Madison County Financial, Inc.

NOTICE OF 2016 ANNUAL MEETING,
PROXY STATEMENT AND
2015 ANNUAL REPORT

MADISON COUNTY FINANCIAL, INC.

Corporate Profile

Madison County Financial, Inc., (the "Company") headquartered in Madison, Nebraska, is the holding company for Madison County Bank. Madison County Financial, Inc. is quoted on the OTC Pink tier of OTC Market Group's quotation system under the symbol "MCBK".

The Company was incorporated in Maryland in 2012 as part of the mutual-to-stock conversion of Madison County Holding Company, MHC, the former mutual holding company of Madison County Bank, for the purpose of becoming the savings and loan holding company of Madison County Bank. Since being incorporated, other than holding the common stock of Madison County Bank, retaining approximately 50% of the net cash proceeds of the stock conversion offering and making a loan to the employee stock ownership plan of Madison County Bank, we have not engaged in any business activities to date, except the repurchase of shares of our outstanding common stock, and acquisitions of Winside Bancshares Incorporated and Warnemunde Insurance & Real Estate Agency, Inc. in 2015, as previously publicly disclosed. Through December 31, 2015, we have repurchased 416,872 shares of our common stock.

Madison County Bank is a federally chartered savings bank headquartered in Madison, Nebraska, which is the county seat of Madison County, and is located in northeastern Nebraska approximately 120 miles northwest of Omaha and approximately 100 miles southwest of Sioux City, Iowa. Madison County Bank was organized in 1888 under the name The Madison County Building and Loan Association and has operated continuously in northeast Nebraska since this date. We reorganized into the mutual holding company structure in 2004 by forming Madison County Holding Company, MHC, a federally chartered mutual holding company, which converted to stock form, and was succeeded by Madison County Financial, Inc. in October 2012.

Banking Locations

Main Office:
111 West Third Street
Madison, NE 68748

Full-Service Branches:

2100 Pasewalk Avenue
Norfolk, NE 68701

103 South Fourth Street
Albion, NE 68620

402 West Locust Street
Plainview, NE 68769

411 Main Street
Winside, NE 68790

Limited Service Branches:

815 Main Street
Creighton, NE 68729

111 South Douglas Street
Randolph, NE 68771

Transfer Agent

Computershare
P. O. Box 30170
College Station, TX 77842-3170

Madison County Financial, Inc.

April 15, 2016

Dear Stockholder:

Our 2016 Annual Meeting of Stockholders (the "Annual Meeting") will be held at the main office of Madison County Bank, located at 111 West Third Street, Madison, Nebraska 68748 at 9:00 a.m., Central time, on Monday, May 16, 2016.

The enclosed Notice of Annual Meeting of Stockholders and Proxy Statement describe the formal business to be transacted. Also enclosed for your review is our Annual Report to Stockholders, which contains detailed information concerning our activities and operating performance.

The Annual Meeting is being held so that stockholders may vote upon the election of directors, the ratification of the appointment of BKD, LLP as our independent auditor for the year ending December 31, 2016 and any other business that properly comes before the Annual Meeting.

Our Board of Directors has determined that approval of each of the matters to be considered at the Annual Meeting is in the best interests of Madison County Financial, Inc. and our stockholders. For the reasons set forth in the Proxy Statement, the Board of Directors unanimously recommends a vote "FOR" the election of directors and "FOR" the ratification of the appointment of BKD, LLP as our independent auditor for the year ending December 31, 2016.

On behalf of the Board of Directors, we urge you to sign, date and return the enclosed proxy card as soon as possible, even if you currently plan to attend the Annual Meeting. This will not prevent you from voting in person, but will assure that your vote is counted if you are unable to attend the Annual Meeting. Your vote is important, regardless of the number of shares that you own.

Sincerely,

David J. Warnemunde
President and Chief Executive Officer

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MADISON COUNTY FINANCIAL, INC.
111 West Third Street
Madison, Nebraska 68748
(402) 454-6511

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE .... 9:00 a.m. Central time, on Monday, May 16, 2016

PLACE .... The main office of Madison County Bank, 111 West Third Street, Madison, Nebraska 68748

ITEMS OF BUSINESS ....

1. The election of two directors of Madison County Financial, Inc. to serve for a term of three years;

2. The ratification of the appointment of BKD, LLP as Madison County Financial, Inc.'s independent auditor for the year ending December 31, 2016; and

3. Such other matters as may properly come before the Annual Meeting, or any adjournments thereof. The Board of Directors is not aware of any other business to come before the Annual Meeting.

RECORD DATE .... In order to vote, you must have been a stockholder at the close of business on March 31, 2016.

PROXY VOTING .... A Proxy Card and a Proxy Statement for the Annual Meeting are included. It is important that your shares be represented and voted at the meeting. Please complete and sign the enclosed proxy card, which is solicited by the Board of Directors, and mail it promptly in the enclosed envelope. The proxy will not be used if you attend the meeting and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS

Warren Blank

Warren R. Blank
Corporate Secretary

Madison, Nebraska
April 15, 2016

NOTE: Whether or not you plan to attend the annual meeting, please vote by marking, signing, dating and promptly returning the enclosed proxy card in the enclosed self-addressed envelope. No postage is required if mailed within the United States.

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PROXY STATEMENT
OF
MADISON COUNTY FINANCIAL, INC.
111 WEST THIRD STREET
MADISON, NEBRASKA 68748
(402) 454-6511

ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MONDAY, MAY 16, 2016

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Madison County Financial, Inc. to be used at Madison County Financial, Inc.'s 2016 Annual Meeting of Stockholders (the "Annual Meeting"), which will be held at the main office of Madison County Bank, located at 111 West Third Street, Madison, Nebraska 68748 at 9:00 a.m. Central time, on Monday, May 16, 2016, and all adjournments of the Annual Meeting. The accompanying Notice of Annual Meeting of Stockholders and this Proxy Statement are first being mailed to stockholders on or about April 15, 2016.

REVOCATION OF PROXIES

Stockholders who execute proxies in the form solicited hereby retain the right to revoke them in the manner described below. Unless so revoked, the shares represented by such proxies will be voted at the Annual Meeting and all adjournments thereof. Proxies solicited on behalf of Madison County Financial, Inc.'s Board of Directors will be voted in accordance with the directions given thereon. **Where no instructions are indicated, validly executed proxies will be voted "FOR" the proposals set forth in this Proxy Statement.**

The Board of Directors knows of no additional matters that will be presented for consideration at the Annual Meeting. Execution of a proxy, however, confers on the designated proxy holder's discretionary authority to vote the shares in accordance with their best judgment on such other business, if any, which may properly come before the Annual Meeting or any adjournments thereof.

Proxies may be revoked by sending written notice of revocation to Madison County Financial, Inc.'s Secretary at Madison County Financial, Inc.'s address shown above, the submission of a later-dated proxy, or by voting in person at the Annual Meeting. The presence at the Annual Meeting of any stockholder who had returned a proxy does not revoke such proxy unless the stockholder delivers his or her ballot in person at the Annual Meeting or delivers a written revocation to Madison County Financial, Inc.'s Secretary prior to the voting of such proxy.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Holders of record of Madison County Financial, Inc.'s common stock, par value $0.01 per share, as of the close of business on March 31, 2016 (the "Record Date") are entitled to one vote for each share then held. As of the Record Date, Madison County Financial, Inc. had 2,982,094 shares of common stock issued and outstanding. The presence in person or by proxy of a majority of the outstanding shares of common stock entitled to vote is necessary to constitute a quorum at the Annual Meeting.

In accordance with the provisions of Madison County Financial, Inc.'s Articles of Incorporation, record holders of common stock who beneficially own in excess of 15% of the outstanding shares of common stock (the "Limit") are not entitled to any vote with respect to the shares held in excess of the Limit. The Company's Articles of Incorporation authorize the Board of Directors (i) to make all determinations necessary to implement and apply the Limit, including determining whether persons or entities are acting in concert, and (ii) to demand that any person who is reasonably believed to beneficially own stock in excess of the Limit supply information to Madison County Financial, Inc. to enable the Board of Directors to implement and apply the Limit.

As to the election of directors, the proxy card being provided by the Board of Directors enables a stockholder to vote FOR the election of the nominees proposed by the Board of Directors, to WITHHOLD AUTHORITY to vote for all the nominees being proposed or to vote FOR ALL EXCEPT one or more of the nominees being proposed. Directors are elected by a plurality of votes cast, without regard to either broker non-votes or proxies as to which the authority to vote for the nominees being proposed is withheld. Plurality means that individuals who receive the largest number of votes cast are elected, up to the maximum number of directors to be elected at the Meeting.

As to the ratification of Madison County Financial, Inc.'s independent auditor, the proxy card being provided by the Board of Directors enables a stockholder to: (i) vote FOR the proposal; (ii) vote AGAINST the proposal; or (iii) ABSTAIN from voting on the proposal. The ratification of Madison County Financial, Inc.'s independent auditor must be approved by the affirmative vote of a majority of the votes cast without regard to broker non-votes or proxies marked ABSTAIN.

In the event at the time of the Annual Meeting there are not sufficient votes for a quorum or to approve or ratify any matter being presented, the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

Proxies solicited hereby will be returned to us and will be tabulated by an Inspector of Election designated by Madison County Financial, Inc.'s Board of Directors.

Participants in the ESOP Plan. If you participate in the Madison County Bank Employee Stock Ownership Plan (the "ESOP"), you will receive a vote authorization form that reflects all shares you may direct the trustees to vote on your behalf under the plan. Under the terms of the ESOP, the ESOP trustee votes all shares held by the ESOP, but each ESOP participant may direct the trustee how to vote the shares of common stock allocated to his or her account. The ESOP trustee, subject to the exercise of its fiduciary responsibilities, will vote all unallocated shares of Madison County Financial, Inc. common stock held by the ESOP and all allocated shares for which no voting instructions are received in the same proportion as shares for which it has received timely voting instructions. **The deadline for returning your voting instructions is May 9, 2016.**

PROPOSAL I – ELECTION OF DIRECTORS

The Company's Board of Directors is comprised of seven members. The Company's bylaws provide, and the terms of Madison County Financial, Inc.'s Board of Directors are classified, so that approximately one-third of the directors are to be elected annually. The Company's directors are generally elected to serve for a three-year period and until their respective successors shall have been elected and shall qualify. Two directors will be elected at the Annual Meeting. The Company's Nominating Committee has nominated Ivan J. Beller and Jon Moyer, each to serve as a director for a three-year term. Messrs. Beller and Moyer are current members of the Board of Directors, and each has agreed to serve as a director, if elected.

The table below sets forth certain information regarding the composition of Madison County Financial, Inc.'s Board of Directors, including the terms of office of each director. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to one or more nominees) will be voted at the Annual Meeting for the election of the nominees identified below. If the nominee is unable to serve, the shares represented by all such proxies will be voted for the election of such other substitute as the Board of Directors may recommend. At this time, the Board of Directors knows of no reason why the nominees might be unable to serve, if elected. Except as indicated herein, there are no arrangements or understandings between any nominee and any other person pursuant to which such nominee was selected.

