Huron Community Financial Services, Inc.

Consolidated Financial Report
December 31, 2015

Huron Community Financial Services, Inc.

Contents

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Independent Auditor's Report

To the Board of Directors
Huron Community Financial Services, Inc.

We have audited the accompanying consolidated financial statements of Huron Community Financial Services, Inc. (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2015 and 2014 and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

To the Board of Directors
Huron Community Financial Services, Inc.

Emphasis of Matter

As described in Note 17, the Corporation has changed its method of accounting for the Nonemployee Director Discretionary Stock Option Plan, and restated retained earnings as of January 1, 2014 to correct this mistatement. Our opinion on the 2014 financial statements is not modified with respect to this matter.

Plante & Moran, PLLC

March 23, 2016

Huron Community Financial Services, Inc.

Consolidated Balance Sheet
(000s omitted, except per share data)

	December 31, 2015	December 31, 2014 (as restated)
Assets		
Cash and due from banks	$ 2,522	$ 7,631
Investment securities - Available for sale (Note 2)	44,685	44,647
Other securities (Note 2)	877	1,121
Loans - Net of allowance for loan losses of $1,655 and $1,896 in 2015 and 2014, respectively (Note 3)	134,275	132,797
Foreclosed assets	2,009	1,995
Premises and equipment (Note 5)	2,725	2,867
Goodwill	405	405
Accrued interest receivable	432	367
Cash surrender value of life insurance	5,929	5,176
Other assets (Notes 4 and 9)	1,934	1,431
Total assets	**$ 195,793**	**$ 198,437**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 35,040	$ 33,693
Interest-bearing (Note 6)	123,841	125,386
Total deposits	158,881	159,079
Short-term borrowings (Note 7)	9,729	12,553
Federal Home Loan Bank advances (Note 8)	3,000	3,000
Accrued and other liabilities	734	763
Total liabilities	172,344	175,395
Stockholders' Equity		
Common stock - $1 par value:		
Authorized - 1,000,000 shares		
Issued and outstanding - 556,171 shares and 553,484	556	553
Additional paid-in capital	17,678	17,554
Retained earnings	5,075	4,696
Accumulated other comprehensive income	180	239
Unearned compensation	(40)	-
Total stockholders' equity	23,449	23,042
Total liabilities and stockholders' equity	**$ 195,793**	**$ 198,437**

See Notes to Consolidated Financial Statements.

Huron Community Financial Services, Inc.

Consolidated Statement of Operations and Comprehensive Income

(000s omitted, except per share data)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Interest Income		
Loans - Including fees	$ 6,723	$ 6,898
Investment securities		
Taxable	296	335
Tax-exempt	243	176
Other	105	95
Total interest income	7,367	7,504
Interest Expense		
Deposits	412	452
Interest on FHLB advances	4	24
Interest on short-term borrowings	10	8
Total interest expense	426	484
Net Interest Income	6,941	7,020
Provision for Loan Losses (Note 3)	427	497
Net Interest Income After Provision for Loan Losses	6,514	6,523
Other Operating Income		
Service charges - Deposits	443	513
Gain on sale of loans	255	189
Bank owned life insurance income	153	388
Loan servicing income	305	294
Other	178	179
Total other operating income	1,334	1,563
Other Operating Expenses		
Salaries and employee benefits	3,071	3,083
FDIC assessment	152	165
Occupancy expense	476	481
Service fees	378	494
Depreciation expense	263	307
Other	2,080	1,691
Total other operating expenses	6,420	6,221
Income - Before income taxes	1,428	1,865
Income Tax Expense (Note 9)	390	463
Net Income	1,038	1,402
Other Comprehensive (Loss) Income - Net of tax -		
Unrealized (loss) gain on investment securities - Available for sale	(59)	235
Total comprehensive income	**$ 979**	**$ 1,637**
Earnings per Share		
Basic earnings per common share	**$ 1.87**	**$ 2.54**
Diluted earnings per common share	**$ 1.87**	**$ 2.51**

Huron Community Financial Services, Inc.

Consolidated Statement of Stockholders' Equity
(000s omitted, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance - As restated - January 1, 2014 (Note 17)	$ 556	$ 17,681	$ 3,898	$ -	$ 4	$ 22,139
Net income	-	-	1,402	-	-	1,402
Other comprehensive income	-	-	-	-	235	235
Sale of common stock (22,288 shares - Net of stock issuance costs)	22	1,024	-	-	-	1,046
Purchase of common stock (24,773 shares)	(25)	(1,164)	-	-	-	(1,189)
Stock-based compensation	-	13	-	-	-	13
Dividends declared $1.09 per share	-	-	(604)	-	-	(604)
Balance - December 31, 2014	553	17,554	4,696	-	239	23,042
Net income	-	-	1,038	-	-	1,038
Other comprehensive loss	-	-	-	-	(59)	(59)
Sale of common stock (19,719 shares - Net of stock issuance costs)	20	927	-	-	-	947
Purchase of common stock (17,832 shares)	(18)	(858)	-	-	-	(876)
Stock-based compensation	-	16	-	-	-	16
Dividends declared $1.19 per common share	-	-	(659)	-	-	(659)
Restricted share units issued (800 shares)	1	39	-	(40)	-	-
Balance - December 31, 2015	**$ 556**	**$ 17,678**	**$ 5,075**	**$ (40)**	**$ 180**	**$ 23,449**

See Notes to Consolidated Financial Statements.

Huron Community Financial Services, Inc.

