>	<u>\$ 8,469</u>	<u>\$ —</u>	<u>\$ 3,959,047</u>
Ending balance: collectively evaluated for impairment	<u>\$43,847,127</u>	<u>\$38,784,604</u>	<u>\$ 39,109,241</u>	<u>\$26,573,075</u>	<u>\$ 11,586,833</u>	<u>\$ 11,245,733</u>	<u>\$ 12,578,632</u>	<u>\$ —</u>	<u>\$183,725,245</u>

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

There have been no changes to the Company's accounting policies or methodology from the prior periods.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on all loans at origination. In addition, lending relationships over \$750,000, new commercial and commercial real estate loans, and watch list credits over \$75,000 are reviewed annually by our independent loan review in order to verify risk ratings. The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans. During the periods presented, none of our loans were classified as Doubtful.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2015 and 2014:

	1-4 Family		Commercial Real Estate		Agricultural Real Estate		Commercial	
	2015	2014	2015	2014	2015	2014	2015	2014
Pass	\$44,120,334	\$41,530,699	\$37,628,385	\$38,122,972	\$40,383,644	\$39,109,241	\$25,117,982	\$26,563,823
Special								
Mention	1,323,266	655,049	454,194	53,750	839,546	887,048	51,196	—
Substandard	<u>1,951,744</u>	<u>2,375,341</u>	<u>2,299,101</u>	<u>2,298,133</u>	<u>—</u>	<u>122,841</u>	<u>283,880</u>	<u>250,057</u>
Total	<u>\$47,395,344</u>	<u>\$44,561,089</u>	<u>\$40,381,680</u>	<u>\$40,474,855</u>	<u>\$41,223,190</u>	<u>\$40,119,130</u>	<u>\$25,453,058</u>	<u>\$26,813,880</u>

	Agricultural Business		Home Equity		Consumer	
	2015	2014	2015	2014	2015	2014
Pass	\$15,110,606	\$11,586,833	\$11,324,889	\$10,833,853	\$13,501,477	\$12,386,412
Special						
Mention	992,250	258,140	68,044	162,103	52,656	80,544
Substandard	<u>—</u>	<u>—</u>	<u>298,612</u>	<u>287,308</u>	<u>186,960</u>	<u>120,145</u>
Total	<u>\$16,102,856</u>	<u>\$11,844,973</u>	<u>\$11,691,545</u>	<u>\$11,283,264</u>	<u>\$13,741,093</u>	<u>\$12,587,101</u>

The following tables present the Company's loan portfolio aging analysis as of December 31, 2015 and 2014:

	December 31, 2015						Total Loans > 90 Days & Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	
1-4 Family	\$ 345,169	\$ 77,588	\$ 623,055	\$ 1,045,812	\$ 46,349,532	\$ 47,395,344	\$ —
Commercial real estate	—	—	766,840	766,840	39,614,840	40,381,680	—
Agricultural real estate	—	—	—	—	41,223,190	41,223,190	—
Commercial	—	—	—	—	25,453,058	25,453,058	—
Agricultural business	—	—	—	—	16,102,856	16,102,856	—
Home equity	22,122	66,305	69,515	157,942	11,533,603	11,691,545	—
Consumer	<u>183,526</u>	<u>5,972</u>	<u>6,031</u>	<u>195,529</u>	<u>13,545,564</u>	<u>13,741,093</u>	<u>—</u>
Total	<u>\$ 550,817</u>	<u>\$ 149,865</u>	<u>\$ 1,465,441</u>	<u>\$ 2,166,123</u>	<u>\$193,822,643</u>	<u>\$195,988,766</u>	<u>\$ —</u>

	December 31, 2014						Total Loans > 90 Days & Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	
1-4 Family	\$ 420,086	\$ 286,622	\$ 613,534	\$ 1,320,242	\$ 43,240,847	\$ 44,561,089	\$ —
Commercial real estate	—	794,110	39,023	833,133	39,641,722	40,474,855	—
Agricultural real estate	—	—	122,841	122,841	39,996,289	40,119,130	—
Commercial	—	—	—	—	26,813,880	26,813,880	—
Agricultural business	—	—	—	—	11,844,973	11,844,973	—
Home equity	96,971	11,561	58,360	166,892	11,116,372	11,283,264	—
Consumer	<u>90,558</u>	<u>5,531</u>	<u>16,560</u>	<u>112,649</u>	<u>12,474,452</u>	<u>12,587,101</u>	<u>—</u>
Total	<u>\$ 607,615</u>	<u>\$ 1,097,824</u>	<u>\$ 850,318</u>	<u>\$ 2,555,757</u>	<u>\$185,128,535</u>	<u>\$187,684,292</u>	<u>\$ —</u>

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
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A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Impairment is measured on a loan-by-loan basis by either the present value of the expected future cash flows, the loan's observable market value, or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. Significant restructured loans are considered impaired in determining the adequacy of the allowance for loan losses.

The Company actively seeks to reduce its investment in impaired loans. The primary tools to work through impaired loans are settlement with the borrowers or guarantors, foreclosure of the underlying collateral, or restructuring.