The Board of Directors recommends a vote "FOR" each of the nominees listed in this Proxy Statement.

The following table sets forth certain information regarding Madison County Financial, Inc.'s directors.

Name	Age at March 31, 2016	Position	Current Term Expires	Director Since(1)
Nominees				
Ivan J. Beller	80	Director	2016	1981
Jon Moyer	77	Director	2016	2007
Directors Continuing in Office				
Daniel Tunink	60	Director	2017	2004
David D. Warnemunde	76	Director	2017	2002
James R. Becker	54	Director	2017	2013
Warren R. Blank	60	Director and Corporate Secretary	2018	1985
David J. Warnemunde	55	President, Chief Executive Officer and Chairman of the Board	2018	1993

(1) Includes service on the Board of Directors of Madison County Bank.

The Business Background of Madison County Financial, Inc.'s Directors and Executive Officers

The business experience for the past five years of each of Madison County Financial, Inc.'s directors and executive officers is set forth below. With respect to directors, the biographies also contain information regarding the person's experience, qualifications, attributes or skills that caused the Nominating and Corporate Governance Committee and the Board of Directors to determine that the person should serve as a director. Each director is also a director of Madison County Bank. Unless otherwise indicated, directors and executive officers have held their positions for the past five years.

Nominees:

Ivan J. Beller is President and part owner of Beller & Backes, Inc., a Case IH farm equipment dealership located in Humphrey, Nebraska. Mr. Beller's extensive experience in the farm equipment industry, experience in managing the operations of a business enterprise, and knowledge of the region and involvement with community organizations provides the Board with general business acumen and insight in assessing strategic transactions involving Madison County Financial, Inc. and Madison County Bank.

Jon Moyer serves as our Bank Appraiser and in this position he conducts real estate appraisals and evaluations for Madison County Bank, a position he has held since 1994. Mr. Moyer has been employed by Madison County Bank since 1994. Mr. Moyer's extensive knowledge of the farming industry in our market area and his institutional knowledge of Madison County Bank provides the Board with valuable insight regarding risk assessment.

Directors Continuing in Office

Daniel Tunink is an insurance agent and licensed realtor for Diversified Insurance, a business enterprise which he owns and which is located in Randolph, Nebraska. Mr. Tunink's financial and commercial experience provides the Board with general business acumen.

David D. Warnemunde is Vice President of Madison County Bank, Winside, Nebraska. Mr. Warnemunde is the father of David J. Warnemunde, our President and Chief Executive Officer, the President of Warnemunde Insurance Agency, Inc., our insurance subsidiary and the brother-in-law of Dennis Johnson, President of Bush & Roe Financial, Inc. our insurance subsidiary. Mr. Warnemunde's experience as a community bank executive provides the Board with valuable insight in assessing strategic transactions involving Madison County Financial, Inc. and Madison County Bank.

James R. Becker is the owner of JKB Farms, Inc., a family farming corporation and is actively engaged in farming in Madison County. He was elected as director in August, 2013. Mr. Becker's experience in owning and managing his farm and his extensive knowledge of the farming industry in our market area provides the board additional expertise with regard to risk assessment of agricultural real estate and non-real estate lending.

Warren R. Blank is part owner of Bill Blank Agency, Inc., an insurance agency, real estate sales, appraisal and auctioneering services firm located in Madison, Nebraska. Mr. Blank's financial and commercial experience provides the Board with general business acumen.

David J. Warnemunde is our President, Chief Executive Officer and Chairman of the Board. He has been employed by and has been the Chief Executive Officer of Madison County Bank since 1992 and has served as our President and Chief Executive Officer since 1994. Mr. Warnemunde's experience provides the Board with a perspective on the day to day operations of Madison County Bank, and assists the Board in assessing the trends and developments in the financial institutions industry on a local and national basis. Additionally, Mr. Warnemunde is active in civic and charitable organizations, including St. Leonard Church Endowment Fund, Knights of Columbus and the Madison, Jones & Remender Foundation. Mr. Warnemunde has extensive ties to the community that support our business generation. Mr. Warnemunde is the son of Director David D. Warnemunde, who is also President of the Warnemunde Insurance Agency, Inc., our insurance subsidiary and Mr. Warnemunde is the nephew by marriage of Dennis Johnson, President of Bush & Roe Financial, Inc., our insurance subsidiary.

Executive Officers Who Are Not Directors:

Daniel A. Fullner has been employed by Madison County Bank since 1992, and serves as Senior Vice President, Treasurer and General Counsel. Mr. Fullner is a licensed attorney in the State of Nebraska. His responsibilities include loan underwriting, providing legal services to Madison County Bank and reviewing all files to ensure proper lien perfection.

Brenda L. Borchers has been employed by Madison County Bank since 1981 in positions of increasing responsibility and has served as our Chief Financial Officer since 2012. Prior to her appointment as Chief Financial Officer, Ms. Borchers served as our Vice President and Cashier.

Meetings and Committees of the Board of Directors

The Company conducts business through meetings of its Board of Directors and its committees. During the year ended December 31, 2015, the Board of Directors of Madison County Financial, Inc. had six regular meetings and four special meetings. During 2015, the Board of Directors of Madison County Bank had six regular meetings and three special meetings. The Board of Directors of Madison County Financial, Inc. has established the following standing committees: the Compensation Committee, the Nominating and Corporate Governance Committee and the Audit Committee. Each of these committees operates under a written charter, which governs their composition, responsibilities and operations.

Executive sessions of the independent directors of the board are held on a regular basis.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee consists of directors Ivan J. Beller (Chairman), Warren R. Blank and Daniel L. Tunink. The Nominating and Corporate Governance Committee is responsible for the annual selection of the Board of Directors' nominees for election as directors and developing and implementing policies and practices relating to corporate governance, including implementation of and monitoring adherence to the Company's corporate governance guidelines. The Board of Directors has adopted a written charter for the Committee. The Nominating and Corporate Governance Committee charter is posted on Madison County Financial, Inc.'s website at www.madisoncountybank.com. The Nominating and Corporate Governance Committee met two times during 2015.

Compensation Committee. The members of the Compensation Committee are directors Warren R. Blank (Chairman), Ivan J. Beller and Daniel L. Tunink. The Compensation Committee is responsible for performing an annual evaluation of the President and Chief Executive Officer, as well as assisting both the Board of Directors and the President and Chief Executive Officer in researching matters pertaining to employee and director compensation, employee benefits and other related matters for presentation to the Board of Directors for their consideration. The Compensation Committee operates under a written charter which is available at Madison County Financial, Inc.'s website at www.madisoncountybank.com. The Compensation Committee met two times during 2015.

Audit Committee. The Audit Committee consists of Daniel L. Tunink (Chairman), Ivan J. Beller and Warren R. Blank. The Board has determined that Warren Blank qualifies as an "audit committee financial expert". The Audit Committee meets periodically with the independent auditor and management to provide oversight of financial reporting, risk management, internal controls, compliance, ethics, internal auditors and the external auditors. The Board of Directors has adopted a written charter for the Audit Committee, which is posted on the Madison County Financial, Inc.'s website at www.madisoncountybank.com. The Audit Committee met five times during 2015.

Audit Committee Report

As part of its ongoing activities, the Audit Committee has:

- Reviewed and discussed with management our audited consolidated financial statements for the year ended December 31, 2015;

- Discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 16, *Communications with Audit* Committees, as amended (AICPA, Professional *Standards,* Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

- Received the written disclosures and the letter from the independent auditor required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Audit Committee concerning independence, and discussed with the independent auditor the independent auditor's independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that Madison County Financial, Inc.'s audited consolidated financial statements be included in Madison County Financial, Inc.'s Annual Report for the year ended December 31, 2015.

The Audit Committee:
Ivan J. Beller
Warren R. Blank
Daniel L. Tunink

Board Leadership Structure

Our Board of Directors is chaired by David J. Warnemunde who is also our President and Chief Executive Officer. Mr. Warren Blank serves as our Lead Independent Director. We believe that our governance structure is appropriate given the relatively non-complex operating philosophy of our organization. As Chief Executive Officer of our organization, and having been employed by Madison County Bank for 24 years, Mr. David J. Warnemunde is well-positioned to understand the challenges faced by our organization. As a result, he can recommend solutions and prioritize the agenda for action by the Board of Directors. We understand the risk that an inside Chairman could theoretically manage the Board of Director's agenda to limit the consideration of important issues relating to management. To minimize the risk of having a joint Chairman and Chief Executive Officer, the independent directors, led by its Lead Director, meet in executive session periodically to discuss certain matters such as the Chief Executive Officer's performance and his annual compensation as well as our internal audits and internal controls.

Board's Role in Risk Oversight

The Board's role in Madison County Financial, Inc.'s risk oversight process includes receiving regular reports from members of senior management on areas of material risk to Madison County Financial, Inc., including operational, financial, legal and regulatory, strategic and reputational risks. The full Board (or the appropriate committee in the case of risks that are reviewed and discussed at committee meetings) receives these reports from the appropriate "risk owner" within the organization to enable the Board or appropriate committee to understand Madison County Financial, Inc.'s risk identification, risk management and risk mitigation strategies. When a committee receives the report, the Chairman of the relevant committee will report on the discussion to the full Board at the next Board meeting. This enables the Board and its committees to coordinate the risk oversight role, particularly with respect to risk interrelationships.

Procedures for the Recommendation of Director Nominees by Stockholders

The Nominating and Corporate Governance Committee has adopted procedures for the submission of recommendations for director nominees by stockholders. Stockholders may submit the names of qualified candidates for director by writing to the Corporate Secretary, at P.O. Box 650, 111 West Third Street, Madison, Nebraska 68748. To be timely, the submission of a candidate for director by a stockholder must be received by the Corporate Secretary not less than 180 days prior to the anniversary date of the proxy statement relating to the preceding year's annual meeting of stockholders.

The submission must include the following information:

- the name and address of the stockholder as he or she appears on Madison County Financial, Inc.'s books, and number of shares of Madison County Financial, Inc.'s common stock that are owned beneficially by such stockholder (if the stockholder is not a holder of record, appropriate evidence of the stockholder's ownership will be required);
- the name, address and contact information for the candidate, and the number of shares of Madison County Financial, Inc.'s common stock that are owned by the candidate (if the candidate is not a holder of record, appropriate evidence of the stockholder's ownership will be required);
- a statement of the candidate's business and educational experience;
- a statement detailing any relationship between the candidate and us;
- a statement detailing any relationship between the candidate and any of Madison County Financial, Inc.'s customers, suppliers or competitors;
- detailed information about any relationship or understanding between the proposing stockholder and the candidate; and
- a statement that the candidate is willing to be considered and willing to serve as a director if nominated and elected.