Consolidated Statement of Cash Flows
(000s omitted, except per share data)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash Flows from Operating Activities		
Net income	$ 1,038	$ 1,402
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	418	457
Net gain on sale of mortgage loans	(255)	(189)
Proceeds from sale of mortgage loans	11,969	9,942
Origination cost of mortgages held for sale	(10,987)	(10,250)
Provision for loan losses	427	497
Amortization and accretion on securities	332	226
(Increase) decrease in cash surrender value of life insurance	(153)	361
Deferred tax expense (benefit)	129	(29)
Stock-based compensation	16	13
Net change in:		
Accrued interest receivable	(65)	51
Other assets	(771)	(235)
Accrued expenses and other liabilities	(29)	130
Net cash provided by operating activities	2,069	2,376
Cash Flows from Investing Activities		
Redemption of other securities	244	191
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	48,287	25,785
Purchases	(48,746)	(34,023)
Net increase in loans	(2,632)	(9,298)
Capital expenditures	(121)	(101)
Net cash used in investing activities	(2,968)	(17,446)
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	(198)	3,514
Net (decrease) increase in short-term borrowings	(2,824)	5,967
Purchase of bank owned life insurance	(600)	(236)
Proceeds from sale of common stock	947	1,046
Purchases of common stock	(876)	(1,189)
Cash dividends paid on common stock	(659)	(604)
Net cash (used in) provided by financing activities	(4,210)	8,498
Net Decrease in Cash and Cash Equivalents	(5,109)	(6,572)
Cash and Cash Equivalents - Beginning of year	7,631	14,203
Cash and Cash Equivalents - End of year	**$ 2,522**	**$ 7,631**
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 370	$ 492
Income taxes	456	50
Loans transferred to other real estate	1,335	834

Note 1 - Nature of Business and Significant Accounting Policies

Basis of Presentation and Consolidation - The consolidated financial statements include the accounts of Huron Community Financial Services, Inc. (the "Corporation") and its wholly owned subsidiary, Huron Community Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations - The Bank operates in Iosco, Arenac, and Alcona counties in the state of Michigan. The Bank's revenue results primarily from providing real estate and commercial loans and, to a lesser extent, consumer loans. Its primary deposit products are demand deposits, savings, and term certificate accounts.

Use of Estimates - In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of investment securities, mortgage servicing rights, foreclosed assets, and goodwill.

Significant Group Concentrations of Credit Risk - Most of the Corporation's activities are with customers located within the counties of Iosco, Arenac, and Alcona in Michigan. Note 2 discusses the types of securities in which the Corporation invests. Note 3 discusses the types of lending in which the Corporation engages. The Corporation does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Federal funds sold are generally sold for one-day periods.

Securities - Securities not classified as held to maturity or trading, including equity securities and deposits with other financial institutions with readily determinable fair values, are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Restricted investment securities include Federal Reserve and Federal Home Loan Bank stock and are carried at cost.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans - The Corporation grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and mortgage loans throughout Michigan. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. 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 is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan origination fees, commitment fees, and certain direct origination costs are deferred and amortized as a net adjustment to the related loan’s yield. The Bank generally amortizes these costs over the contractual life of such loans.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

The allowance for loan losses is evaluated on a regular basis by management 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 specific, general, and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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 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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Troubled debt restructuring of loans is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loans should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Corporation, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan that the Corporation would not otherwise consider. To make this determination, the Corporation must determine whether (a) the borrower is experiencing financial difficulties and (b) the Corporation granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean the borrower is experiencing financial difficulties.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures until a loss is imminent.

Foreclosed Assets - Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of the 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 other operating income and expenses.

Banking Premises and Equipment - Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

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

Bank-owned Life Insurance - The Bank has purchased life insurance policies on certain key officers. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Short-term Borrowings - Short-term borrowings consist of repurchase agreements. Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Off-balance-sheet Instruments - In the ordinary course of business, the Corporation has entered into commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when funded.

Servicing - Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined by using prices for similar assets with similar characteristics, when available, or based on discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Stock Purchases and Sales - The Corporation regularly engages in the purchase and sale of Corporation common stock. Proceeds from the sale of common stock are recorded to additional paid-in capital. Prior to December 31, 2009, purchases of Corporation common stock were recorded to undivided profits. Effective January 1, 2010, all subsequent purchases of Corporation stock have been recorded to additional paid-in capital.

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

Income Taxes - Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the various temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Earnings per Common Share - Earnings per common share are computed by dividing net income by the average number of common shares outstanding during the period. The number of weighted average common shares outstanding was 554,249 and 551,939 for the years ended December 31, 2015 and 2014, respectively. The Corporation uses the treasury stock method to compute diluted earnings per share, which assumes that proceeds from the assumed exercise of stock options would be used to purchase common stock at the average market price during the period. The dilutive effect of stock options increased average common shares outstanding by 1,494 and 5,830 shares at December 31, 2015 and 2014, respectively. 2,950 and 9,321 options were not considered for dilution in 2015 and 2014, respectively, because the exercise price was in excess of the current market price.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including March 23, 2016, which is the date the consolidated financial statements were issued.

Recent Accounting Pronouncements

The FASB issued ASU 2014-04 to clarify that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The new authoritative guidance was effective for reporting periods after January 1, 2015. The adoption of this ASU did not have a material impact on our consolidated financial statements.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU covers various changes to the accounting, measurement, and disclosure related to certain financial instruments. As of December 31, 2015, the Corporation is currently evaluating the impact. The ASU also eliminated the requirement for nonpublic business entities to disclose the fair value of certain financial instruments in the notes to their financial statements. The amendments are effective for annual reporting periods ending after December 15, 2018 (therefore, for the year ending December 31, 2019 for the Corporation). Early adoption is permitted as early as periods ending after December 31, 2017 with some additional options for early application, such as the ability to elect to not disclose the information about fair value of financial instruments. The Corporation does not believe adopting the remaining provisions of ASU No. 2016-01 in the future will have a material impact on the consolidated financial statements.