The Company will restructure loans when the borrower demonstrates the inability to comply with the terms of the loan, but can demonstrate the ability to meet acceptable restructured terms. Restructurings generally include one or more of the following restructuring options; reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection. Restructured loans in compliance with modified terms are classified as impaired.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

The following tables present impaired loans for the years ended December 31, 2015 and 2014:

	December 31, 2015					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific valuation allowance						
1-4 Family	\$ 111,166	\$ 111,166	\$ —	\$ 211,346	\$ 12,248	\$ 12,042
Commercial real estate	516,560	516,560	—	663,640	34,155	34,586
Agricultural real estate	839,546	839,546	—	864,705	43,335	44,885
Commercial	80,172	80,172	—	83,509	634	150
Agricultural business	406,950	406,950	—	307,729	11,403	808
Home equity	48,418	48,418	—	43,342	3,333	3,331
Consumer	428	428	—	1,160	78	82
Loans with a specific valuation allowance						
1-4 Family	547,568	547,568	176,079	568,790	32,908	25,352
Commercial real estate	1,081,970	1,081,970	487,205	1,118,044	67,505	47,864
Commercial	197,456	197,456	127,458	269,496	11,517	11,139
Home equity	9,922	9,922	9,922	9,982	810	722
Total:						
1-4 family	658,734	658,734	176,079	780,136	45,156	37,394
Commercial real estate	1,598,530	1,598,530	487,205	1,781,684	101,660	82,450
Agricultural real estate	839,546	839,546	—	864,705	43,335	44,885
Commercial	277,628	277,628	127,458	353,005	12,151	11,289
Agricultural business	406,950	406,950	—	307,729	11,403	808
Home equity	58,340	58,340	9,922	53,324	4,143	4,053
Consumer	428	428	—	1,160	78	82
Total	<u>\$ 3,840,156</u>	<u>\$ 3,840,156</u>	<u>\$ 800,664</u>	<u>\$ 4,141,743</u>	<u>\$ 217,926</u>	<u>\$ 180,961</u>

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

December 31, 2014

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific valuation allowance						
1-4 Family	\$ 129,272	\$ 129,272	\$ —	\$ 220,541	\$ 12,818	\$ 13,076
Commercial real estate	564,610	564,610	—	757,616	19,826	18,816
Agricultural real estate	1,009,889	1,009,889	—	1,037,661	58,253	49,159
Agricultural business	258,140	258,140	—	358,529	13,723	1,046
Home equity	27,549	27,549	—	29,505	2,881	2,939
Consumer	8,469	8,469	—	12,285	951	964
Loans with a specific valuation allowance						
1-4 Family	584,690	584,690	183,196	604,031	28,722	26,783
Commercial real estate	1,125,641	1,125,641	348,240	1,134,401	66,864	60,012
Commercial	240,805	240,805	154,089	319,812	14,425	16,554
Home equity	9,982	9,982	9,982	9,993	247	187
Total:						
1-4 family	713,962	713,962	183,196	824,572	41,540	39,859
Commercial real estate	1,690,251	1,690,251	348,240	1,892,017	86,690	78,828
Agricultural real estate	1,009,889	1,009,889	—	1,037,661	58,253	49,159
Commercial	240,805	240,805	154,089	319,812	14,425	16,554
Agricultural business	258,140	258,140	—	358,529	13,723	1,046
Home equity	37,531	37,531	9,982	39,498	3,128	3,126
Consumer	8,469	8,469	—	12,285	951	964
Total	<u>\$ 3,959,047</u>	<u>\$ 3,959,047</u>	<u>\$ 695,507</u>	<u>\$ 4,484,374</u>	<u>\$ 218,710</u>	<u>\$ 189,536</u>

The following table presents the Company's nonaccrual loans at December 31, 2015 and 2014. This table excludes performing troubled debt restructurings.

	2015	2014
1-4 family	\$ 911,283	\$ 994,855
Commercial real estate	840,449	932,578
Agricultural real estate	—	122,841
Commercial	9,314	22,438
Agricultural business	—	—
Home equity	118,502	120,698
Consumer	<u>141,605</u>	<u>70,643</u>
Total	<u>\$ 2,021,153</u>	<u>\$ 2,264,053</u>

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

At December 31, 2015 and 2014, the Company had a number of loans that were modified in troubled debt restructurings (TDR's) and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following table presents the recorded balance, at original cost, of troubled debt restructurings, as of December 31, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
1-4 family	\$ 723,421	\$ 747,470
Commercial real estate	1,708,013	1,265,079
Agricultural real estate	—	—
Commercial	57,783	212,579
Agricultural business	—	—
Home equity	10,897	15,379
Consumer	<u>109,340</u>	<u>42,786</u>
Total	<u>\$ 2,609,454</u>	<u>\$ 2,283,293</u>

The following table presents the recorded balance, at original cost, of troubled debt restructurings, which were performing according to the terms of the restructuring, as of December 31, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
1-4 family	\$ 526,004	\$ 567,931
Commercial real estate	941,173	470,969
Agricultural real estate	—	—
Commercial	57,783	212,579
Agricultural business	—	—
Home equity	10,897	12,074
Consumer	<u>86,255</u>	<u>42,786</u>
Total	<u>\$ 1,622,112</u>	<u>\$ 1,306,339</u>

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

The following table presents loans modified as troubled debt restructurings during the years ended December 31, 2015 and 2014.

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
1-4 family	1	\$ 98,246	3	\$ 201,879
Commercial real estate	2	524,432	1	386,355
Agricultural real estate	—	—	—	—
Commercial	—	—	—	—
Agricultural business	—	—	—	—
Home equity	1	1,431	—	—
Consumer	5	76,691	1	15,953
	<u>9</u>	<u>\$ 700,800</u>	<u>5</u>	<u>\$ 604,187</u>
Total	<u>9</u>	<u>\$ 700,800</u>	<u>5</u>	<u>\$ 604,187</u>

2015 Modifications

The Company modified one one-to-four family residential real estate loan, with a recorded investment of \$98,246, which was deemed a TDR. The loan was a restructure of delinquent loans into a workout. The modification did not result in a reduced interest rate or a write-off of the principal balance.

The Company modified two commercial real estate loans with a total recorded balance of \$524,432, which were deemed TDRs. One loan was restructured to capitalize force placed insurance. The other loan was restructured to increase the amortization period of the loan. The modifications did not result in a reduced interest rate or a write-off of the principal balance.

The Company modified one home equity loan with a recorded investment of \$1,431, which was deemed a TDR. The modification was made to extend the term and lower the payment amount. The modification did not result in a reduced interest rate or a write-off of the principal balance.