A nomination submitted by a stockholder for presentation by the stockholder at an annual meeting of stockholders must comply with the procedural and informational requirements described in "Advance Notice of Business to be Conducted at Annual Meeting."

The committee did not receive any stockholder-recommended nominees for inclusion in this Proxy Statement.

Stockholder Communications with the Board

Any of Madison County Financial, Inc.'s stockholders who want to communicate with the Board of Directors or with any individual director can write to Madison County Financial, Inc.'s Corporate Secretary, at P.O. Box 650, 111 West Third Street, Madison, Nebraska 68748. The letter should indicate that the author is a stockholder and if shares are not held of record, should include appropriate evidence of stock ownership. Depending on the subject matter, management will:

- forward the communication to the director or directors to whom it is addressed;
- attempt to handle the inquiry directly, for example, where it is a request for information about Madison County Financial, Inc. or its subsidiaries, or it is a stock-related matter; or
- not forward the communication if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal or otherwise inappropriate.

At each Board meeting, management shall present a summary of all communications received since the last meeting that were not previously forwarded and make those communications available to the directors.

Code of Ethics

The Company has adopted a Code of Ethics that is applicable to Madison County Financial, Inc.'s principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. This Code is designed to deter wrongdoing and to promote honest and ethical conduct, the avoidance of conflicts of interest, full and accurate disclosure and compliance with all applicable laws, rules and regulations. There were no amendments made to or waivers from Madison County Financial, Inc.'s Code of Ethics in 2015. A copy of Madison County Financial, Inc.'s Code of Ethics is posted on Madison County Financial, Inc.'s website, www.madisoncountybank.com.

Attendance at Annual Meetings of Stockholders

The Company does not have a policy regarding director attendance at annual meetings of stockholders, although directors are requested to attend these meetings absent unavoidable conflicts. All of our directors are expected to attend our 2016 Annual Meeting of Stockholders.

Benefit Plans

2013 Equity Incentive Plan. On November 13, 2013, our stockholders approved the 2013 Equity Incentive Plan to provide employees and directors of Madison County Financial, Inc. and Madison County Bank with additional incentives to promote the growth and performance of Madison County Financial, Inc. and to further align the interests of our directors and management with the interests of our stockholders by increasing the ownership interests of directors and management in the common stock of Madison County Financial, Inc. The 2013 Equity Incentive Plan is administered by the Compensation Committee. The 2013 Equity Incentive Plan initially authorized the issuance of up to 447,027 shares of common stock, of which up to 319,305 shares of common stock may be delivered pursuant to the exercise of stock options and 127,722 shares of common stock may be issued pursuant to grants of restricted stock awards and/or restricted stock units. Each individual employee or non-employee director may not receive more than 35% and 6%, respectively, of the shares available to be issued under the plan as stock options, and 35% and 6%, respectively, of the shares to be issued under the plan as restricted stock awards or restricted stock units. The non-employee directors may not receive, in the aggregate, more than 35% of the shares available to be issued under the plan as stock options and 35% of the shares to be issued under the plan as restricted stock awards or restricted stock units.

The Compensation Committee may determine the type and terms and conditions of the awards under the 2013 Equity Incentive Plan, which will be set forth in an award agreement delivered to each recipient. Awards may be granted in a combination of incentive and non-qualified stock options or restricted stock or restricted stock units, as follows:

(i) Stock Options. A stock option gives the recipient the right to purchase shares of Madison County Financial, Inc. common stock at a specified price for a specified period of time. The exercise price may not be less than the fair market value on the date the stock option is granted. Stock options are either "incentive" stock options or "non-qualified" stock options. Incentive stock options have certain tax advantages and must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are eligible to receive incentive stock options.

(ii) Restricted Stock. A restricted stock award is a grant of common stock of Madison County Financial, Inc., subject to vesting requirements, to a recipient for no consideration or minimum consideration as may be required by applicable law. Restricted stock awards are granted in whole shares of common stock and are subject to vesting conditions and other restrictions established by the Compensation Committee as set forth in the 2013 Equity Incentive Plan or the award agreement. Unless otherwise determined by the Compensation Committee, the recipient of a restricted stock award may exercise any voting rights with respect to common stock subject to an award and receive dividends and distributions with respect to the common stock.

(iii) Restricted Stock Units. Restricted stock units are similar to restricted stock awards in that the value of a restricted stock unit is denominated in shares of stock, however, unlike a restricted stock award, no shares of stock are transferred to the recipient until certain requirements or conditions associated with the award are satisfied.

With respect to restricted stock and restricted stock units, performance measures may be applied to the awards so that they are conditioned on the achievement of one or more performance measures set forth in the 2013 Equity Incentive Plan and specified in the recipient's underlying award agreement. Such shares are referred to as "performance shares." The performance shares will vest only on the achievement of one or more performance measures in whole or in part, which are predetermined and specified in the recipient's award agreement. Notwithstanding the foregoing, unless otherwise specified in the recipient's award agreement, all awards will vest upon death, disability or involuntary termination of employment or termination of service as a director following a change in control.

As of December 31, 2015, the Compensation Committee awarded 115,000 restricted stock awards and 288,000 stock options to employees and directors under the 2013 Equity Incentive Plan.

Tax-Qualified Benefit Plans

401(k) Plan. Madison County Bank maintains the Madison County Bank 401(k) Profit Sharing Plan, a tax-qualified defined contribution retirement plan, for all employees who have satisfied the 401(k) Plan's eligibility requirements. All eligible employees can begin participation in the 401(k) Plan on the first day of the plan year or the first day of the seventh month of the plan year coinciding with or next following the date on which the employee attains age 21 and completes one year of service. A participant may contribute up to 100% of his or her compensation to the 401(k) Plan on a pre-tax basis, subject to the limitations imposed by the Internal Revenue Code. For 2016, the salary deferral contribution limit is $18,000 provided, however, that a participant over age 50 may contribute an additional $6,000 to the 401(k) Plan. A participant is always 100% vested in his or her salary deferral contributions. In addition to salary deferral contributions, the 401(k) Plan provides that Madison County Bank will make (i) an employer contribution equal to a discretionary percentage of the participant's salary deferral contribution, provided that such amount does not exceed 3% of the participant's compensation earned during the plan year, and (ii) a discretionary contribution to be determined by Madison County Bank. Participants will vest in their employer contributions at a rate 20% per year, beginning after the completion of two years of credited service, such that the participants will become 100% vested upon the completion of six years of credited service. However a participant will immediately become 100% vested in any employer contributions upon the participant's death, disability or attainment of age 65 while employed with Madison County Bank. Generally, unless a participant elects otherwise, the participant's benefit under the 401(k) Plan will be payable in the form of a lump sum payment as soon as administratively feasible following his or her termination of employment with Madison County Bank.

Each participant has an individual account under the 401(k) Plan and may direct the investment of his or her account among a variety of investment options or vehicles available, including Madison County Financial, Inc. common stock.

ESOP. In connection with the conversion of Madison County Holding Company, MHC from the mutual to stock form of organization and related stock offering, effective January 1, 2012, Madison County Bank adopted the ESOP for eligible employees. Eligible employees who have attained age 21 and were employed by us as of May 1, 2012 began participation in the ESOP on the later of the effective date of the ESOP or upon the first entry date commencing on or after the eligible employee's completion of 1,000 hours of service during a continuous 12-month period.

In the conversion, the ESOP trustee purchased, on behalf of the ESOP, 255,444 shares of Madison County Financial, Inc. common stock, or 8% of the total number of shares of common stock issued in the stock offering. The ESOP funded its stock purchase with a loan from Madison County Financial, Inc. equal to the aggregate purchase price of the common stock. The loan is repaid principally through Madison County Bank's contribution to the ESOP and dividends payable on common stock held by the ESOP over the 25-year term of the loan. The initial interest rate for the ESOP loan was the prime rate, as published in *The Wall Street Journal*, on the closing date of the conversion. Thereafter the interest rate adjusts annually and will be the prime rate on the first business day of the calendar year, retroactive to January 1 of such year.

The trustee holds the shares purchased by the ESOP in an unallocated suspense account. Shares are released from the suspense account on a pro-rata basis as the loan is repaid. The trustee allocates the shares released among participants on the basis of each participant's proportional share of compensation relative to all participants. Participants vest in their benefit at a rate of 20% per year, beginning after the completion of their second year of service, such that the participants will be 100% vested upon completion of six years of credited service. Participants who were employed by Madison County Bank immediately prior to the conversion received credit for vesting purposes for years of service prior to adoption of the ESOP. Participants also will become fully vested upon normal retirement, death or disability, a change in control, or termination of the ESOP. Generally, participants will receive distributions from the ESOP upon severance from employment. The ESOP reallocates any unvested shares forfeited upon termination of employment among the remaining participants.

The ESOP permits participants to direct the trustee as to how to vote the shares of common stock allocated to their accounts. The trustee votes unallocated shares and allocated shares for which participants do not provide instructions on any matter in the same ratio as those shares for which participants provide instructions, subject to fulfillment of the trustee's fiduciary responsibilities.

Under applicable accounting requirements, Madison County Bank records compensation expense for the ESOP at the fair market value of the shares as they are committed to be released from the unallocated suspense account to participants' accounts. The compensation expense resulting from the release of the common stock from the suspense account and allocation to plan participants results in a corresponding reduction in Madison County Financial, Inc.'s earnings.

Other than our ESOP, Madison County Financial, Inc. currently has no equity-based benefit plans that were not approved by stockholders.

PROPOSAL II – RATIFICATION OF INDEPENDENT AUDITOR

The Audit Committee of Madison County Financial, Inc.'s Board of Directors has approved the engagement of BKD, LLP to serve as Madison County Financial, Inc.'s independent auditor for the year ending December 31, 2016. Auditors are not deemed independent unless the Audit Committee has approved the engagement, or alternatively, the engagement is entered into pursuant to detailed pre-approval policies and procedures established by the Audit Committee which sets forth each specific service to be performed by the auditor.

At the Annual Meeting, stockholders will consider and vote on the ratification of the engagement of BKD, LLP for the year ending December 31, 2016. A representative of BKD, LLP is expected to attend the Meeting to respond to appropriate questions and to make a statement if he or she so desires.

Audit Fees. The aggregate fees billed for professional services rendered by BKD, LLP for the audit of Madison County Financial, Inc.'s annual financial statements and Forms 10-Q were $101,400 and $97,500 for 2015 and 2014, respectively.

Audit-Related Fees. The aggregate fees billed for professional services rendered by BKD, LLP that were reasonably related to the performance of the audits described above were $3,750 and $0 for 2015 and 2014, respectively.

Tax Fees. There were no fees billed for professional services by BKD, LLP for tax services for 2015 and 2014, respectively.

All Other Fees. There were no fees billed for professional services rendered for Madison County Financial, Inc. by BKD, LLP for service other than those listed above for the years 2015 and 2014, respectively.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Auditor

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date.