Reclassification - Certain amounts appearing in the prior year's financial statements have been reclassified to conform to the current year's financial statements.

Credit-related Financial Instruments - In the ordinary course of business, the Corporation has entered into commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

(000s omitted, except per share data)

Note 2 - Securities

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

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and federal agency	$ 1,500	$ 1	$ -	$ 1,501
State and municipal	15,722	358	(17)	16,063
Corporate bonds	3,842	1	(9)	3,834
Deposits with financial institutions	11,499	-	-	11,499
Mortgage-backed securities	8,473	31	(44)	8,460
Collateralized mortgage obligations	3,376	8	(56)	3,328
Total available-for-sale securities	$ 44,412	$ 399	$ (126)	$ 44,685

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and federal agency	$ 5,002	$ 11	$ -	$ 5,013
State and municipal	8,890	341	(1)	9,230
Deposits with financial institutions	18,443	3	-	18,446
Mortgage-backed securities	7,150	61	(17)	7,194
Collateralized mortgage obligations	4,801	25	(62)	4,764
Total available-for-sale securities	$ 44,286	$ 441	$ (80)	$ 44,647

At December 31, 2015 and 2014, securities with a carrying value of $15,224 and $17,000, respectively, were pledged to secure borrowings and public deposits and for other purposes required or permitted by law.

(000s omitted, except per share data)

Note 2 - Securities (Continued)

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

	Available for Sale	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 11,856	$ 11,863
Due in 1 through 5 years	18,005	18,023
Due after 5 years through 10 years	1,407	1,421
Due after 10 years	1,295	1,590
Total	32,563	32,897
Mortgage-backed securities	8,473	8,460
Collateralized mortgage obligations	3,376	3,328
Total	$ 44,412	$ 44,685

There were no sales of securities available for sale during 2015 or 2014, respectively.

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2015			
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
State and municipal	$ (17)	$ 7,181	$ -	$ -
Corporate bonds	(9)	2,681	-	-
Mortgage-backed securities	(36)	5,274	(8)	602
Collateralized mortgage obligations	(1)	284	(55)	2,413
Total available-for-sale securities	$ (63)	$ 15,420	$ (63)	$ 3,015

(000s omitted, except per share data)

Note 2 - Securities (Continued)

	2014			
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and federal agency	$ -	$ 499	$ -	$ -
State and municipal	(1)	407	-	-
Mortgage-backed securities	(17)	2,644	-	-
Collateralized mortgage obligations	-	-	(62)	3,052
Total available-for-sale securities	$ (18)	$ 3,550	$ (62)	$ 3,052

At December 31, 2015 and 2014, there were 43 and 10 securities in an unrealized loss position, respectively. Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, the Corporation has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is due primarily to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

Other securities, totaling $877 and $1,121 at December 31, 2015 and 2014, respectively, consist of restricted Federal Home Loan Bank stock and Federal Reserve Bank stock. These stocks are carried at cost, which approximates market value.

Note 3 - Loans

A summary of the balances of loans follows:

	2015	2014
Mortgage loans on real estate - Residential 1-4 family	$ 36,660	$ 40,737
Commercial loans	92,483	85,221
Consumer installment loans	6,787	8,735
Total loans	135,930	134,693
Less allowances for loan losses	1,655	1,896
Net loans	$ 134,275	$ 132,797
Allowance for loan losses as a percentage of loans	1.2%	1.4%

(000s omitted, except per share data)

Note 3 - Loans (Continued)

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $5,664 and $4,267 at December 31, 2015 and 2014, respectively.

Activity in the allowance for loan losses for 2015 and 2014 is summarized as follow:

	Year Ended December 31, 2015				
	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Total
Beginning balance	$ 366	$ 961	$ 437	$ 132	$ 1,896
Charge-offs	(9)	(659)	(15)	(8)	(691)
Recoveries	-	-	19	4	23
Provision	(51)	548	(32)	(38)	427
Ending balance	$ 306	$ 850	$ 409	$ 90	$ 1,655
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 31	$ -	$ -	$ 13	$ 44
Collectively evaluated for impairment	275	850	409	77	1,611
Ending allowance balance	$ 306	$ 850	$ 409	$ 90	$ 1,655
Loans and leases:					
Individually evaluated for impairment	$ 862	$ 1,118	$ 44	$ 88	$ 2,112
Collectively evaluated for impairment	35,798	66,254	25,067	6,699	133,818
Total loans and leases	$ 36,660	$ 67,372	$ 25,111	$ 6,787	$ 135,930

(000s omitted, except per share data)

Note 3 - Loans (Continued)

	Year Ended December 31, 2014				
	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Total
Beginning balance	$ 427	$ 980	$ 433	$ 180	$ 2,020
Charge-offs	(183)	(18)	(437)	(6)	(644)
Recoveries	17	1	-	5	23
Provision	105	(2)	441	(47)	497
Ending balance	$ 366	$ 961	$ 437	$ 132	$ 1,896
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 71	$ 467	$ 4	$ -	$ 542
Collectively evaluated for impairment	295	494	433	132	1,354
Ending allowance balance	$ 366	$ 961	$ 437	$ 132	$ 1,896
Loans and leases:					
Individually evaluated for impairment	$ 1,463	$ 3,059	$ 70	$ 32	$ 4,624
Collectively evaluated for impairment	39,274	57,437	24,655	8,703	130,069
Total loans and leases	$ 40,737	$ 60,496	$ 24,725	$ 8,735	$ 134,693