The Company modified five consumer loans with a recorded investment of \$76,691, which were deemed TDRs. The modifications were made to extend the payment schedules between two and four months. The modifications did not result in a reduced interest rate or a write-off of the principal balance.

2014 Modifications

The Company modified three one-to-four family residential real estate loans, with a recorded investment of \$201,879, which were deemed TDRs. Two of the loans were restructured with the interest and real estate taxes capitalized to the balance of the note. One of the loans was extended without the full collection of accrued interest. None of the modifications resulted in a reduced interest rate or a write-off of the principal balance.

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Notes to Consolidated Financial Statements
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The Company modified one commercial real estate loan with a total recorded balance of \$386,355, which was deemed a TDR. The loan was restructured to provide additional funds for cash flow needs of the borrower. The modification did not result in a reduced interest rate or a write-off of the principal balance.

The Company modified one consumer loan with a recorded investment of \$15,953, which was deemed a TDR. The modification was made to change the payment schedule to interest-only for a period of time. The modification did not result in a reduced interest rate or a write-off of the principal balance.

TDRs with Defaults

Management considers the level of defaults within the various portfolios when evaluating qualitative adjustments used to determine the adequacy of the allowance for loan losses. During the year ended December 31, 2015, three residential real estate loans of \$197,417 and one commercial real estate loan of \$766,840 were considered TDRs defaulted as they were more than 90 days past due at December 31, 2015. In addition, three residential real estate loans of \$211,262, one commercial real estate loan of \$30,021, two commercial loans of \$9,314, one home equity loan of \$1,431, and one consumer loan of \$63,183 were considered TDRs defaulted as they were in a nonaccrual status but are performing in accordance with their modified terms.

During the year ended December 31, 2014, one residential real estate loan of \$38,737 and one home equity loan of \$3,305 were considered TDRs defaulted as they were more than 90 days past due at December 31, 2014. In addition, three residential real estate loans of \$140,549, two commercial real estate loans of \$840,115, two commercial loans of \$22,437, and one consumer loan of \$25,055 were considered TDRs defaulted as they were in a nonaccrual status but are performing in accordance with their modified terms.

At December 31, 2015, the balance of real estate owned includes \$217,101 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2015, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is \$188,438.

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 773,186	\$ 773,186
Buildings and improvements	6,697,278	6,661,148
Equipment	<u>3,384,516</u>	<u>3,254,434</u>
	10,854,980	10,688,768
Less accumulated depreciation	<u>(6,126,823)</u>	<u>(5,742,785)</u>
Net premises and equipment	<u>\$ 4,728,157</u>	<u>\$ 4,945,983</u>

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Note 6: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balance of mortgage loans serviced for others was \$131,443,738 and \$137,877,795 at December 31, 2015 and 2014, respectively.

The following summarized the activity pertaining to mortgage servicing rights measured using the amortization method, along with the aggregate activity in related valuation allowances:

	<u>2015</u>	<u>2014</u>
Mortgage servicing rights		
Balance, beginning of year	\$ 689,603	\$ 746,968
Additions	73,650	53,859
Amortization	<u>(118,186)</u>	<u>(111,224)</u>
Balance at end of year	<u>645,067</u>	<u>689,603</u>
Valuation allowances		
Balance at beginning of year	56,969	73,392
Additions due to decreases in market value	—	—
Reduction due to increases in market value	—	—
Reduction due to payoff of loans	<u>(9,615)</u>	<u>(16,423)</u>
Balances at end of year	<u>47,354</u>	<u>56,969</u>
Mortgage servicing assets, net	\$ <u>597,713</u>	\$ <u>632,634</u>
Fair value disclosures		
Fair value as of the beginning of the period	\$ 979,699	\$ 1,120,000
Fair value as of the end of the period	\$ 870,619	\$ 979,699

The valuation allowance was adjusted during 2014 and 2015 due to payments received on the related loans as well as changes in the estimated market value on the mortgage servicing rights asset.

Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type, and interest rates, were used to stratify the originated mortgage servicing rights.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Note 7: Interest-bearing Deposits

Interest-bearing deposits in denominations of \$100,000 or more totaled \$90,889,042 at December 31, 2015 and \$96,271,806 at December 31, 2014.

The following table represents deposit interest expense by deposit type:

	December 31,	
	2015	2014
Savings, NOW and Money Market	\$ 249,077	\$ 257,214
Certificates of deposit	<u>852,185</u>	<u>1,179,589</u>
Total deposit interest expense	<u>\$ 1,101,262</u>	<u>\$ 1,436,803</u>

At December 31, 2015, the scheduled maturities of time deposits are as follows:

2016	\$ 41,313,282
2017	18,208,957
2018	7,123,985
2019	6,559,638
2020	<u>5,848,662</u>
	<u>\$ 79,054,524</u>

Note 8: Short-term Borrowings

Short-term borrowings include securities sold under agreements to repurchase totaling \$6,631,710 and \$8,821,730 at December 31, 2015 and 2014, respectively.

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The maximum amount of outstanding agreements at any month end during 2015 and 2014 totaled \$9,548,789 and \$9,483,795, respectively, and the monthly average of such agreements totaled \$6,024,224 and \$6,229,604 for 2015 and 2014, respectively. The agreements at December 31, 2015, are all for overnight borrowings.

At December 31, 2015, we had \$5,519,148 of repurchase agreements secured by mortgage backed securities, \$590,327 in repurchase agreements secured by U.S. government agency bonds, and \$1,482,000 in repurchase agreements secured by time deposits in other banks. All of our repurchase agreements mature overnight. The right of offset for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default. The collateral is held by the Company in a segregated custodial account. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained.

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
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Also included in short-term borrowings are advances with the Federal Home Loan Bank (FHLB) of which \$8,500,000 and \$5,000,000 had been extended as of December 31, 2015 and 2014, respectively. The advances at a rate of 16 basis points all mature overnight and are secured by mortgage loans totaling \$43,561,360 at December 31, 2015.