In order to ratify the selection of BKD, LLP as the independent auditor for 2016, the proposal must receive a majority of the votes cast, either in person or by proxy, in favor of such ratification. The Board of Directors recommends a vote "FOR" the ratification of BKD, LLP as independent auditor for 2016.

STOCKHOLDER PROPOSALS

In order to be eligible for inclusion in Madison County Financial, Inc.'s proxy materials for Madison County Financial, Inc.'s 2017 Annual Meeting of Stockholders, any stockholder proposal to take action at such meeting must be received at Madison County Financial, Inc.'s executive offices, 111 West Third Street, Madison, Nebraska, no later than December 17, 2016. If the date of the 2017 Annual Meeting of Stockholders is changed by more than 30 days, any stockholder proposal must be received at a reasonable time before Madison County Financial, Inc. prints or mails proxy materials for such meeting. Any such proposal will be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934, as amended, and as with any stockholder proposal (regardless of whether included in Madison County Financial, Inc.'s proxy materials), Madison County Financial, Inc.'s articles of incorporation and Bylaws and Maryland corporation law.

ADVANCE NOTICE OF BUSINESS TO BE CONDUCTED AT ANNUAL MEETING

The Company's Bylaws generally provide that any stockholder desiring to make a proposal for new business at an annual meeting of stockholders or to nominate one or more candidates for election as directors must submit written notice filed with the Secretary of Madison County Financial, Inc. at the principal executive offices of Madison County Financial, Inc. not later than the close of business on the 90th day prior to the anniversary date of the date of Madison County Financial, Inc.'s proxy statement relating to the preceding year's annual meeting of stockholders and not earlier than the close of business on the 120th day prior to the anniversary date of the date of Madison County Financial, Inc.'s proxy statement relating to the preceding year's annual meeting of stockholders; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not later than the close of business on the 10th day following the date on which public disclosure of the date of such meeting is first made. The notice must include the stockholder's name, record address, and number of shares owned; describe briefly the proposed business, the reasons for bringing the business before the annual meeting, and any material interest of the stockholder in the proposed business. In the case of nominations to the Board of Directors, certain information regarding the nominee must be provided.

The 2017 annual meeting of stockholders is expected to be held on May 15, 2017. For the 2017 annual meeting of stockholders, the notice would have to be received between December 16, 2016 and January 15, 2017.

OTHER MATTERS

The Board of Directors is not aware of any business to come before the Annual Meeting other than the matters described above in this Proxy Statement. However, if any matters should properly come before the Annual Meeting, it is intended that holders of the proxies will act as directed by a majority of the Board of Directors, except for matters related to the conduct of the Annual Meeting, as to which they shall act in accordance with their best judgment.

MISCELLANEOUS

The Company will bear the cost of solicitation of proxies and Madison County Financial, Inc. will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of common stock. In addition to solicitations by mail, Madison County Financial, Inc.'s directors, officers and regular employees may solicit proxies personally, by telephone or by other forms of communication without additional compensation.

BY ORDER OF THE BOARD OF DIRECTORS

Warren Blank

Warren R. Blank
Corporate Secretary

Madison, Nebraska
April 15, 2016

MADISON COUNTY FINANCIAL INC.
and Subsidiaries

Consolidated Financial Report
(With Report of Independent Registered Public Accounting Firm thereon)
December 31, 2015 and 2014

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Madison County Financial, Inc.
December 31, 2015 and 2014

Contents

Report of Independent Registered Public Accounting Firm

Board of Directors
Madison County Financial, Inc.
Madison, Nebraska

We have audited the accompanying consolidated balance sheets of Madison County Financial, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of 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 included 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 Madison County Financial, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

BKD, LLP

Indianapolis, Indiana
March 22, 2016

Madison County Financial, Inc.

Consolidated Balance Sheets
December 31, 2015 and 2014

(Dollars in Thousands)

	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 4,620	$ 4,315
Interest-earning demand accounts	63	113
Cash and cash equivalents	4,683	4,428
Certificates of deposit	1,000	1,000
Investment securities:		
Available for sale, at fair value	11,543	9,494
Held to maturity, at amortized cost (fair value of $44,155 and $34,524, respectively)	43,576	34,012
Loans held for sale	900	-
Loans receivable, net of allowance for losses of $8,746 and $7,413, respectively	275,574	246,101
Stock in Federal Home Loan Bank ("FHLB") of Topeka	1,959	1,791
Premises and equipment, net	2,876	2,138
Bank-owned life insurance ("BOLI")	6,644	6,445
Accrued interest receivable	4,666	4,268
Core deposit and other intangibles	1,647	617
Goodwill	1,200	481
Other assets	3,836	3,539
Total assets	$ 360,104	$ 314,314
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 244,884	$ 209,979
Borrowings	42,700	39,800
Accrued interest payable	106	101
Other liabilities	4,350	2,898
Total liabilities	292,040	252,778
Commitments and contingencies		
Stockholders' Equity		
Common stock, $.01 par value per share:		
Issued and outstanding - 3,122,394 and 2,971,982 respectively	30	29
Additional paid in capital	29,295	25,583
Unearned employee stock ownership plan (ESOP)	(2,146)	(2,248)
Retained earnings	40,768	38,018
Accumulated other comprehensive income (loss)	117	154
Total stockholders' equity	68,064	61,536
Total liabilities and stockholders' equity	$ 360,104	$ 314,314

See notes to consolidated financial statements

Madison County Financial, Inc.

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

(Dollars in Thousands)

	Years Ended December 31, 2015	2014
Interest and Dividend Income		
Loans receivable, including fees	$ 12,128	$ 11,132
Investment securities - taxable	380	357
Investment securities - non-taxable	1,204	1,058
Other	81	46
Total interest income	13,793	12,593
Interest Expense		
Deposits	1,624	1,533
Borrowings	211	258
Total interest expense	1,835	1,791
Net interest income	11,958	10,802
Provision for loan losses	1,330	1,245
Net Interest Income After Provision for Loan Losses	10,628	9,557
Other Income		
Service charges on deposit accounts	256	275
ATM and credit card fees	177	157
Loan servicing income, net	205	222
Gain on sale of loans	682	426
Increase in surrender value of life insurance	199	195
Insurance commission income	503	447
Other income	105	95
Total other income	2,127	1,817
Other Expense		
Salaries and employee benefits	4,579	4,209
Director fees and benefits	675	917
Net occupancy	566	549
Data processing fees	270	205
Professional fees	544	329
Advertising	145	131
Supplies	199	166
FDIC insurance premiums	144	134
Intangible amortization	164	163
Other expense	800	632
Total other expense	8,086	7,435
Income Before Income Tax Expense	4,669	3,939
Income tax expense	1,233	965
Net Income	$ 3,436	$ 2,974
Earnings Per Share:		
Basic	$ 1.23	1.05
Diluted	1.22	1.05
Dividends Per Share	0.25	0.24

See notes to consolidated financial statements.

Madison County Financial, Inc.

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

(Dollars in Thousands)

	Years Ended December 31, 2015	Years Ended December 31, 2014
Net Income	$ 3,436	$ 2,974
Other Comprehensive Income (Loss)		
Unrealized gains (losses) on available-for-sale securities, net of taxes of $(19) and $103, for 2015 and 2014, respectively	(37)	200
Comprehensive Income	$ 3,399	$ 3,174

See notes to consolidated financial statements.

Madison County Financial, Inc.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2015 and 2014

(Dollars in Thousands)

	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2014	3,035,844	$ 30	$ 28,035	$ (2,350)	$ 35,723	$ (46)	$ 61,392
Net income					2,974		2,974
Other comprehensive loss						200	200
ESOP shares earned			86	102			188
Dividends paid ($0.24 per share)					(679)		(679)
Restricted shares issued	115,000	1	(1)				-
Stock based compensation			754				754
Shares repurchased	(178,862)	(2)	(3,291)				(3,293)
Balance, December 31, 2014	2,971,982	29	25,583	(2,248)	38,018	154	61,536
Net income					3,436		3,436
Other comprehensive income						(37)	(37)
ESOP shares earned			115	102			217
Tax benefit related to stock based compensation			24				24
Dividends paid ($0.25 per share)					(686)		(686)
Stock issued in acquisitions	231,212	2	4,744				4,746
Stock based compensation			484				484
Shares repurchased	(80,800)	(1)	(1,655)				(1,656)
Balance, December 31, 2015	3,122,394	$ 30	$ 29,295	$ (2,146)	$ 40,768	$ 117	$ 68,064

See notes to consolidated financial statements.

Madison County Financial, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

(Dollars in Thousands)

	Years Ended December 31, 2015	Years Ended December 31, 2014
Operating activities:		
Net income	$ 3,436	$ 2,974
Items not requiring cash:		
Provision for loan losses	1,330	1,245
Depreciation and amortization	206	201
Deferred income taxes	(756)	(753)
Investment securities amortization, net	6	4
Intangible amortization	164	163
Loans originated for sale in the secondary market	(27,661)	(15,591)
Proceeds from loan sales in the secondary market	27,258	16,177
Gain on loans sold	(682)	(426)
Increase in surrender value of life insurance	(199)	(195)
Stock based compensation expense	484	754
ESOP shares earned	217	188
Net change in:		
Accrued interest receivable	50	(461)
Accrued interest payable	1	2
Other adjustments	464	48
Net cash provided by operating activities	4,318	4,330
Investing activities:		
Purchases of investment securities available for sale	(5,981)	(2,477)
Proceeds from maturities of investment securities available for sale	5,680	3,000
Purchases of investment securities held to maturity	(10,717)	(5,491)
Proceeds from maturities of investment securities held to maturity	4,268	5,779
Purchase of FHLB stock	(1,599)	(1,770)
Proceeds from sale of FHLB stock	1,549	1,478
Net change in loans receivable	(11,654)	(23,001)
Purchases of premises and equipment	(189)	(140)
Purchases of BOLI	-	(1,500)
Cash received in acquisitions	775	-
Net cash used in investing activities	(17,868)	(24,122)
Financing activities:		
Net change in checking and money market savings accounts	13,317	5,330
Net change in certificates of deposit	109	(1,057)
Net change in short-term borrowings	4,500	18,800
Proceeds from FHLB advances	2,500	1,000
Repayment of FHLB advances	(4,400)	-
Repurchased shares	(1,535)	(3,293)
Dividends paid	(686)	(679)
Net cash provided by financing activities	13,805	20,101
Net Change in Cash and Cash Equivalents	255	309
Cash and Cash Equivalents, Beginning of Period	4,428	4,119
Cash and Cash Equivalents, End of Period	$ 4,683	$ 4,428
Additional Cash Flows Information:		
Interest paid	$ 1,830	$ 1,791
Taxes paid	1,765	1,750
Due to broker	886	-

The Company purchased all of the capital stock of Winside Bancshares and the Agency on October 12, 2015. In conjunction with the acquisition, liabilities were assumed as follows:

	2015	2014
Fair value of assets acquired	27,324	-
Less: common stock issued	4,746	-
Liabilities assumed	22,578	-

See notes to consolidated financial statements.