Credit Risk Grading

As part of the management of the loan portfolio at the time of origination and through the continuing loan review process, the Corporation categorizes each loan into credit risk categories based on several factors including current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The credit risk rating structure used is shown below:

Note 3 - Loans (Continued)

Monitor - A monitor asset is not considered "rated" or "classified" for regulatory purposes, but is considered an asset which bears watching due to some modest deterioration in financial performance or external threats, such as a lawsuit, environmental issue, or potential loss of a significant customer. Some of the following characteristics may exist: financial condition has taken a negative turn and may be temporarily strained; borrower may have experienced recent losses from operations; cash flow may be insufficient to service debt, based on most recent six-month period; financial covenant defaults are occurring with some regularity, and they would be deemed more than inconsequential; need for guarantor is critical, but guarantor's condition adds little substance to credit quality; loss of principal is not at question, unless current trends were to continue; however, there are aspects of this underwriting which may not now conform to bank lending policy; borrowing base deficiencies may exist and are becoming a concern.

Special Mention - A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan, or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Some of the following characteristics may exist: loans are currently protected, but are potentially weak due to negative trends in balance sheet or income statement; cash flow may be insufficient to meet debt service, with the prospect that this condition may not be temporary; lack of effective control over the collateral or existence of documentation deficiencies; there is a potential risk of payment default; management's ability to cope with current financial conditions is questioned; collateral coverage has weakened; moderate operating losses may have occurred; financial information may be inadequate to depict condition of borrower adequately; consistent borrowing deficiencies.

Substandard - A substandard asset has well defined weaknesses whereby collection is possible, but jeopardized. However, jeopardized payment does not imply ultimate loss. Assets so classified are inadequately protected by current net worth and repayment capacity, and there is a high probability that collateral will have to be liquidated to repay the debt. If deficiencies are not corrected quickly, there is a real possibility of loss, and of the company's ability to operate as a going concern. Loan may be in default, borrower may be in bankruptcy, loan restructure at less than market terms, or has been partially charged off. Nonaccrual loans would be classified, at least, “substandard.”

(000s omitted, except per share data)

Note 3 - Loans (Continued)

Doubtful - A doubtful asset has characteristics of "substandard," but information available suggests it is highly improbable that liquidation of collateral will retire the loan in its entirety. It may be impossible to calculate exactly what the loss may be, but the probability of some loss is high. Loans are to be placed on nonaccrual status when a significant percentage is classified "doubtful" and collateral liquidation is probable. (Not all nonaccrual loans necessarily have to be classified "doubtful" if collateral appears adequate to retire remaining outstandings.)

Pass - Credits not covered by the above definitions are pass credits, which are not considered to be adversely rated.

For residential real estate and consumer loan segments, the Corporation monitors credit quality using a combination of the delinquency status of the loan and other known borrower circumstances and classifies loans as performing and nonperforming:

Performing - Loan pays as agreed and is current.

Nonperforming - Loans which are contractually past due 90 days or more as to interest or principal payments, on nonaccrual status, in process of foreclosure or other forms of liquidation and/or collection or loans where the terms of which have been renegotiated to provide a reduction or deferral on interest or principal.

	December 31, 2015						
	Pass	Monitor	Special Mention	Substandard	Performing	Non-performing	Total
Real estate - Commercial:							
Commercial real estate and other	$ 55,189	$ 1,724	$ 281	$ 1,026	$ -	$ -	$ 58,220
Hotels and motels	4,869	-	-	403	-	-	5,272
Golf courses	3,269	-	611	-	-	-	3,880
Commercial and industrial	22,382	2,354	-	375	-	-	25,111
Real estate - Residential:							
1-4 family residential	-	-	-	-	29,836	210	30,046
Construction and land loans	-	-	-	-	6,574	40	6,614
Consumer:							
Home equity lines of credit	-	-	-	-	4,605	88	4,693
Other	-	-	-	-	2,094	-	2,094
Total	$ 85,709	$ 4,078	$ 892	$ 1,804	$ 43,109	$ 338	$ 135,930

(000s omitted, except per share data)

Note 3 - Loans (Continued)

	December 31, 2014						
	Pass	Monitor	Special Mention	Substandard	Performing	Non-performing	Total
Real estate - Commercial:							
Commercial real estate and other	$ 46,883	$ 1,683	$ 300	$ 1,621	$ -	$ -	$ 50,487
Hotels and motels	3,034	1,188	-	745	-	-	4,967
Golf courses	3,391	-	653	998	-	-	5,042
Commercial and industrial	22,460	1,127	1,006	132	-	-	24,725
Real estate - Residential:							
1-4 family residential	-	-	-	-	32,448	781	33,229
Construction and land loans	-	-	-	-	7,476	32	7,508
Consumer:							
Home equity lines of credit	-	-	-	-	5,275	32	5,307
Other	-	-	-	-	3,428	-	3,428
Total	$ 75,768	$ 3,998	$ 1,959	$ 3,496	$ 48,627	$ 845	$ 134,693

Age Analysis of Past Due Loans

The following tables detail the age analysis of past due loans at December 31, 2015 and 2014:

	2015						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Real estate - Commercial:							
Commercial real estate and other	$ -	$ -	$ -	$ -	$ 58,220	$ 58,220	$ -
Hotels and motels	-	-	403	403	4,869	5,272	-
Golf courses	237	-	-	237	3,643	3,880	-
Commercial and industrial	-	-	44	44	25,067	25,111	-
Real estate - Residential:							
1-4 family residential	1,230	172	176	1,578	28,468	30,046	18
Construction and land loans	2,145	-	-	2,145	4,469	6,614	-
Consumer:							
Home equity lines of credit	15	-	-	15	4,678	4,693	-
Other	-	-	-	-	2,094	2,094	-
Total	$ 3,627	$ 172	$ 623	$ 4,422	$ 131,508	$ 135,930	$ 18