Note 9: Income Taxes

The Company and its subsidiary file income tax returns in the U.S. federal and state of Illinois jurisdictions. During the years ended December 31, 2015 and 2014, the Company did not recognize expense for interest or penalties.

The provision for income taxes includes these components:

	<u>2015</u>	<u>2014</u>
Taxes currently payable		
Federal	\$ 883,916	\$ 798,160
State	320,593	—
Deferred income taxes	<u>(137,484)</u>	<u>135,886</u>
Income tax expense	<u>\$ 1,067,025</u>	<u>\$ 934,046</u>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	<u>2015</u>	<u>2014</u>
Computed at the statutory rate (34%)	\$ 1,391,670	\$ 1,328,312
Increase (decrease) resulting from		
Tax exempt interest	(454,067)	(503,089)
State income taxes, net	188,690	173,879
Increase in cash surrender value	(59,646)	(63,235)
Other	<u>378</u>	<u>(1,821)</u>
Actual tax expense	<u>\$ 1,067,025</u>	<u>\$ 934,046</u>
Tax expense as a percentage of pre-tax income	<u>26.07%</u>	<u>23.91%</u>

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
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The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

	<u>2015</u>	<u>2014</u>
Deferred tax assets		
Allowance for loan losses	\$ 1,015,661	\$ 1,060,419
Deferred compensation	1,817,124	1,712,570
State net operating loss carryforward	—	4,749
Other	<u>29,497</u>	<u>40,270</u>
	<u>2,862,282</u>	<u>2,818,008</u>
Deferred tax liabilities		
Unrealized gains on available-for-sale securities	(407,145)	(366,521)
Depreciation	(434,043)	(478,427)
Federal Home Loan Bank stock dividends	(147,858)	(152,224)
Prepaid expenses	(56,374)	(79,868)
Mortgage servicing rights	<u>(233,795)</u>	<u>(254,762)</u>
	<u>(1,279,215)</u>	<u>(1,331,802)</u>
Net deferred tax asset	\$ <u>1,583,067</u>	\$ <u>1,486,206</u>

At December 31, 2015 and 2014, the Company had Illinois net operating loss carryforwards totaling approximately \$0 and 98,574, respectively.

Retained earnings at December 31, 2015 and 2014, include approximately \$2,600,000, for which no deferred federal income tax liability has been recognized. These amounts represent an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The deferred income tax liabilities on the preceding amounts that would have been recorded if they were expected to reverse into taxable income in the foreseeable future were approximately \$1,000,000 at December 31, 2015 and 2014.

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Note 10: Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	2015	2014
Net unrealized gain on securities available-for-sale	\$ 1,197,486	\$ 1,078,004
Tax effect	<u>(407,145)</u>	<u>(366,521)</u>
Net-of-tax amount	<u>\$ 790,341</u>	<u>\$ 711,483</u>

Note 11: Changes in Accumulated Other Comprehensive Income (AOCI) by Component

Amounts reclassified from AOCI and the affected line items in the statements of income during the years ended December 31, 2015 and 2014, were as follows:

	Amounts Reclassified from AOCI		Affected Line Item in the Statements of Income
	2015	2014	
Unrealized gains on available-for-sale securities	\$ <u>320,585</u>	\$ <u>408,753</u>	Realized gain on sale of securities
	<u>(108,999)</u>	<u>(138,976)</u>	Total reclassified amount before tax
	<u>\$ 211,586</u>	<u>\$ 269,777</u>	Tax expense
			Net reclassified amount

Note 12: Regulatory Matters

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 Company's consolidated 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 U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

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Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, 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 risk-based capital, Tier I risk-based capital, common equity Tier 1 risk-based capital, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total risk-based capital (to risk-weighted assets)	\$ 41,631	19.15%	\$ 17,387	8.0%	\$ 21,734	10.0%
Tier I capital (to risk-weighted assets)	38,912	17.90	13,040	6.0	17,387	8.0
Common equity Tier I (to risk-weighted assets)	38,912	17.90	9,780	4.5	14,127	6.5
Tier I capital (to average assets)	38,912	12.82	12,139	4.0	15,174	5.0
Tangible capital (to adjusted tangible assets)	38,912	12.82	4,552	1.5	—	N/A
As of December 31, 2014						
Total risk-based capital (to risk-weighted assets)	\$ 40,252	18.81%	\$ 17,119	8.0%	\$ 21,399	10.0%
Tier I capital (to risk-weighted assets)	37,574	17.56	8,560	4.0	12,839	6.0
Tier I capital (to average assets)	37,574	12.25	12,269	4.0	15,336	5.0
Tangible capital (to adjusted tangible assets)	37,574	12.25	4,601	1.5	—	N/A

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Basel III Capital Rules

In 2013, the Board of Governors of the Federal Reserve System approved a final rule implementing changes intended to strengthen the regulatory capital framework for all banking organizations (Basel III) which became effective January 1, 2015, subject to a phase-in period for certain provisions. Basel III establishes and defines quantitative measures to ensure capital adequacy which require First Financial to maintain minimum amounts and ratios of Common Equity tier 1 capital, total and tier 1 capital to risk-weighted assets and tier 1 capital to average assets (leverage ratio).

The rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a new capital conservation buffer of 2.5% of risk-weighted assets that will begin on January 1, 2016 at 0.625% and be phased-in over a four-year period, increasing by the same amount on each subsequent January 1, until fully phased-in on January 1, 2019. Further, the minimum ratio of tier 1 capital to risk-weighted assets increased from 4.0% to 6.0% and all banks are now subject to a 4.0% minimum leverage ratio. The required total risk-based capital ratio was unchanged. Failure to maintain the required common equity Tier 1 capital conservation buffer will result in potential restrictions on a bank's ability to pay dividends, repurchase stock and/or pay discretionary compensation to its employees. The revised capital requirements also provide strict eligibility criteria for regulatory capital instruments and change the method for calculating risk-weighted assets in an effort to better identify riskier assets, such as highly volatile commercial real estate and nonaccrual loans, requiring higher capital allocations.