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

Nature of Operations and Conversion

Madison County Bank (the "Bank"), a wholly owned subsidiary of Madison County Financial, Inc. (the "Company"), is engaged in providing a full range of banking and financial services to individual and corporate customers in the areas surrounding Madison, Nebraska. The Bank is subject to competition from other financial institutions. The Company is subject to the regulation of the Federal Reserve Board. The Bank is subject to the regulation of the Office of the Comptroller of the Currency ("OCC") and both undergo periodic examinations by such authority.

On October 3, 2012, Madison County Holding Company, MHC, the Bank's former federally chartered mutual holding company, consummated its mutual-to-stock conversion, and the Company consummated its initial stock offering. In the Offering, the Company sold 3,193,054 shares of its common stock, par value $0.01 per share, at $10.00 per share in a subscription offering and community offering, including 255,444 shares, equal to 8.0% of the shares sold in the offering, to the Madison County Bank employee stock ownership plan.

The cost of conversion and the stock offering were deferred and deducted from the proceeds of the offering.

In accordance with applicable federal conversion regulations, at the time of the completion of the mutual-to-stock conversion, we established a liquidation account in an amount equal to the Bank's total equity as of the latest balance sheet date in the final prospectus used in the Conversion. Each eligible account holder or supplemental account holder is entitled to a proportionate share of this liquidation account in the event of a complete liquidation of the Bank, and only in such event. This share will be reduced if the eligible account holder's or supplemental account holder's deposit balance falls below the amounts on the date of record as of any December 31 and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after Conversion in the related deposit balance.

The Company may not declare, pay a dividend on, or repurchase any of its capital stock of the Bank, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 and fair values of financial instruments.

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 interest earning demand deposits.

The Bank is required to maintain reserve funds in cash and/or deposit with the Federal Reserve Bank. The reserves required at December 31, 2015 and 2014, were $0 and $0, respectively.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250. At December 31, 2015, cash and cash equivalents of $8 held at the Federal Home Loan Bank and $55 held at the Federal Reserve Bank, were not federally insured.

Certificates of Deposit

Certificates of deposit are carried at cost and mature within one to five years.

Investment Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are investment securities classified as "available for sale" and recorded 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 investment securities are recorded on the trade date and are determined using the specific identification method.

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 of the Company to sell or whether it would be more-likely-than-not required to sell its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

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 upon sale of the loan.

Loans Receivable

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 and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Premiums and discounts are amortized as a level yield adjustment over the respective term of the loan.

For loans not secured by real estate or loans secured by real estate with loan-to-value ratios of 80% or more, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. For loans secured by real estate with a loan-to-value ratio of less than 80%, the accrual of interest is discontinued after the loan is 120 days past due. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

For all loan portfolio segments, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

For all loan classes, 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. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status. There were no changes in the Company's nonaccrual policy during the years ended December 31, 2015 and 2014.

When cash payments are received on impaired loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms.

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 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 general and allocated components. The general component covers non-impaired loans and is based on the product of the historical loss experience rate, adjusted by certain qualitative factors in basis points, and the portfolio balance for each loan segment. The historical loss experience rate is determined for each loan portfolio segment and is based on the actual loss history experienced by the Company over the prior four years. Management believes the four year historical loss experience methodology is appropriate in the current economic environment. The qualitative factors considered include changes in experience of lending staff, lending policies and procedures; changes in loan review and oversight, changes in collection, charge-off and recovery practices; changes in the nature and volume of the loan portfolio; changes in the volume and severity of nonperforming loans; the existence and effect of any concentrations of credit and changes in the level of such concentrations; changes in the underlying collateral and changes in current, national and local economic and business conditions.

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.

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 based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. 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 non-homogenous type loans such as commercial, non-owner residential 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. For impaired loans where the Company utilizes the discounted cash flows to determine the level of impairment, the Company includes the entire change in the present value of cash flows as bad debt expense.

The fair values of collateral-dependent impaired loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal upon identification of impairment and annually thereafter for commercial non-real estate, commercial real estate and multi-family real estate loans. After determining the collateral value as described, the fair value is calculated based on the determined collateral value less selling expenses.

Segments of loans with similar risk characteristics are collectively evaluated for impairment based on the segment'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

Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method for premises and the declining balance method for equipment based principally on the estimated useful lives of the assets. Estimated useful lives are seven to 40 years for buildings and improvements, five to 15 years for furniture and equipment, five years for automobiles and three years for software. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Stock in Federal Home Loan Bank of Topeka

Federal Home Loan Bank of Topeka stock is a required investment for institutions in our market area that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula.

Management periodically evaluates the FHLB stock for impairment. Determination of whether the FHLB stock is impaired is based on the assessment of the ultimate recoverability of cost rather than by recognizing declines in value. The determination of whether a decline affects the ultimate recoverability of costs is influenced by the significance of the decline in net assets compared to the capital of the FHLB and the length of time this situation has persisted; the ability of the FHLB to make payments required by law or regulation and operating performance; the impact of legislative and regulatory changes on member institutions and customer base and the liquidity position of the FHLB. Management believes that no impairment charge on FHLB of Topeka stock was necessary at December 31, 2015.

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 less cost to sell 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 noninterest expense. There were no foreclosed assets held for sale at December 31, 2015 or 2014.

Bank-Owned Life insurance

Bank-owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Changes in the net cash surrender value of the policies, as well as insurance proceeds received are reflected in noninterest income on the consolidated statements of income and are not subject to income taxes.

Goodwill

Goodwill is tested annually 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.

Intangible Assets

Intangible assets, except goodwill, are being amortized on an accelerated basis over a period of 15 years. Such assets are periodically evaluated as to the recoverability of their carrying value.

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.

Uncertain 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 management's judgment.

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 subsidiaries.

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, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

Unearned ESOP shares, which are not vested, are excluded from the computation of average shares outstanding.

Stock Option Plan

The Company has a stock-based employee compensation plan, which is described more fully in Note 13.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income and accumulated other comprehensive income consist entirely of unrealized appreciation (depreciation) on available-for-sale investment securities.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial lines and letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Management estimates losses on off-balance-sheet credit instruments using the same methodology as for portfolio loans. Additions to the allowance for losses on off-balance-sheet credit instruments are made by charges to the provision for losses and credits to other liabilities in the Company's consolidated balance sheet.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Acquisition

On October 12, 2015, the Company completed its acquisition of Winside Bancshares Incorporated ("Winside Bancshares"), the holding company of Winside State Bank ("WSB"). Winside Bancshares was closely held by three shareholders: David J. Warnemunde, President and Chief Executive Officer of the Company and the Bank; David D. Warnemunde, a director of the Company and the Bank and the father of David J. Warnemunde; and Nancy Warnemunde, the spouse of David D. Warnemunde and the mother of David J. Warnemunde.

Under the terms of the acquisition, each share of common stock of Winside Bancshares was converted into 143.61 shares of Company common stock. Based upon the 1,370 outstanding shares of Winside Bancshares, at the effective time of the merger, the Company issued 196,745 shares of its common stock for 100% of the common stock of Winside Bancshares.

This resulted in the Company receiving net cash and cash equivalents of $775. The purchase price was allocated to net tangible and intangible assets on the basis of their estimated fair values on the date of acquisition. The purchase price allocation resulted in goodwill of $507 and core deposit intangibles totaling $444, with a related deferred tax liability of $151, resulting in total intangible assets, net of tax, of $800 relating to the Winside Bancshares acquisition. The core deposit intangible will be amortized over 15 years.

No loans acquired were considered to be credit impaired loans. Credit impaired loans would include loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected.

On October 12, 2015, the Company also completed the purchase of substantially all assets and assumed substantially all liabilities of Warnemunde Insurance & Real Estate Agency, Inc. (the "Agency"). The Agency was owned by David D. Warnemunde and Nancy Warnemunde and was not a subsidiary of either Winside Bancshares or Winside State Bank. The Company contributed the stock of the Agency to the Bank so that the Agency has become a wholly owned subsidiary of the Bank.

At the effective time of the Agency acquisition, each share of common stock of the Agency was converted into 344.67 shares of Company common stock. Based upon the 100 outstanding shares of the Agency, at the effective time of the agency acquisition, the Company issued 34,467 shares of its common stock for 100% of the common stock of the Agency.

The net assets acquired were comprised entirely of intangible assets. The purchase price allocation resulted in goodwill of $212 and a customer list intangible of $750, with a related deferred tax liability of $255 resulting in total intangible assets, net of tax, of $707 relating to the agency acquisition. The amortization period for the customer list intangible is fifteen years.

(Dollars in Thousands, Except Per Share Data)

As a result of the acquisitions, the Company expects to enhance its market share and its lending capacity by increasing regulatory lending limits. The Company also expects to reduce costs through economies of scale. The results of operations after the dates of the acquisitions are included in the consolidated financial statements.

A summary of the fair value of net assets acquired and common stock issued on the date of acquisitions are as follows:

		October 12, 2015
Assets acquired:		
Cash and cash equivalents	$	775
Investment securities		4,150
Stock in Federal Home Loan Bank ("FHLB") of Topeka		55
Loans receivable		19,149
Premises and equipment, net		755
Accrued interest receivable		448
Core deposit intangible		444
Customer list intangible		750
Goodwill		719
Other assets		79
Liabilities assumed:		
Deposits	$	(21,479)
Borrowings		(300)
Accrued interest, expenses and other liabilities		(799)
Common stock issued for acquisition	$	4,746

(Dollars in Thousands)

Note 3: Investment Securities

The amortized cost and approximate fair values of investment securities are as follows:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available for sale:				
Federal agencies	$ 11,366	$ 217	$ (40)	$ 11,543
Total available for sale	11,366	217	(40)	11,543
Held to maturity:				
State and municipal	43,576	604	(25)	44,155
Total held to maturity	43,576	604	(25)	44,155
Total investment securities	$ 54,942	$ 821	$ (65)	$ 55,698

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available for sale:				
Federal agencies	$ 9,261	$ 271	$ (38)	$ 9,494
Total available for sale	9,261	271	(38)	9,494
Held to maturity:				
State and municipal	34,012	551	(39)	34,524
Total held to maturity	34,012	551	(39)	34,524
Total investment securities	$ 43,273	$ 822	$ (77)	$ 44,018

(Dollars in Thousands)

The amortized cost and fair value of investment 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		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ 504	$ 515	$ 1,700	$ 1,700
After one through five years	7,077	7,155	3,442	3,435
After five through ten years	3,785	3,873	7,823	7,954
After ten years	-	-	30,611	31,066
	$ 11,366	$ 11,543	$ 43,576	$ 44,155

The carrying value of investment securities pledged as collateral, to secure public deposits and for other purposes, was $10,614 and $6,798 at December 31, 2015 and 2014, respectively.