(000s omitted, except per share data)

Note 3 - Loans (Continued)

	2014						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Real estate - Commercial:							
Commercial real estate and other	$ -	$ -	$ 358	$ 358	$ 50,129	$ 50,487	$ -
Hotels and motels	-	-	745	745	4,222	4,967	-
Golf courses	-	998	-	998	4,044	5,042	-
Commercial and industrial	72	11	55	138	24,587	24,725	-
Real estate - Residential:							
1-4 family residential	1,082	208	610	1,900	31,329	33,229	-
Construction and land loans	185	226	9	420	7,088	7,508	-
Consumer:							
Home equity lines of credit	-	-	32	32	5,275	5,307	-
Other	2	7	-	9	3,419	3,428	-
Total	$ 1,341	$ 1,450	$ 1,809	$ 4,600	$ 130,093	$ 134,693	$ -

Impaired Loans

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans are considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loan basis for all loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectibility of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

(000s omitted, except per share data)

Note 3 - Loans (Continued)

The following are schedules of impaired loans as of December 31, 2015 and 2014:

	As of and for the Year Ended December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
Real estate - Commercial:					
Commercial real estate and other	$ 715	$ 715	$ -	$ 824	$ 31
Hotels and motels	403	740	-	574	-
Commercial and industrial	44	187	-	49	-
Real estate - Residential:					
1-4 family residential	604	656	-	622	20
Construction and land loans	194	194	-	198	8
Total	$ 1,960	$ 2,492	$ -	$ 2,267	$ 59
With an allowance recorded:					
Real estate - Residential :					
1-4 family residential	$ 43	$ 47	$ 16	$ 44	$ -
Construction and land loans	21	24	15	22	-
Consumer - Home equity lines of credit	88	103	13	91	-
Total	$ 152	$ 174	$ 44	$ 157	$ -

	As of and for the Year Ended December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
Real estate - Commercial -					
Commercial real estate and other	$ 1,154	$ 1,177	$ -	$ 1,269	$ 47
Commercial and industrial	66	200	-	75	1
Real estate - Residential:					
1-4 family residential	1,135	1,145	-	1,148	37
Construction and land loans	27	31	-	28	-
Consumer - Home equity lines of credit	32	34	-	33	-
Total	$ 2,414	$ 2,587	$ -	$ 2,553	$ 85
With an allowance recorded:					
Real estate - Commercial:					
Commercial real estate and other	$ 162	$ 172	$ 79	$ 167	$ -
Hotels and motels	745	745	140	745	-
Golf courses	998	998	248	1,007	18
Commercial and industrial	4	4	4	4	-
Real estate - Residential -					
1-4 family residential	301	347	71	310	-
Total	$ 2,210	$ 2,266	$ 542	$ 2,233	$ 18

(000s omitted, except per share data)

Note 3 - Loans (Continued)

Nonaccrual Loans

Nonaccrual loan balances at December 31, 2015 and 2014 are as follows:

	2015	2014
Real estate - Commercial:		
Commercial real estate and other	$ -	$ 357
Hotels and motels	403	745
Golf courses	-	998
Commercial and industrial	44	96
Real estate - Residential:		
1-4 family residential	192	781
Construction and land loans	40	32
Consumer:		
Home equity lines of credit	88	32
Total	$ 767	$ 3,041

Nonaccrual - Commercial loans include business installment loans and real estate construction loans. Loans on which interest and/or principal is 90 days or more past due are placed on nonaccrual status and any previously accrued but uncollected interest is reversed against income (current year) or charged to the allowance for loan and lease losses (prior year). Such loans will remain on a cash basis for the recognition of income until such time as the loan has remained current for a period of not less than six (6) months and it is determined an adequate propensity for timely payment to occur in the future. Past due is measured from the date through which interest is due or on which principal payment is due irrespective of the date on which the billing may have been rendered. Unless otherwise specified in the note or loan agreement, demand notes shall, for purposes of measuring past due status, have an interest due date no less frequently than once each calendar quarter. Other loans on which there is serious doubt as to collectibility are placed on nonaccrual because of past due status. Any loan whereby some or all of the balance has been charged off is placed on nonaccrual, unless it is part of an A B loan restructure. If the loan was on nonaccrual at the time of the restructure, it will remain in nonaccrual until such time as the above stated criteria is met. If the loan was not in nonaccrual at the time of the A B note restructuring and there is concrete evidence the payment structure will be met, the loan will not have to be placed in nonaccrual, provided the B portion has been charged off. Mortgages are placed on nonaccrual status when the account is three months (typically four payments) past due. All previously accrued but uncollected interest is reversed when the loan is placed on nonaccrual.

(000s omitted, except per share data)

Note 3 - Loans (Continued)

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted.

There were no loans modified in a TDR during the year ended December 31, 2015.

The following table presents information related to loans modified in a TDR during the year ended December 31, 2014:

	Number of Contracts Modified Within Last 12 Months	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Real Estate - Residential - 1-4 family residential	1	$ 156	$ 166

Troubled Debt Restructurings that Subsequently Defaulted

The following table presents loans modified as troubled debt restructurings within the previous 12 months that became 30 days or more past due during the years ended December 31, 2015 and 2014 (amounts as of year end):

	2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Real Estate - Residential	-	$ -	1	$ 165

Note 4 - Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balances of mortgages serviced for others were $73,408 and $73,539 at December 31, 2015 and 2014, respectively.