Under Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015, are as follows:

- 4.5% CET1 to risk-weighted assets
- 6.0% Tier 1 capital to risk-weighted assets
- 8.0% Total capital to risk-weighted assets
- 4.0% Minimum leverage ratio

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and will phase in over a four-year period (beginning at 40% on January 1, 2015, and an additional 20% per year thereafter). Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer begins on January 1, 2016, at the 0.625% level and will phase in over a four-year period (increasing by that amount on each subsequent January 1 until reaches 2.5% on January 1, 2019).

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The following is a reconciliation of the Bank equity amount included in the consolidated balance sheets to the amounts (in thousands) reflected above for regulatory capital purposes as of December 31:

	2015	2014
Bank equity	\$ 42,429	\$ 41,012
Less net unrealized gain	790	711
Less disallowed goodwill	<u>2,727</u>	<u>2,727</u>
 Tier 1 and common equity Tier 1 capital	 38,912	 37,574
 Plus allowance for loan losses	 <u>2,719</u>	 <u>2,678</u>
 Total risked-based capital	 <u>\$ 41,631</u>	 <u>\$ 40,252</u>

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. As of December 31, 2015, the Bank has \$1,238,685 available for the payment of dividends without prior regulatory approval.

On January 19, 2010, the Boards of Directors of the Company, Jacksonville Bancorp, MHC and the Bank each unanimously adopted a Plan of Conversion and Reorganization of Jacksonville Bancorp, MHC (the “Plan”) pursuant to which Jacksonville Bancorp, MHC undertook a “second-step” conversion and ceased to exist. Jacksonville Bancorp, MHC reorganized from a two-tier mutual holding company structure to a fully public stock holding company structure effective July 14, 2010.

In accordance with Board of Governors of the Federal Reserve System regulations, at the time of the reorganization, the Company substantially restricted retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after conversion. The Bank will establish a parallel liquidation account to support the Company’s liquidation account in the event the Company does not have sufficient assets to fund its obligations under its liquidation account. The liquidation accounts will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder’s interest in the liquidation accounts. In the event of a complete liquidation of the Bank or the Company, each account holder will be entitled to receive a distribution in an amount proportionate to the adjusted qualifying account balances then held. The Bank may not pay dividends if those dividends would reduce equity capital below the required liquidation account amount.

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Note 13: Related Party Transactions

At December 31, 2015 and 2014, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of \$3,193,470 and \$3,523,047, respectively.

Annual activity consisted of the following:

	2015	2014
Balance beginning of year	\$ 3,523,047	\$ 3,852,658
Additions	1,138,338	1,876,445
Repayments	<u>(1,467,915)</u>	<u>(2,206,056)</u>
Balance, end of year	<u>\$ 3,193,470</u>	<u>\$ 3,523,047</u>

Deposits from related parties held by the Company at December 31, 2015 and 2014 totaled approximately \$2,581,000 and \$3,112,000, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Note 14: Employee Benefits

401(k) Plan — The Company maintains a 401(k) savings plan for eligible employees. The Company's contributions to this plan were \$216,508 and \$232,567 for the years ended December 31, 2015 and 2014, respectively. The plan invests some of its assets in deposit accounts at the Company which earned interest at a rate of 1.85% for the years ended December 31, 2015 and 2014.

Deferred Compensation Plan — The Company maintains a deferred compensation plan for certain key officers and employees. Contributions are determined annually by the Company's Board of Directors. Effective in 2005, the Company froze this plan and no contributions to this plan were made for the years ended December 31, 2015 or 2014. The plan accrues interest at a variable rate which fluctuates based on Moody's Corporate Bond Average Index. The amount recorded on the consolidated balance sheets as deferred compensation was \$2,521,997 and \$2,451,200 as of December 31, 2015 and 2014, respectively. Compensation expense related to the plan was \$137,731 and \$140,714 for the years ended December 31, 2015 and 2014, respectively.

The Company has also entered into deferred compensation agreements with certain key officers and employees. The agreements provide for monthly payments at retirement or death. The charge to expense for this plan reflects the accrual using the principal and interest method over the vesting period of the present value of benefits due each participant on the full eligibility date using a 4.75% discount rate. The amount recorded on the consolidated balance sheets as deferred compensation was

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\$1,970,597 and \$1,801,520 as of December 31, 2015 and 2014, respectively. Compensation expense related to the plans was \$233,731 and \$241,745 for the years ended December 31, 2015 and 2014, respectively.

Employee Stock Ownership Plan (ESOP) — The ESOP is a noncontributory defined contribution plan which covers substantially all employees. The Company may contribute to the Plan, at its discretion, an amount determined by the Board of Directors.

As part of the second step conversion, in July 2010 the Company acquired 41,614 additional shares of Company common stock at \$10 per share in the conversion with funds provided by a loan from the Company. Accordingly, \$416,140 of common stock acquired by the ESOP was shown as a reduction of stockholders' equity. Shares are released to participants proportionately as the loan is repaid. Dividends on allocated shares are recorded as dividends and charged to retained earnings. Dividends on unallocated shares are used to repay the loan and are treated as compensation expense. Compensation expense is recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP.

ESOP expense for the years ended December 31, 2015 and 2014 was \$90,649 and \$80,978, respectively.

	2015	2014
Allocated shares	\$ 57,420	\$ 54,519
Shares committed for allocation	3,820	3,767
Unearned shares	21,171	24,991
Total ESOP shares	82,411	83,277
Fair value of unearned shares at December 31	\$ 556,374	\$ 574,793

Note 15: Stock Option Plans

The Jacksonville Bancorp, Inc. 2012 Stock Option Plan, which is shareholder approved, permits the grant of share options and shares to its employees for up to 104,035 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. All shares were awarded as of the approval date, expire ten years after the grant date, and are exercisable at a price of \$15.65 per share.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted represents the period of time that options are expected to be outstanding; the range given below results from certain groups of employees exhibiting different behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The discount rate for post-vesting restrictions is estimated based on the Company's credit-adjusted risk-free rate of return.