There were no sales of investment securities available for sale for the years ended December 31, 2015 and 2014.

Certain investments in debt securities have fair values at an amount less than their historical cost. Total fair value of these investments at December 31, 2015 and 2014 was $11,210 and $5,768, which is approximately 20% and 13%, respectively, of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these investment securities are temporary.

(Dollars in Thousands)

Should the impairment of any of these investment securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Investment securities with unrealized losses at December 31, 2015 were as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale-						
Federal agencies	$ 6,047	$ (31)	$ 491	$ (9)	$ 6,538	$ (40)
Held to maturity-						
State and municipal	3,746	(17)	926	(8)	4,672	(25)
	$ 9,793	$ (48)	$ 1,417	$ (17)	$ 11,210	$ (65)

Investment securities with unrealized losses at December 31, 2014 were as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale-						
Federal agencies	$ -	$ -	$ 2,261	$ (38)	$ 2,261	$ (38)
Held to maturity-						
State and municipal	325	(1)	3,182	(38)	3,507	(39)
	$ 325	$ (1)	$ 5,443	$ (76)	$ 5,768	$ (77)

The unrealized losses on the Company's investments in federal agencies and state and municipal securities 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.

(Dollars in Thousands)

Note 4: Loans Receivable and Allowance for Losses

Categories of loans receivable include:

	December 31, 2015	December 31, 2014
Real estate:		
Agricultural	$ 137,523	$ 120,436
Commercial and multi-family	20,414	19,059
One- to four-family residential	43,414	41,674
Agricultural and commercial non-real estate	77,052	68,049
Consumer	5,917	4,296
	284,320	253,514
Less		
Allowance for losses	8,746	7,413
Total loans	$ 275,574	$ 246,101

The risk characteristics of each loan portfolio segment are as follows:

Agricultural Real Estate

Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Loan-to-value ratios on loans secured by farmland generally do not exceed 70% and have amortization periods limited to twenty one years.

Agricultural and Commercial Non-Real Estate

Agricultural non-real estate loans are generally comprised of seasonal operating lines to cash grain farmers to plant and harvest corn and soybeans and term loans to fund the purchase of equipment. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry-developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop and other farm assets as considered necessary.

Commercial non-real estate loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial non-real estate loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis.

Commercial and Multi-Family Real Estate

Commercial and multi-family real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan.

Commercial and multi-family real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial and multi-family real estate portfolio are diverse, but virtually all of these loans are secured by properties in Nebraska. Management monitors and evaluates commercial real estate and multi-family real estate loans based on collateral, geography and risk grade criteria. In addition, the Company generally will not finance single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

Residential Real Estate and Consumer

Residential real estate and consumer loans consist of two segments - residential mortgage loans and personal loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio of 80% of the sales price or appraised value, whichever is lower, and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(Dollars in Thousands)

The following table presents by portfolio segment, the activity in the allowance for loan losses for the years ended December 31, 2015 and December 31, 2014:

	Agricultural	Real Estate: Commercial and Multi-Family	Real Estate: One- to Four-Family Residential	Agricultural and Commercial	Consumer	Total
Year Ended December 31, 2015						
Allowance for Loan Losses:						
Balance, beginning of period	$ 3,999	$ 510	$ 631	$ 2,167	$ 106	$ 7,413
Provision for loan losses	802	(83)	(4)	577	38	1,330
Loans charged to the allowance	-	-	-	-	-	-
Recoveries of loans previously charged off	-	-	-	-	3	3
Balance, end of period	$ 4,801	$ 427	$ 627	$ 2,744	$ 147	$ 8,746
Year Ended December 31, 2014						
Allowance for Loan Losses:						
Balance, beginning of period	$ 3,340	$ 597	$ 510	$ 1,638	$ 86	$ 6,171
Provision for loan losses	659	(87)	121	529	23	1,245
Loans charged to the allowance	-	-	-	-	(3)	(3)
Recoveries of loans previously charged off	-	-	-	-	-	-
Balance, end of period	$ 3,999	$ 510	$ 631	$ 2,167	$ 106	$ 7,413

(Dollars in Thousands)

The following presents by portfolio segment, the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method for the year ended December 31, 2015 and December 31, 2014:

	Real Estate					
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential	Agricultural and Commercial	Consumer	Total
At December 31, 2015:						
Allowance:						
Ending balance	$ 4,801	$ 427	$ 627	$ 2,744	$ 147	$ 8,746
Ending balance: individually evaluated for impairment	$ -	$ -	$ 11	$ 8	$ -	$ 19
Ending balance: collectively evaluated for impairment	$ 4,801	$ 427	$ 616	$ 2,736	$ 147	$ 8,727
Loans:						
Ending balance	$ 137,523	$ 20,414	$ 43,414	$ 77,052	$ 5,917	$ 284,320
Ending balance individually evaluated for impairment	$ -	$ -	$ 208	$ 8	$ -	$ 216
Ending balance collectively evaluated for impairment	$ 137,523	$ 20,414	$ 43,206	$ 77,044	$ 5,917	$ 284,104
At December 31, 2014:						
Allowance:						
Ending balance	$ 3,999	$ 510	$ 631	$ 2,167	$ 106	$ 7,413
Ending balance: individually evaluated for impairment	$ -	$ 111	$ 10	$ -	$ -	$ 121
Ending balance: collectively evaluated for impairment	$ 3,999	$ 399	$ 621	$ 2,167	$ 106	$ 7,292
Loans:						
Ending balance	$ 120,436	$ 19,059	$ 41,674	$ 68,049	$ 4,296	$ 253,514
Ending balance individually evaluated for impairment	$ -	$ 120	$ 17	$ -	$ -	$ 137
Ending balance collectively evaluated for impairment	$ 120,436	$ 18,939	$ 41,657	$ 68,049	$ 4,296	$ 253,377

(Dollars in Thousands)

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:

	Agricultural	Real Estate: Commercial and Multi-Family	Real Estate: One- to Four-Family Residential	Agricultural and Commercial	Consumer	Total
Pass	$ 136,941	$ 20,414	$ 42,773	$ 77,033	$ 5,901	$ 283,062
Special Mention	-	-	413	3	10	426
Substandard	582	-	228	16	6	832
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 137,523	$ 20,414	$ 43,414	$ 77,052	$ 5,917	$ 284,320

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, 2014:

	Agricultural	Real Estate: Commercial and Multi-Family	Real Estate: One- to Four-Family Residential	Agricultural and Commercial	Consumer	Total
Pass	$ 119,905	$ 18,929	$ 41,053	$ 67,787	$ 4,257	$ 251,931
Special Mention	117	10	431	10	21	589
Substandard	414	120	190	252	18	994
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 120,436	$ 19,059	$ 41,674	$ 68,049	$ 4,296	$ 253,514

The Company generally categorizes all classes of 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. Generally, smaller dollar consumer loans are excluded from this grading process and are reflected in the Pass category. The delinquency trends of these consumer loans are monitored on a homogeneous basis and the related delinquent amounts are reflected in the aging analysis table below. The Company uses the following definitions for risk ratings:

The Pass asset quality rating encompasses assets that have generally performed as expected. With the exception of some smaller consumer and residential loans, these assets generally do not have delinquency. Loans assigned this rating include loans to borrowers possessing solid credit quality with acceptable risk. Borrowers in these grades are differentiated from higher grades on the basis of size (capital and/or revenue), leverage, asset quality, stability of the industry or specific market area and quality/coverage of collateral. These borrowers generally have a history of consistent earnings and reasonable leverage.

The Special Mention asset quality rating encompasses assets that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset 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. This grade is intended to include loans to borrowers whose credit quality has clearly deteriorated and where risk of further decline is possible unless active measures are taken to correct the situation. Weaknesses are considered potential at this state and are not yet fully defined.

The Substandard asset quality rating encompasses assets that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any; assets having a well-defined weakness based upon objective evidence; assets characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected; or the possibility that liquidation will not be timely. Loans categorized in this grade possess a well-defined credit weakness and the likelihood of repayment from the primary source is uncertain. Significant financial deterioration has occurred and very close attention is warranted to ensure the full repayment without loss. Collateral coverage may be marginal and the accrual of interest has been suspended.

The Doubtful asset quality rating encompasses assets that have all of the weaknesses of those classified as Substandard. In addition, these weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The Loss asset quality rating encompasses assets that are considered uncollectible and of such little value that their continuance as assets of the bank is not warranted. A loss classification does not mean that an asset has no recovery or salvage value; instead, it means that it is not practical or desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be realized in the future.

The Company evaluates the loan grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the past year.

(Dollars in Thousands)

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

	Agricultural	Real Estate: Commercial and Multi-Family	Real Estate: One- to Four-Family Residential	Agricultural and Commercial	Consumer	Total
Past Due:						
30-59 days	$ 344	$ -	$ 530	$ 246	$ 46	$ 1,166
60-89 days	-	-	65	-	1	66
90 days or more	-	-	545	7	-	552
Total past due	344	-	1,140	253	47	1,784
Current	137,179	20,414	42,274	76,799	5,870	282,536
Total loans	$ 137,523	$ 20,414	$ 43,414	$ 77,052	$ 5,917	$ 284,320
Nonaccrual loans	$ -	$ -	$ 398	$ 7	$ 7	$ 412
Loans past due 90 days and still accruing	-	-	166	-	-	166
	$ -	$ -	$ 564	$ 7	$ 7	$ 578

At December 31, 2015, the Company had $47 of residential real estate loans in process of foreclosure.

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

	Agricultural	Real Estate: Commercial and Multi-Family	Real Estate: One- to Four-Family Residential	Agricultural and Commercial	Consumer	Total
Past Due:						
30-59 days	$ -	$ -	$ 882	$ 469	$ -	$ 1,351
60-89 days	-	-	258	-	7	265
90 days or more	-	-	173	-	-	173
Total past due	-	-	1,313	469	7	1,789
Current	120,436	19,059	40,361	67,580	4,289	251,725
Total loans	$ 120,436	$ 19,059	$ 41,674	$ 68,049	$ 4,296	$ 253,514
Nonaccrual loans	$ -	$ 120	$ 174	$ -	$ 11	$ 305
Loans past due 90 days and still accruing	-	-	173	-	-	173
	$ -	$ 120	$ 347	$ -	$ 11	$ 478

(Dollars in Thousands)

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 loans considered to be non-homogenous in nature and all 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.