(000s omitted, except per share data)

Note 4 - Loan Servicing (Continued)

The balance of capitalized servicing rights, net of valuation allowance, included in other assets at December 31, 2015 and 2014 was $391 and $425, respectively. The fair value of the capitalized servicing rights approximates the carrying value. The key economic assumptions used in determining the fair value of the mortgage servicing rights include an annual constant prepayment speed (CPR) of 11.4 and 11.9 percent for December 31, 2015 and 2014, respectively, and a discount rate of 9.2 and 9.1 for December 31, 2015 and 2014.

The following summarizes mortgage servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	2015	2014
Mortgage-servicing rights capitalized	$ 121	$ 110
Mortgage-servicing rights amortized and closed	155	150

Note 5 - Bank Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	2015	2014
Buildings and improvements	$ 4,617	$ 4,537
Furniture and fixtures	3,230	3,124
Vault and equipment	322	386
Automobiles	82	82
Land	711	711
Total premises and equipment	8,962	8,840
Accumulated depreciation	(6,237)	(5,973)
Net premises and equipment	$ 2,725	$ 2,867

Depreciation expense for the years ended December 31, 2015 and 2014 amounted to $263 and $307, respectively.

As of December 31, 2015, the Bank entered into an operating lease for office space in West Branch, Michigan. The lease term is for two years and is scheduled to begin in Janurary 2016. Future minimum lease payments under the operating lease are $10, $11, and $1 for the years ended December 31, 2016, 2017, and 2018, respectively.

(000s omitted, except per share data)

Note 6 - Deposits

The following is a summary of the distribution of interest-bearing deposits at December 31:

	2015	2014
NOW accounts	$ 66,577	$ 64,662
Savings	23,827	21,138
Money market demand	4,432	5,098
Time:		
Under $250,000	25,285	30,772
$250,000 and over	3,720	3,716
Total interest-bearing deposits	$ 123,841	$ 125,386

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

2016	$ 17,292
2017	6,063
2018	2,736
2019	925
2020	1,989
Total	$ 29,005

Note 7 - Short-term Borrowings

Short-term borrowings include securities sold under agreements to repurchase, which are classified as secured borrowings and generally mature within one or two years. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The outstanding balance was $9,729 and $12,553 as of December 31, 2015 and 2014, respectively. These agreements are collateralized by securities with a fair value of approximately $11,804 as of December 31, 2015.

Discount Window Borrowings - The Bank has a discount window loan agreement with the Federal Reserve Bank that allows for advances. The advances are secured by investment securities with a fair value of approximately $3,420 and are generally due within 28 days from the date of the advance. The interest rate on the advances is based on the quoted federal reserve discount window rate (effective rate of 1.00 percent as of December 31, 2015). There were no outstanding advances at December 31, 2015 and 2014.

(000s omitted, except per share data)

Note 8 - Federal Home Loan Bank Advances

The Bank has advances from the Federal Home Loan Bank (FHLB). Interest rates range from 0.40 percent to 0.58 percent. The weighted average interest rate on borrowings was 0.52 percent. Interest is payable monthly. These advances contain varying maturity dates through January 29, 2016, with a weighted average maturity of approximately 0.1 years. The advances are collateralized by approximately $14,515 and $27,364 of mortgage loans as of December 31, 2015 and 2014, respectively, under a blanket collateral agreement. The outstanding balance of advances was $3,000 as of December 31, 2015 and 2014, respectively.

The fixed-rate advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank. Future obligations of the advances are as follows at December 31, 2015:

2016	$ 3,000

Note 9 - Income Taxes

The components of the net deferred tax asset, included in other assets, are as follows:

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 300	$ 379
Accrued employee benefits	413	272
Nonaccrual loans	55	48
Depreciation	153	159
Other real estate	308	258
Other	24	111
Total deferred tax assets	1,253	1,227
Deferred tax liabilities:		
Prepaid assets	41	45
Net unrealized gain on securities available for sale	93	122
Servicing rights	133	145
Other	386	215
Total deferred tax liabilities	653	527
Net deferred tax asset	$ 600	$ 700

(000s omitted, except per share data)

Note 9 - Income Taxes (Continued)

Allocation of income taxes between current and deferred portions is as follows:

	2015	2014
Current	$ 261	$ 492
Deferred	129	(29)
Total income tax expense	$ 390	$ 463

The reasons for the differences between the income tax expense at the federal statutory income tax rate and the recorded income tax expense are summarized as follows:

	2015	2014
Income before income taxes	$ 1,428	$ 1,865
Income tax expense at federal statutory rate of 34 percent	$ 486	$ 634
Increases resulting from nondeductible expenses	4	3
Decreases resulting from nontaxable income	(100)	(174)
Net income tax expense	$ 390	$ 463

Note 10 - Benefit Plan

The Corporation has a 401(k) plan whereby a certain percentage of employees' contributions can be matched with discretionary contributions by the Corporation. Contributions to the plan for the years ended December 31, 2015 and 2014 were $62 and $56, respectively.

Note 11 - Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation. See Note 16 for the disclosure related to fair value measurements.

Note 11 - Fair Value of Financial Instruments (Continued)

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

Cash and Cash Equivalents - The carrying amounts of cash and cash equivalents approximate fair values.

Deposits in Other Financial Institutions - The carrying amounts of interest-bearing deposits maturing within 90 days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities - Fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The carrying value of Federal Home Loan Bank and Federal Reserve Bank stock approximates fair value based on the redemption provisions of the issuers.

Loans Receivable - For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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

Short-term Borrowings - The carrying amounts of borrowings under repurchase agreements maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Borrowings - The fair values of the Corporation's other borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

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

(000s omitted, except per share data)

Note 11 - Fair Value of Financial Instruments (Continued)

Other Financial Instruments - The fair value of other financial instruments, including loan commitments and unfunded letters of credit, based on discounted cash flow analyses, is not material.