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A summary of option activity under the Plans as of December 31, 2015 and 2014, and changes during the years then ended, is presented below:

	2015			
	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	85,835	\$ 15.65		
Granted	—	—		
Exercised	(24,715)	15.65		
Forfeited or expired	<u>—</u>	—		
Outstanding, end of year	<u>61,120</u>	\$ 15.65	<u>6.25</u>	\$ <u>649,706</u>
Exercisable, end of year	<u>19,035</u>	\$ 15.65	<u>6.25</u>	\$ <u>202,342</u>

	2014			
	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	101,336	\$ 15.63		
Granted	—	—		
Exercised	(15,101)	15.53		
Forfeited or expired	<u>(400)</u>	15.65		
Outstanding, end of year	<u>85,835</u>	\$ 15.65	<u>7.25</u>	\$ <u>630,887</u>
Exercisable, end of year	<u>23,600</u>	\$ 15.65	<u>7.25</u>	\$ <u>173,460</u>

The total intrinsic value of options exercised during the years ended December 31, 2015 and 2014 was \$200,192 and \$90,606, respectively.

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As of December 31, 2015, there was \$112,395 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 2012 Plan. That cost is expected to be recognized over a weighted-average period of 2 years. The total fair value of shares vested during the years ended December 31, 2015 and 2014 was \$90,163. The recognized tax benefit related thereto was \$35,267 and \$34,622 for the years ended December 31, 2015 and 2014, respectively.

A summary of the status of the Company's nonvested shares as of December 31, 2015 and 2014, and changes during the year then ended, is presented below:

	December 31, 2015	Weighted- Average Grant- Date Fair Value
	Shares	\$
Nonvested, beginning of year	62,235	\$ 4.34
Granted	—	—
Vested	(20,150)	4.34
Forfeited	—	—
Nonvested, end of year	42,085	\$ 4.34

	December 31, 2014	Weighted- Average Grant- Date Fair Value
	Shares	\$
Nonvested, beginning of year	83,185	\$ 4.34
Granted	—	—
Vested	(20,550)	4.34
Forfeited	(400)	—
Nonvested, end of year	62,235	\$ 4.34

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Note 16: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2015		
	Income	Weighted- Average Shares	Per Share Amount
Net income	\$ 3,026,123		
Basic earnings per share			
Income available to common stockholders		1,770,546	\$ <u>1.71</u>
Effect of dilutive securities			
Stock options		<u>13,469</u>	
Diluted earnings per share			
Income available to common stockholders	\$ <u>3,026,123</u>	<u>1,784,015</u>	\$ <u>1.70</u>

	Year Ended December 31, 2014		
	Income	Weighted- Average Shares	Per Share Amount
Net income	\$ 2,972,754		
Basic earnings per share			
Income available to common stockholders		1,791,888	\$ <u>1.66</u>
Effect of dilutive securities			
Stock options		<u>11,173</u>	
Diluted earnings per share			
Income available to common stockholders	\$ <u>2,972,754</u>	<u>1,803,061</u>	\$ <u>1.65</u>

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Note 17: Disclosures about Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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 assets
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014:

	December 31, 2015			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government agencies	\$ 15,938,697	\$ —	\$ 15,938,697	\$ —
Mortgage-backed securities (Government-sponsored enterprises - residential)	23,178,395	—	23,178,395	—
Municipal bonds	48,356,240	—	48,356,240	—

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		December 31, 2014			
		Fair Value Measurements Using			
		Quoted Prices			
		in Active	Significant		
		Markets for	Other		
		Identical	Observable		
		Assets	Inputs		
		(Level 1)	(Level 2)	Significant	Unobservable
		Fair Value	—	Inputs	Inputs
		(Level 3)			
U.S. Government agencies	\$	9,958,273	\$	—	\$ 9,958,273
Mortgage-backed securities (Government-sponsored enterprises - residential)		41,419,921	—	41,419,921	—
Municipal bonds		45,306,703	—	45,306,703	—

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2015.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Company has no Level 1 securities. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company did not have securities considered Level 3 as of December 31, 2015 or December 31, 2014.

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014:

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	December 31, 2015			
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Fair Value	Fair Value	Fair Value	Fair Value
Impaired loans (collateral dependent)	\$ 899,981	\$ —	\$ —	\$ 899,981

	December 31, 2014			
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Fair Value	Fair Value	Fair Value	Fair Value
Impaired loans (collateral dependent)	\$ 1,147,400	\$ —	\$ —	\$ 1,147,400

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans (Collateral Dependent)

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary. Appraisals are reviewed for accuracy and consistency. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and

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estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. Fair value adjustments on impaired loans were \$(156,069) and \$265,687 at December 31, 2015 and 2014.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	\$ 899,981	Market comparable properties	Marketability discount	20% – 30% (25%)

	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	\$ 1,147,400	Market comparable properties	Marketability discount	20% – 30% (25%)

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Fair Value of Other Financial Instruments

The following table presents estimated fair values of the Company's other financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014:

	December 31, 2015			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	\$ 4,103,432	\$ 4,103,432	\$ —	\$ —
Interest-earning time deposits	2,724,000	2,724,000	—	—
Other investments	62,223	—	62,223	—
Loans held for sale	539,000	—	539,000	—
Loans, net of allowance for loan losses	193,039,879	—	—	193,006,301
Federal Home Loan Bank stock	1,113,800	—	1,113,800	—
Interest receivable	1,715,676	—	1,715,676	—
Financial liabilities				
Deposits	239,281,930	—	160,227,406	80,300,060
Short-term borrowings	15,131,710	—	6,631,710	8,500,000
Advances from borrowers for taxes and insurance	990,917	—	990,917	—
Interest payable	118,335	—	118,335	—
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	—	—	—	—
Letters of credit	—	—	—	—
Lines of credit	—	—	—	—