The following table presents impaired loans and specific valuation allowance based on class level at December 31, 2015:

	Real Estate					
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential	Agricultural and Commercial	Consumer	Total
Impaired loans with an allowance for loan losses	$ -	$ -	$ 60	$ 8	$ -	$ 68
Impaired loans with no allowance for loan losses	-	-	148	-	-	148
Total impaired loans	$ -	$ -	$ 208	$ 8	$ -	$ 216
Unpaid principal balance of impaired loans	$ -	$ -	$ 208	$ 8	$ -	$ 216
Allowance for loan losses on impaired loans	-	-	11	8	-	19
Average recorded investment in impaired loans	-	24	14	-	-	38

The following table presents impaired loans and specific valuation allowance based on class level at December 31, 2014:

	Real Estate					
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential	Agricultural and Commercial	Consumer	Total
Impaired loans with an allowance for loan losses	$ -	$ 120	$ 17	$ -	$ -	$ 137
Impaired loans with no allowance for loan losses	-	-	-	-	-	-
Total impaired loans	$ -	$ 120	$ 17	$ -	$ -	$ 137
Unpaid principal balance of impaired loans	$ -	$ 120	$ 17	$ -	$ -	$ 137
Allowance for loan losses on impaired loans	-	111	10	-	-	121
Average recorded investment in impaired loans	-	131	19	-	-	150

(Dollars in Thousands)

Interest income of $5 and $9 was recognized on impaired loans for the years ended December 31, 2015 and 2014.

There were no troubled debt restructurings at or during the years ended December 31, 2015 or 2014.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $83,123 and $73,364 at December 31, 2015 and 2014, respectively.

Note 5: Premises and Equipment

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

	December 31, 2015	December 31, 2014
Land	$ 426	339
Buildings and improvements	4,124	3,371
Furniture and equipment	1,554	1,816
Automobiles	85	72
Software	328	381
	6,517	5,979
Less accumulated depreciation	3,641	3,841
	$ 2,876	2,138

(Dollars in Thousands)

Note 6: Goodwill and Intangibles

In November 2005, goodwill was recognized in connection with the acquisition of First Capital Investment Company, Inc., the parent company of First National Bank of Albion. In October 2015, goodwill was recognized in connection with the acquisition of Winside Bancshares Incorporated, the parent company of Winside State Bank and the acquisition of Warnemunde Insurance & Real Estate Agency, Inc. Under FASB ASC 350, "Intangibles - Goodwill and Other," goodwill is tested for impairment annually or more frequently, if necessary. As a result, goodwill was not impaired at either December 31, 2015 or 2014.

The changes in the carrying amount of goodwill for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Balance as of January 1	$ 481	$ 481
Goodwill acquired during the year	719	-
Balance as of December 31	$ 1,200	$ 481

The carrying basis and accumulated amortization of recognized intangible assets December 31, 2015 and 2014, were as follows:

	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	$ 3,538	$ (2,702)	$ 3,094	$ (2,575)
Other	1,170	(359)	420	(322)
	$ 4,708	$ (3,061)	$ 3,514	$ (2,897)

Amortization expense for the years ended December 31, 2015 and 2014 was $164 and $163, respectively.

Estimated amortization expense for each year of the next five years is as follows:

2016	$ 234
2017	217
2018	188
2019	162
2020	142

Intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

(Dollars in Thousands)

Note 7: Deposits

	December 31,	
	2015	2014
Non-interest bearing checking	$ 24,894	$ 19,149
Interest-bearing checking	127,687	116,715
Money market savings	62,597	48,824
Certificates and other time deposits of $250 or more	2,994	1,062
Other certificates and time deposits	26,712	24,229
Total deposits	$ 244,884	$ 209,979

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

2016	$ 19,827
2017	6,551
2018	978
2019	1,022
2020	1,328
	$ 29,706

There were no brokered deposits at December 31, 2015 or 2014.

(Dollars in Thousands)

Note 8: Borrowings

	December 31, 2015	December 31, 2014
Federal Home Loan Bank line of credit	$ 36,300	$ 31,800
Federal Home Loan Bank advances	6,400	8,000
Total borrowings	$ 42,700	$ 39,800

The Company has a line of credit with at the FHLB of Topeka which expires December 16, 2016. The line of credit accrues interest at a variable rate (0.48% at December 31, 2015). The maximum credit available is based on certain criteria including a percentage of assets limitation and an available collateral limitation. Based on the statement received from the FHLB of Topeka, the additional borrowing capacity at December 31, 2015 was $48,417.

The Company has an unsecured line with another financial institution to purchase overnight federal funds. The maximum amount of the established line is $24,710 and matures on May 31, 2016. The line is subject to quarterly review as well as annual renewal, and terms may be altered in the event of a significant change in the Company's financial condition. The Company had no federal funds outstanding at December 31, 2015.

The Company has a line of credit with the FRB to obtain advances which matures on January 31, 2016. FRB advances are secured by loans totaling $22,184 at December 31, 2015. The maximum credit available from the FRB is $9,306 and is subject to an annual approval process and certain other restrictions. The Company had no advances at December 31, 2015.

FHLB advances, at interest rates from 1.58% to 4.19% at December 31, 2015, are subject to restrictions or penalties in the event of prepayment. FHLB advances and the line of credit are secured by a blanket lien on mortgage loans totaling $136,142 at December 31, 2015.

Maturities of FHLB advances were as follows at December 31, 2015:

2016	36,500
2017	1,700
2018	1,000
2019	-
2020	1,000
2021	2,500
	$ 42,700

(Dollars in Thousands)

Note 9: Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction. With a few exceptions, the Company is no longer subject to U.S. federal or state examinations by tax authorities for years before 2011.

	Years Ended December 31, 2015	2014
Income tax expense:		
Currently payable - federal	$ 1,989	$ 1,718
Deferred - federal	(756)	(753)
	$ 1,233	$ 965
Reconciliation of federal statutory to actual tax expense		
Federal statutory income tax at 34%	$ 1,587	$ 1,339
Tax-exempt income	(396)	(347)
Cash surrender value of life insurance	(67)	(66)
Other	109	39
Actual tax expense	$ 1,233	$ 965
Effective tax rate	26.4%	24.5%

(Dollars in Thousands)

A cumulative net deferred tax asset is included in other assets. The components of the asset are as follows:

	December 31, 2015	December 31, 2014
Assets:		
Allowance for loan losses	$ 2,899	$ 2,447
Deferred compensation	657	596
Incentive compensation plans	171	134
Accrued vacation	111	98
Other	116	62
Total assets	3,954	3,337
Liabilities:		
Core deposit intangible	284	176
Other intangibles	252	-
Stock in FHLB of Topeka	29	21
Prepaid expense	212	185
Depreciation	291	93
Mortgage servicing rights	89	50
Securities available for sale	60	79
Other	19	10
Total liabilities	1,236	614
Net deferred tax asset	$ 2,718	$ 2,723

Retained earnings at December 31, 2015 and 2014 include approximately $610 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of December 31, 1987 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 income would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $207.

(Dollars in Thousands)

Note 10: Commitments and Contingencies

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, lines of credit and letters of credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, lines of credit and letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheet.

Financial instruments whose contract amount represents credit risk as of December 31, 2015 and 2014 were as follows:

	December 31,	
	2015	2014
Commitments to extend credit	$ 30,236	$ 27,767
Lines of credit, primarily commercial	24,091	20,975
Commercial letters of credit	871	1,043

Commitments to extend credit and lines of credit are agreements to lend to a customer provided there is no violation of any condition established in the contract and a majority of such commitments are contractually discretionary at the discretion of the Company. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commercial letters of credit and a large amount of the lines of credit are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party.

The Company sells residential loans with limited recourse to the FHLB of Topeka under the Mortgage Partnership Finance Program. The Company is obligated to repurchase certain loans sold that become delinquent as defined by the agreement. At December 31, 2015 and 2014, these obligations were approximately $6,433 and $5,410. Based upon a favorable payment history, the Company does not anticipate any significant losses on these residential loans under the agreement. At December 31, 2015 and 2014, the reserve totaled $193 and $87, respectively.

(Dollars in Thousands)

Note 11: Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies and is assigned to a capital category. 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. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

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

As of December 31, 2015 and 2014, the most recent notification from the regulators 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 I 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.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2015						
Total capital[1] (to risk-weighted assets)	$ 65,090	17.64%	$ 29,519	8.00%	$ 36,899	10.00%
Tier I capital[1] (to risk-weighted assets)	60,427	16.38%	22,140	6.00%	29,519	8.00%
Common Equity Tier I capital[1] (to risk-weighted assets)	60,427	16.38%	16,605	4.50%	23,984	6.50%
Tier I capital[1] (to average assets)	60,427	17.21%	14,041	4.00%	17,551	5.00%
Tangible capital[1] (to adjusted tangible assets)	60,427	17.21%	5,265	1.50%	N/A	N/A
2014						
Total capital[1] (to risk-weighted assets)	$ 56,967	17.56%	25,948	8.00%	32,435	10.00%
Tier I capital[1] (to risk-weighted assets)	52,871	16.30%	12,974	4.00%	19,461	6.00%
Tier I capital[1] (to average assets)	52,871	16.87%	12,538	4.00%	15,672	5.00%

[1] As defined by regulatory agencies

Basel III Capital Rules

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U. S. Banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U. S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measure be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015, will be 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 it reaches 2.5% on January 1, 2019).

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Generally, the Bank's payment of dividends is limited to net income for the current year plus the two preceding calendar years, less capital distributions paid over the comparable time period. At December 31, 2015, approximately $5,418 of retained earnings were available for dividend declaration without prior regulatory approval.

Note 12: Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to 100% of their compensation, subject to limitations prescribed by law. The Company contributes 3% of the employee's compensation. Employer contributions charged to expense was $113 and $102 for the years ended December 31, 2015 and 2014, respectively.

The Company has a salary continuation plan for the benefit of certain executive officers. The Bank is funding the agreement with variable rate life insurance policies. The recorded obligation of $1,597 and $1,454 at December 31, 2015 and 2014, respectively, is included in other liabilities. Expense of $143 and $140 was recorded for the years ended December 31, 2015 and 2014, respectively. There were no payments made during the years ended December 31, 2015 and 2014, respectively.

In addition, the Company has a deferred compensation plan for the directors of the Company. The recorded obligation of $335 and $297 at December 31, 2015 and 2014, respectively, is included in other liabilities. Expense of $38 and $33 was recorded for the years ended December 31, 2015 and 2014, respectively. There were no payments made during the years ended December 31, 2015 and 2014, respectively.

The Company has also entered into employment and change in control agreements with certain officers that provide for the severance payments and the continuation of certain benefits for a specified period of time under certain conditions. Under the terms of the agreements, these payments could occur in the event of a change in control of the Company, as defined, along with other specific conditions. In the event of involuntary termination, subject to certain criteria, the officer is entitled to payment of base salary and certain benefits for the remaining term of the employment agreement, but in no event for a period of less than 12 months following the date of termination. The severance payments under these agreements are generally 2.99 times the base salary of the officer in the event of a change in control.

As part of the conversion, the Bank established an Employee Stock Ownership Plan (ESOP) covering substantially all employees. The ESOP acquired 255,444 shares of Company common stock at $10 per share in the conversion with funds provided by a loan from the Company. Accordingly, $2,554 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, are made to the ESOP.