The estimated fair values and related carrying or notional amounts of the Corporation's financial instruments are as follows:

	2015		2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and equivalents	$ 2,522	$ 2,522	$ 7,631	$ 7,631
Securities	45,562	45,562	45,768	45,768
Loans - net	134,275	135,910	132,797	135,472
Accrued interest receivable	432	432	367	367
Financial liabilities:				
Demand deposits	35,040	35,040	33,693	33,693
Interest-bearing deposits	123,841	119,082	125,386	121,011
FHLB advances	3,000	3,000	3,000	3,002
Short-term borrowings	9,729	9,486	12,553	12,436
Accrued interest payable	21	21	35	35

Note 12 - Stock-Based Compensation

Options - As of December 31, 2015, the Corporation has four share-based compensation plans which are described below. Options available for grant under the 1997 Nonemployee Director Discretionary Stock Option plan have been issued. Some of the options issued under the 1997 plan are exercisable by the participants until the end of the contractual terms.

(000s omitted, except per share data)

Note 12 - Stock-Based Compensation (Continued)

The Corporation's 2005 Nonemployee Director Stock Option Plan, 2005 Nonemployee Director Discretionary Stock Option Plan, 2005 Employee Stock Option Plan, and 2014 Stock Incentive Plan (the "Plans"), permit the grant of stock options for up to 15,000 shares, 25,000 shares, 35,000, and 50,000 shares of common stock, respectively. The Corporation believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the entity's stock at the date of grant; those option awards generally vest immediately for nonemployees and over three years for employees and have 10-year contractual terms. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plans). The compensation cost that has been charged against income for the Plans was approximately $16 and $13 for 2015 and 2014, respectively. As of December 31, 2015, there were 23,469 shares available for grant in the 2005 Nonemployee Discretionary Stock Option Plan and 40,750 shares available for grant in the 2014 Stock Incentive Plan. In accordance with the respective Plan agreements, subsequent to November 2015, incentive stock options were no longer permitted to be granted from the 2005 Nonemployee Director Stock Option Plan or the 2005 Employee Stock Option Plan.

The Corporation uses a Black-Scholes formula to estimate the calculated value of its share-based payments. The volatility assumption used in the Black-Scholes formula is based on the historic volatility of the Corporation's stock price and dividend payments throughout the year. The Corporation calculated the historical volatility using the monthly closing total stock price for the one year immediately prior.

The weighted average assumptions used in the Black-Scholes model are noted in the following table. The Corporation uses historical data to estimate option exercise and employee termination within the valuation model. 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.

	2015	2014
Calculated volatility	10.00 %	10.00 %
Weighted average dividends	2.40 %	2.28 %
Expected term (in years)	7	7
Weighted average risk-free rate	2.03 %	1.93 %

(000s omitted, except per share data)

Note 12 - Stock-Based Compensation (Continued)

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

	2015		2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding - Beginning of year	58,226	$ 44.31	56,005	$ 43.11
Options granted	8,899	48.15	5,712	48.00
Options exercised	(4,291)	44.11	(3,099)	36.42
Options forfeited	(33)	48.00	(317)	36.00
Options expired	-	-	(75)	-
Options cancelled	(23,801)	39.17	-	-
Options outstanding - End of year	39,000	47.76	58,226	44.31
Exercisable at year end	34,767	47.59	54,891	44.09

The grant-date fair value of options granted during 2015 and 2014 was $18 and $19, respectively.

The aggregate intrinsic value of the outstanding options represents the total pretax intrinsic value (i.e., the difference between the Corporation's stock price of $50.00 and the exercise price, times the number of shares outstanding that would have been received by the option holder had all option holders exercised their options on December 31, 2015). The aggregate intrinsic value on outstanding options as of December 31, 2015 and 2014 was $98 and $264, respectively. The weighted average remaining contractual term (in years) for options outstanding as of December 31, 2015 and 2014 was 5.35 and 4.97, respectively.

As of December 31, 2015, there was approximately $16 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted average period of 1.7 years.

Restricted Share Units - On December 17, 2015, 800 restricted share units were awarded to certain key employees in accordance with the 2014 Stock Incentive Plan. As of of December 31, 2015, zero restricted share units were vested. All outstanding restricted share units vest in December 2018.

(000s omitted, except per share data)

Note 13 - Off-balance-sheet Activities

Credit-related Financial Instruments - The Corporation is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

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

	Contract Amount	
	2015	2014
Commitments to grant loans	$ 4,637	$ 8,378
Unfunded commitments	17,607	14,806
Commercial and standby letters of credit	52	500

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

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

Commercial and standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

Note 13 - Off-balance-sheet Activities (Continued)

Collateral Requirements - To reduce credit risk related to the use of credit-related financial instruments, the Corporation might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Corporation's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

If the counterparty does not have the right and ability to redeem the collateral or the Corporation is permitted to sell or repledge the collateral on short notice, the Corporation records the collateral in its consolidated balance sheet at fair value with a corresponding obligation to return it.

Legal Contingencies - Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's consolidated financial statements.

Note 14 - Restrictions on Dividends, Loans, and Advances

Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation.

Prior approval of the Bank's federal regulator is required if the total dividends declared by the Bank in a calendar year exceed the sum of the net profits of the Bank for the preceding three years, less any required transfers to surplus. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum standards.

Loans or advances made by the Bank to the Corporation are generally limited to 10 percent of the Bank's capital stock and surplus.