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	December 31, 2014			
	Fair Value Measurements Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	\$ 9,611,638	\$ 9,611,638	\$ —	\$ —
Other investments	73,766	—	73,766	—
Loans held for sale	235,600	—	235,600	—
Loans, net of allowance for loan losses	184,718,612	—	—	184,573,401
Federal Home Loan Bank stock	1,113,800	—	1,113,800	—
Interest receivable	1,713,243	—	1,713,243	—
Financial liabilities				
Deposits	245,941,562	—	151,341,999	96,956,400
Short-term borrowings	13,821,730	—	8,821,730	4,996,109
Advances from borrowers for taxes and insurance	962,762	—	962,762	—
Interest payable	166,052	—	166,052	—
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	—	—	—	—
Letters of credit	—	—	—	—
Lines of credit	—	—	—	—

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The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying condensed consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest Receivable, Federal Home Loan Bank Stock, and Other Investments

The carrying amount approximates fair value.

Loans Held for Sale

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

Loans

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

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Short-term Borrowings, Interest Payable, and Advances from Borrowers for Taxes and Insurance

The carrying amount approximates fair value.

Commitments to Originate Loans, Letters of Credit, and Lines of Credit

The fair value of commitments to originate loans 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 values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

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Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk. Other significant estimates not discussed in those notes include:

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Goodwill

As discussed in *Note 1*, the Company annually tests its goodwill for impairment. At the most recent testing date, the fair value of the banking reporting unit exceeded its carrying value. Estimated fair value was based principally on forecasts of future income. Management believes it has applied reasonable judgment in developing its estimates; however, unforeseen negative changes in the national, state or local economic environment may negatively impact those estimates in the near term.

Note 19: Commitments and Credit Risk

The Company grants agribusiness, commercial and residential loans to customers in Cass, Morgan, Macoupin, Montgomery and surrounding counties in Illinois. 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 upon economic conditions and the agricultural economy in these counties. The Company also purchases participation loans from out of territory areas.

Commitments to Originate Loans

Commitments to originate loans 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 a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2015 and 2014, the Company had outstanding commitments to originate loans aggregating approximately \$4,457,514 and \$3,493,500, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan

Jacksonville Bancorp, Inc.
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commitments at fixed rates of interest amounted to \$3,744,574 and \$2,702,000 at December 31, 2015 and 2014, respectively, with the remainder at floating market rates. The range of fixed rates was 2.875% to 6.25% as of December 31, 2015.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Company be obliged to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to \$110,000 and \$255,340 at December 31, 2015 and 2014, respectively, with terms of one year or less. At December 31, 2015 and 2014, the Company's deferred revenue under standby letters of credit agreements was nominal.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2015, the Company had unused lines of credit to borrowers aggregating approximately \$21,753,180 and \$10,785,989 for commercial lines and open-ended consumer lines, respectively. At December 31, 2014, unused lines of credit to borrowers aggregated approximately \$21,498,070 for commercial lines and \$9,742,393 for open-ended consumer lines.

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Notes to Consolidated Financial Statements
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Note 20: Quarterly Results of Operations (Unaudited)

	Year Ended December 31, 2015			
	Three Months Ended			
	December 31	September 30	June 30	March 31
Interest income	\$ 2,923,681	\$ 2,830,112	\$ 2,859,579	\$ 2,901,492
Interest expense	<u>252,749</u>	<u>267,433</u>	<u>293,141</u>	<u>314,050</u>
Net interest income	2,670,932	2,562,679	2,566,438	2,587,442
Provision for loan losses	<u>30,000</u>	<u>45,000</u>	<u>35,000</u>	<u>30,000</u>
Net interest income after provision for loan losses	2,640,932	2,517,679	2,531,438	2,557,442
Noninterest income	1,096,519	991,626	1,063,287	1,035,458
Noninterest expense	<u>2,814,601</u>	<u>2,579,660</u>	<u>2,431,183</u>	<u>2,515,789</u>
Income before income taxes	922,850	929,645	1,163,542	1,077,111
Income tax expense	<u>218,785</u>	<u>230,247</u>	<u>327,139</u>	<u>290,854</u>
Net income	<u>\$ 704,065</u>	<u>\$ 699,398</u>	<u>\$ 836,403</u>	<u>\$ 786,257</u>
Basic earnings per share	<u>\$ 0.40</u>	<u>\$ 0.40</u>	<u>\$ 0.47</u>	<u>\$ 0.44</u>
Diluted earnings per share	<u>\$ 0.39</u>	<u>\$ 0.39</u>	<u>\$ 0.47</u>	<u>\$ 0.44</u>

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

	Year Ended December 31, 2014			
	Three Months Ended			
	December 31	September 30	June 30	March 31
Interest income	\$ 2,921,442	\$ 2,946,212	\$ 2,978,484	\$ 3,045,770
Interest expense	<u>337,222</u>	<u>353,542</u>	<u>371,036</u>	<u>389,658</u>
Net interest income	2,584,220	2,592,670	2,607,448	2,656,112
Provision for loan losses	<u>150,000</u>	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
Net interest income after provision for loan losses	2,434,220	2,562,670	2,577,448	2,626,112
Noninterest income	1,059,478	1,024,088	947,678	997,532
Noninterest expense	<u>2,658,085</u>	<u>2,470,123</u>	<u>2,723,872</u>	<u>2,470,346</u>
Income before income taxes	835,613	1,116,635	801,254	1,153,298
Income tax expense	<u>183,641</u>	<u>260,619</u>	<u>176,277</u>	<u>313,509</u>
Net income	<u>\$ 651,972</u>	<u>\$ 856,016</u>	<u>\$ 624,977</u>	<u>\$ 839,789</u>
Basic earnings per share	<u>\$ 0.37</u>	<u>\$ 0.48</u>	<u>\$ 0.35</u>	<u>\$ 0.47</u>
Diluted earnings per share	<u>\$ 0.36</u>	<u>\$ 0.47</u>	<u>\$ 0.35</u>	<u>\$ 0.47</u>