(Dollars in Thousands)

The ESOP shares as of December 31, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
Allocated shares	40,980	30,653
Unearned shares	214,574	224,791
Total ESOP shares	255,554	255,444
Fair value of unearned shares	$ 4,555	4,347

At December 31, 2015 and 2014, the fair value of the allocated shares held by the ESOP was $870 and $593, respectively.

Note 13: Share Based Compensation

In November, 2014, the Company's stockholders approved the 2014 Equity Incentive Plan ("Plan") which provides for awards of stock options and restricted stock to officers, employees and directors. The cost of the Plan is based on the fair value of the awards on the grant date. The fair value of restricted stock awards is based on the closing price of the Company's stock on the grant date. The fair value of stock options is estimated using a Black-Scholes option pricing model using assumptions for dividend yield, stock price volatility, risk-free interest rate, and option term. These assumptions are based on management's judgments regarding future events, are subjective in nature, and contain uncertainties inherent in an estimate. The cost of the awards is being recognized over the five-year vesting periods during which participants are required to provide services in exchange for the awards. Certain officers and employees have seven-year vesting periods. Vesting began March 1, 2015, for directors and November 1, 2015, for certain other officers and employees.

Until such time as awards of stock are granted and vested or options are exercised, shares of the Company's common stock under the Plan shall be authorized but unissued shares. The maximum number of shares authorized under the plan is 447,027. Total stock-based compensation expense for the year ended December 31, 2015 and 2014 was $484 and $754, with a tax benefit recorded of $165 and $256, respectively.

(Dollars in Thousands)

Stock Options

The table below represents the stock option activity for the period shown:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractural Term (Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2015	288,000	$ 17.10	9.25	
Granted	-	-	-	
Exercised	(460)	17.10	-	$ 1
Forfeited	(4,140)	17.10	-	
Expired	-	-	-	
Options outstanding at December 31, 2015	283,400	$ 17.10	8.25	$ 1,170
Options exercisable at December 31, 2015	93,155	$ 17.10	8.25	$ 385
Options outstanding at January 1, 2014	-	$ -	-	
Granted	288,000	17.10	10.00	
Exercised	-	-	-	$ 1
Forfeited	-	-	-	
Expired	-	-	-	
Options outstanding at December 31, 2014	288,000	$ 17.10	9.25	$ 645
Options exercisable at December 31, 2014	44,530	$ 17.10	9.25	$ 100

As of December 31, 2015 and 2014, the Company had $413 and $550 of unrecognized compensation expense related to stock options. The cost of the stock options will be amortized in monthly installments over the noted five-year and seven-year vesting periods, with the first vesting date of March 1, 2014, for directors and November 1, 2014, for certain other officers and employees. During 2015 and 2014, 49,085 and 44,530 stock options vested, respectively. Stock option expense for the year ended December 31, 2015 and 2014 was $127 and $193, with a tax benefit recorded of $43 and $65, respectively. The aggregate grant date fair value of the stock options was $743.

(Dollars in Thousands)

The fair value of the Company's stock options was determined using the Black-Scholes option pricing formula. The following assumptions were used in the formula:

Expected volatility		13.78%
Risk-free interest rate		2.27%
Expected dividend yield		1.64%
Expected life (in years)		7.5
Exercise price for the stock options	$	17.10

Expected volatility – Based on the historical volatility of share price for similar companies.

Risk-free interest rate – Based on the U. S. Treasury yield curve and expected life of the options at the time of grant.

Dividend yield – Madison County Financial, Inc. paid, at the time of valuation, an annual dividend of $0.28 per share.

Expected life – Based on average of the five-year and seven-year vesting periods and the ten year contractual term of the stock option plan.

Exercise price for the stock options – Based on the closing price of the Company's stock on the date of grant.

Restricted Stock Awards

Restricted stock awards are accounted for as fixed grants using the fair value of the Company's stock at the time of the grant. Unvested restricted stock awards may not be disposed of or transferred during the vesting period. Restricted stock awards carry with them the right to receive dividends.

The table below represents the restricted stock award activity for the period shown:

	Service-Based Restricted Stock Awards		Weighted Average Grant Date Fair Value
Non-vested at January 1, 2015	95,800	$	17.10
Granted			
Vested	(20,845)		17.10
Forfeited	(1,530)		17.10
Non-vested at December 31, 2015	73,425	$	17.10

	Service-Based Restricted Stock Awards	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2014	-	$ -
Granted	115,000	17.10
Vested	(19,200)	17.10
Forfeited	-	-
Non-vested at December 31, 2014	95,800	$ 17.10

Restricted stock awards of 115,000 were granted on February 14, 2015.

As of December 31, 2015 and 2014, the Company had $1,026 and $1,409 of unrecognized compensation expense related to restricted stock awards. The cost of the restricted stock awards will be amortized in monthly installments over the five-year and seven-year vesting periods. Restricted stock expense for the year ended December 31, 2015 and 2014 was $357 and $561, with a tax benefit recorded of $121 and $191, respectively.

Note 14: Earnings Per Share

The following table presents a summary of the basic and diluted earnings per share:

	Years Ended December 31, 2015	2014
	(Dollars in Thousands except share and per share data)	
Net income	$ 3,436	$ 2,974
Allocated to participating securities	(102)	(103)
Net income allocated to common stockholders	$ 3,334	$ 2,871
Weighted average common shares outstanding, gross	3,006,288	3,051,011
Less: Average unearned ESOP shares and participating securities	302,632	318,266
Weighted average common shares outstanding, net	2,703,656	2,732,745
Effect of diluted based awards	22,516	1,335
Weighted average shares and common stock equivalents	2,726,172	2,734,080
Income per common share:		
Basic	$ 1.23	$ 1.05
Diluted	1.22	1.05
Options excluded from the calculation due to their anti-dilutive effect on earnings per share	None	None

Note 15: Related Party Transactions

The Company has entered into transactions with certain directors, executive officers and their affiliates or associates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties at December 31, 2015 and 2014 was $644 and $661, net of loans sold of $460 and $511, respectively. Deposits from related parties held by the Company at December 31, 2015 and 2014 totaled $6,627 and $1,069, respectively.

Note 16: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following is a description of the valuation methodologies and inputs used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions. Additionally, matrix pricing is used for certain investment securities and is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Level 1 securities include U. S. Treasuries. Level 2 securities include federal agencies. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

(Dollars in Thousands)

The following tables present the fair value measurements of assets 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 Measurements Using			
Assets	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available for sale:				
Federal agencies	$ 11,543	$ -	$ 11,543	$ -
	$ 11,543	$ -	$ 11,543	$ -

	December 31, 2014			
	Fair Value Measurements Using			
Assets	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available for sale:				
Federal agencies	$ 9,494	$ -	$ 9,494	$ -
	$ 9,494	$ -	$ 9,494	$ -

Nonrecurring Measurements

The following tables present the fair value measurements 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:

		Fair Value Measurements Using		
Assets	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2015				
Impaired loans	$ 49	$ -	$ -	$ 49
December 31, 2014				
Impaired loans	$ 16	$ -	$ -	$ 16

Collateral-dependent Impaired Loans, Net of ALLL

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 by the Loan Committee. Appraisals are reviewed for accuracy and consistency by the Loan Committee. 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 estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Loan Committee by comparison to historical results.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill.

	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Average
At December 31, 2015:				
Collateral-dependent impaired loans	$ 49	Market comparable properties	Marketability discount	10%
At December 31, 2014:				
Collateral-dependent impaired loans	$ 16	Market comparable properties	Marketability discount	10%

Cash and Cash Equivalents, Certificates of Deposit, Federal Home Loan Bank Stock, Accrued Interest Receivable and Accrued Interest Payable

The carrying amount approximates fair value.

Held-to-Maturity Securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans and Loans Held for Sale

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. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include checking and money market savings accounts. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity time deposits (certificates and other time deposits) is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

(Dollars in Thousands)

Borrowings

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

The following table presents estimated fair values of the Company's financial instruments at December 31, 2015.

		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	$ 4,683	$ 4,683	$ -	$ -
Certificates of deposit	1,000	1,000	-	-
Held to maturity investment securities	43,576	-	44,155	-
Loans held for sale	900	-	900	-
Loans, net	275,574	-	-	281,532
Stock in Federal Home Loan Bank of Topeka	1,959	-	1,959	-
Accrued interest receivable	4,666	-	4,666	-
Financial liabilities:				
Deposits	244,884	215,178	-	29,648
Borrowings	42,700	-	42,430	-
Accrued interest payable	106	-	106	-

The following table presents estimated fair values of the Company's financial instruments at 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	$ 4,428	$ 4,428	$ -	$ -
Certificates of deposit	1,000	1,000	-	-
Held to maturity investment securities	34,012	-	34,524	-
Loans held for sale	-	-	-	-
Loans, net	246,101	-	-	252,657
Stock in Federal Home Loan Bank of Topeka	1,791	-	1,791	-
Accrued interest receivable	4,268	-	4,268	-
Financial liabilities:				
Deposits	209,979	184,688	-	25,333
Borrowings	39,800	-	39,906	-
Accrued interest payable	101	-	101	-

(Dollars in Thousands)

Note 17: 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	December 31, 2014
Assets		
Cash and cash equivalents	$ 5,663	$ 7,340
Investment in Bank	62,437	54,123
Other Assets	95	75
Total assets	$ 68,195	$ 61,538
Liabilities		
Other liabilities	131	2
Total liabilities	131	2
Stockholders' Equity	68,064	61,536
Total liabilities and stockholders' equity	$ 68,195	$ 61,538

(Dollars in Thousands)

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31,	
	2015	**2014**
Income - Dividends from Bank	$ 742	$ 736
Expenses		
Other expenses	429	209
Total expenses	429	209
Income Before Income Tax and Equity in Undistributed Net Income of Subsidiaries	313	527
Income Tax Benefit	81	71
Income Before Equity in Undistributed Net Income of Subsidiaries	394	598
Equity in Undistributed Net Income of Subsidiaries	3,042	2,376
Net Income	$ 3,436	$ 2,974
Comprehensive Income	$ 3,399	$ 3,174

(Dollars in Thousands)

Condensed Statements of Cash Flows

	Years Ended December 31, 2015	Years Ended December 31, 2014
Operating Activities		
Net income	$ 3,436	$ 2,974
Items not providing cash	(2,892)	(2,239)
Net cash provided by operating activities	544	735
Financing Activities		
Repurchased shares	(1,535)	(3,293)
Dividends paid	(686)	(679)
Net cash used in financing activities	(2,221)	(3,972)
Net Change in Cash and Cash Equivalents	(1,677)	(3,237)
Cash and Cash Equivalents at Beginning of Year	7,340	10,577
Cash and Cash Equivalents at End of Year	$ 5,663	$ 7,340

Note 18: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.