Note 15 - Minimum Regulatory Capital Requirements

The Corporation (on a consolidated basis) and the Bank are 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 Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Note 15 - Minimum Regulatory Capital Requirements (Continued)

Beginning in 2015, banks transitioned to the new federal banking agencies revisions to the capital rules which incorporated certain changes to the Basel capital framework, including Basel III and other elements. These regulations are considered in the 2015 ratios below and include several provisions such as the implementation of a common equity tier ratio, modifications to risk weightings of certain assets, and a phase in of a capital conservation buffer and threshold deductions of certain instruments inclusion in capital.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2014, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2015, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Corporation's and the Bank's actual capital amounts and ratios as of December 31, 2015 and 2014 are also presented in the table.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(000s omitted)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total capital to risk-weighted assets:	$ 23,671	16.38 %	$ 11,556	8.00 %	$ 14,453	10.00 %
Tier 1 capital to risk-weighted assets:	22,016	15.23	8,672	6.00	11,562	8.00
Common equity Tier 1 to risk-weighted assets:	22,016	15.23	6,504	4.50	9,394	6.50
Tier 1 capital to average assets:	22,016	11.04	7,974	4.00	9,967	5.00
As of December 31, 2014						
Total capital to risk-weighted assets:	$ 23,715	16.82 %	$ 11,279	8.00 %	$ 14,099	10.00 %
Tier 1 capital to risk-weighted assets:	21,951	15.57	5,640	4.00	8,459	6.00
Tier 1 capital to average assets:	21,951	10.83	8,110	4.00	10,137	5.00

Note 16 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Corporation's assets measured at fair value on a recurring basis at December 31, 2015 and 2014 and the valuation techniques used by the Corporation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Corporation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

(000s omitted, except per share data)

Note 16 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Available-for-sale securities:				
U.S. government and federal agency	$ -	$ 1,501	$ -	$ 1,501
State and municipal	-	16,063	-	16,063
Corporate bonds	-	3,834	-	3,834
Deposits with other financial institutions	-	11,499	-	11,499
Mortgage-backed securities	-	8,460	-	8,460
Collateralized mortgage obligations	-	3,328	-	3,328
Total available-for-sale securities	$ -	$ 44,685	$ -	$ 44,685

Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2012
Available-for-sale securities:				
U.S. government and federal agency	$ -	$ 5,013	$ -	$ 5,013
State and municipal	-	9,230	-	9,230
Deposits with other financial institutions	-	18,446	-	18,446
Mortgage-backed securities	-	7,194	-	7,194
Collateralized mortgage obligations	-	4,764	-	4,764
Total available-for-sale securities	$ -	$ 44,647	$ -	$ 44,647

The fair value of available-for-sale securities at December 31, 2015 was determined primarily based on Level 2 inputs. The Corporation estimates the fair value of these investment inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

(000s omitted, except per share data)

Note 16 - Fair Value Measurements (Continued)

The Corporation also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include impaired loans (see Note 3) and other real estate-owned.

The change in fair value of impaired loans is recorded through the allowance for loan losses. The Corporation estimates the fair value of impaired loans based on Level 3 inputs which include the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

Other real estate-owned assets are reported in the following table at initial recognition of impairment and on an ongoing basis until recovery or charge-off. At the time of foreclosure or repossession, real estate-owned and repossessed assets are adjusted to fair value less estimated costs to sell, establishing a new cost basis. At that time, they are reported in the Corporation's fair value disclosures in the following nonrecurring tables:

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Impaired loans	$ -	$ -	$ 2,068	$ 2,068
Foreclosed assets	-	-	2,009	2,009

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Impaired loans	$ -	$ -	$ 4,082	$ 4,082
Foreclosed assets	-	-	1,995	1,995

Note 17 - Prior Period Adjustment

The 2014 financial statement reflects a restatement of the beginning of the year retained earnings. This restatement decreased the beginning of the year retained earnings by $299,813 and increased additional paid-in capital in the amount of $12,113.

The Nonemployee Director Discretionary Stock Option Plan ("The Plan") was designed to allow Directors to defer the fees earned for their services. The plan account value is to grow at a rate that proxies the growth in value of the common shares of Huron Community Financial Services Inc., with dividends reinvested. Upon retirement from the Board of Directors, the Plan issues a series of annual payments to the participant. The sum of the payments will equal to the value the Director would have had if instead of participating in the Plan they had invested the fees earned for their services in Huron Community Financial Services Inc. common stock and reinvested the dividends received. To achieve this goal, the plan places the deferred fees into an interest-bearing money market account. This account bears interest at a rate specified by the Plan. At the end of each year, the Plan grants options with a strike price equal to the current market value of HCFSI shares. The number of options granted is equal to the sum of the fees deposited to the money market account during the year and the interest earned on the money market account during the year divided by the strike price of the options granted.

During 2015, the Bank has discovered that the rate of return earned on the Plan related money market accounts have been lower than the rate of return dictated by the Plan. The incorrect interest rate of return caused the amounts deposited by the Bank into the money markets to be less than the Plan dictates, and has also caused the number of options granted to be less than dictated by the Plan.

In total, the money market accounts have balances $165,868 lower than the appropriate values had the rate of return been set according to the terms of the plan. In total, the number of options granted was determined to be 3,699 less than dictated by plan. After identification of this error, the Bank concluded to restate their plan retroactively as a phantom stock plan. Upon analyzing the historical information of the plan as a phantom stock plan, it was identified that there was also a total stock option expense related to the intrinsic values of the options in the amount of $257,783. Previously, $81,731 was expensed by the Bank under the Black-Sholes Model. This resulted in $176,052 excess intrinsic value upon conversion to a phantom stock plan. Of this amount, $42,107 was related to 2015 and the remaining $133,945 occured prior to 2015 and was included as a reduction in retained earnings as of January 1, 2014.