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Note 21: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	December 31,	
	2015	2014
Assets		
Cash and due from banks	\$ 4,800,526	\$ 3,847,179
Investment in common stock of subsidiary	42,428,601	41,012,112
Loan receivable from subsidiary	216,506	254,385
Other assets	106,960	96,993
Total assets	\$ 47,552,593	\$ 45,210,669
Liabilities		
Other liabilities	\$ 1,986,093	\$ 194,571
Stockholders' Equity	45,566,500	45,016,098
Total liabilities and stockholders' equity	\$ 47,552,593	\$ 45,210,669

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Condensed Statements of Income and Comprehensive Income

	Year Ending December 31,	
	2015	2014
Income		
Dividends from subsidiary	\$ 2,000,000	\$ 2,000,000
Other income	11,712	12,245
Total income	2,011,712	2,012,245
Expenses		
Other expenses	361,694	707,692
Income Before Income Tax and Equity in Undistributed Income of Subsidiary	1,650,018	1,304,553
Income Tax Benefit	(137,420)	(271,357)
Income Before Equity in Undistributed Income of Subsidiary	1,787,438	1,575,910
Equity in Undistributed Income of Subsidiary	1,238,685	1,396,844
Net Income	\$ 3,026,123	\$ 2,972,754
Comprehensive Income	\$ 3,104,981	\$ 5,071,201

Jacksonville Bancorp, Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Condensed Statements of Cash Flows

	Year Ending December 31,	
	2015	2014
Operating Activities		
Net income	\$ 3,026,123	\$ 2,972,754
Items not providing cash, net	(1,238,685)	(1,396,844)
Stock-based compensation expense	90,163	90,163
Change in other assets and liabilities, net	<u>1,773,258</u>	<u>29,599</u>
Net cash provided by operating activities	<u>3,650,859</u>	<u>1,695,672</u>
Investing Activity		
Loan payment from subsidiary	<u>37,879</u>	<u>36,652</u>
Net cash provided by investing activities	<u>37,879</u>	<u>36,652</u>
Financing Activities		
Dividends paid	(2,356,870)	(570,843)
Stock repurchase	(765,311)	(1,028,688)
Exercise of stock options	<u>386,790</u>	<u>234,491</u>
Net cash used in financing activities	<u>(2,735,391)</u>	<u>(1,365,040)</u>
Net Change in Cash and Cash Equivalents	<u>953,347</u>	<u>367,284</u>
Cash and Cash Equivalents at Beginning of Year	<u>3,847,179</u>	<u>3,479,895</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,800,526</u>	<u>\$ 3,847,179</u>

COMMON STOCK INFORMATION

Our common stock is traded on the Nasdaq Capital Market under the symbol “JXSB”. As of December 31, 2015, we had approximately 710 stockholders of record, including brokers, who held 1,791,513 shares of our outstanding common stock.

The following table sets forth market price and dividend information for our common stock for the two years ended December 31, 2015.

	<u>Price Per Share</u>		<u>Cash</u>
	<u>High</u>	<u>Low</u>	<u>Dividend Declared</u>
2015			
Fourth quarter	\$ 27.84	\$ 23.77	\$ 1.080
Third quarter	24.30	23.14	0.080
Second quarter	24.58	21.97	0.080
First quarter	24.00	21.86	0.080
2014			
Fourth quarter	\$ 24.00	\$ 21.75	\$ 0.080
Third quarter	23.90	21.14	0.080
Second quarter	22.95	20.00	0.080
First quarter	21.90	19.40	0.080

For a discussion of the restrictions on the Company’s ability to pay dividends, see Note 12 to the Consolidated Financial Statements.

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Andrew F. Applebee
Chairman of the Board

Richard A. Foss
President and Chief Executive Officer

John C. Williams
Senior Vice President and Trust Officer

Dean H. Hess
Self-employed farmer

Harmon B. Deal, III
Investment Advisor
L.A. Burton & Associates

John L. Eyth
Retired Certified Public Accountant

John M. Buchanan
Certified Funeral Service Practitioner
Buchanan & Cody Funeral Home and Crematory, Inc.

Peggy S. Davidsmeyer
Retired Administrator

Executive Officers

Andrew F. Applebee
Chairman of the Board

Richard A. Foss
President and Chief Executive Officer

Diana S. Tone
Chief Financial Officer

John C. Williams
Senior Vice President and Trust Officer

Chris A. Royal
Senior Vice President and Chief Lending Officer

Laura A. Marks
Senior Vice President – Retail Banking

John D. Eilering
Vice President – Operations / Corporate Secretary

CORPORATE INFORMATION

Corporate Headquarters

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E-mail: info@jacksonvillesavings.com

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Decatur, Illinois 62525-2557
(217) 872-6373

Special Counsel

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Washington, D.C. 20015
(202) 274-2000

Independent Registered Public Accounting Firm

BKD, LLP
225 North Water Street, Suite 400
Decatur, Illinois 62523-2326
(217) 429-2411

ANNUAL MEETING

The Annual Meeting of the Stockholders will be held April 26, 2016 at 1:30 p.m., central time, at our main office at 1211 West Morton, Jacksonville, Illinois.

GENERAL INQUIRIES

A copy of our Annual Report to the SEC on Form 10-K may be obtained without charge by written request of stockholders to Diana Tone or by calling us at (217) 245-4111. The Form 10-K is also available on our website at www.jacksonvillesavings.com. Our Code of Ethics, Audit Committee Charter, Nominating and Corporate Governance Committee Charter, Compensation Committee Charter, and Beneficial Ownership reports of our directors and executive officers are also available on our website.

FDIC DISCLAIMER

This Annual Report has not been reviewed or confirmed for accuracy or relevance by the FDIC.



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