MOUNTAIN COMMERCE BANCORP, INC. AND SUBSIDIARY

Financial Statements

Years Ended December 31, 2016 and 2015

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MOUNTAIN COMMERCE BANCORP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
Mountain Commerce Bancorp, Inc. and Subsidiary
Johnson City, Tennessee

We have audited the accompanying consolidated financial statements of Mountain Commerce Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain Commerce Bancorp, Inc. and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Asheville, North Carolina
February 28, 2017

Mountain Commerce Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015 (Restated)
ASSETS		
Cash and due from banks	**$ 4,651,766**	$ 4,537,392
Interest-earning deposits	**23,712,480**	10,450,540
Cash and cash equivalents	**28,364,246**	14,987,932
Securities available for sale	**43,857,907**	33,009,610
Loans held for sale	**78,599**	-
Loans receivable	**515,432,541**	415,782,285
Allowance for loan losses	**(5,281,059)**	(5,186,331)
Net loans	**510,151,482**	410,595,954
Premises and equipment, net	**13,453,591**	12,562,119
Accrued interest receivable	**1,718,171**	1,348,108
Real estate owned	**8,781,161**	10,903,813
Bank owned life insurance	**6,991,438**	6,814,917
Restricted stock	**1,128,900**	1,128,900
Prepaid expenses and other assets	**1,190,555**	1,433,289
Deferred tax asset	**3,425,367**	2,837,948
Core deposit intangible	**-**	67,518
Total assets	**$ 619,141,417**	$ 495,690,108

See accompanying notes

Mountain Commerce Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2016 and 2015

(Continued)

	2016	2015
LIABILITIES AND STOCKHOLDERS' EQUITY		**(Restated)**
Liabilities:		
Deposits:		
Noninterest-bearing	**$ 67,156,351**	$ 61,897,381
Interest-bearing	**467,170,920**	369,725,433
Total deposits	**534,327,271**	431,622,814
Federal Home Loan Bank advances, net	**9,555,942**	9,439,038
Senior note payable, net	**9,913,921**	9,877,023
Other short-term borrowings	**-**	5,500,000
Accrued interest payable	**47,159**	57,105
Mandatorily redeemable preferred stock	**2,969,000**	2,969,000
Other liabilities	**4,136,654**	1,999,420
Total liabilities	**560,949,947**	461,464,400
Commitments and contingencies (Notes 5, 11, 18, and 24)		
Stockholders' equity:		
Preferred stock; $0.01 par; 1,000,000 shares authorized; 2,969 issued and outstanding at December 31, 2016 and 2015 (Note 19)	**-**	-
Common stock; $0.01 par, 10,000,000 shares authorized; 5,758,055 and 3,917,410 issued and outstanding at December 31, 2016 and 2015	**57,352**	39,174
Additional paid-in capital	**60,224,408**	40,093,146
Accumulated deficit	**(1,955,864)**	(6,031,966)
Accumulated other comprehensive income (loss)	**(134,426)**	125,354
Total stockholders' equity	**58,191,470**	34,225,708
Total liabilities and stockholders' equity	**$ 619,141,417**	$ 495,690,108

See accompanying notes

Mountain Commerce Bancorp, Inc. and Subsidiary
Consolidated Statements of Operations
For the Years Ended December 31, 2016 and 2015

	2016	2015 (Restated)
Interest income:		
Loans	**$ 22,276,964**	$ 18,153,857
Investment securities	**806,339**	933,864
Interest-earning deposits	**56,889**	29,114
Total interest income	**23,140,192**	19,116,835
Interest expense:		
Interest on deposits:		
Savings	**2,403,415**	1,162,251
Interest bearing transaction accounts	**240,260**	228,124
Time certificates of deposit of $250,000 or more	**786,939**	967,305
Other time deposits	**259,131**	242,046
Other borrowings	**924,299**	898,756
Total interest expense	**4,614,044**	3,498,482
Net interest income	**18,526,148**	15,618,353
Provision for loan losses	**157,500**	775,000
Net interest income after provision for loan losses	**18,368,648**	14,843,353
Noninterest income:		
Service charges and other fees on deposit accounts	**1,098,238**	1,044,091
Gain on sale of investment securities	**98,075**	26,423
Gain on sale of loans	**499,289**	232,751
Other operating income	**337,174**	264,144
Total noninterest income	**2,032,776**	1,567,409

See accompanying notes

Mountain Commerce Bancorp, Inc. and Subsidiary
Consolidated Statements of Operations
For the Years Ended December 31, 2016 and 2015 **(Continued)**

	2016	2015 (Restated)
Noninterest expenses:		
Compensation and employee benefits	**$ 6,725,590**	$ 6,213,836
Occupancy expenses	**1,335,547**	1,240,761
Furniture and equipment costs	**279,792**	262,989
Data processing fees	**1,079,641**	930,317
FDIC Insurance	**500,830**	425,503
Office expense	**399,758**	347,609
Advertising	**215,427**	244,254
Professional fees	**691,770**	644,156
Real estate owned	**1,543,159**	485,571
Other operating costs	**808,194**	722,734
Total noninterest expenses	**13,579,708**	11,517,730
Income before income taxes	**6,821,716**	4,893,032
Income tax expense	**2,588,250**	1,821,936
Net income	**$ 4,233,466**	$ 3,071,096

Mountain Commerce Bancorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2016 and 2015

	2016	2015 (Restated)
Comprehensive Income:		
Net income	**$ 4,233,466**	$ 3,071,096
Other comprehensive income (loss):		
Unrealized holdings gains (losses) on securities available for sale:		
Reclassification adjustment for realized gains on sale of securities available for sale	**(98,075)**	(26,423)
Deferred income tax benefit	**37,269**	10,041
Unrealized losses arising during the period	**(322,895)**	(129,643)
Deferred income tax benefit	**123,921**	49,716
Total other comprehensive income (loss)	**(259,780)**	(96,309)
Total comprehensive income	**$ 3,973,686**	$ 2,974,787

See accompanying notes

Mountain Commerce Bancorp, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2016 and 2015

	Common Stock	Additional Paid-in Capital	Accumulated Deficit (Restated)	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2014	39,554	39,968,310	(8,945,697)	221,663	31,283,830
Net income (restated)	-	-	3,071,096	-	3,071,096
Other comprehensive income	-	-	-	(96,309)	(96,309)
Dividend on preferred stock	-	-	(148,450)	-	(148,450)
Amortization of stock issuance cost	-	-	(8,915)	-	(8,915)
Repurchase of common stock	(1,157)	(714,044)	-	-	(715,201)
Issuance of common stock	777	775,964	-	-	776,741
Share-based compensation	-	62,916	-	-	62,916
Balance, December 31, 2015	$ 39,174	$ 40,093,146	$ (6,031,966)	$ 125,354	$ 34,225,708
Net income	-	-	4,233,466	-	4,233,466
Other comprehensive income	-	-	-	(259,780)	(259,780)
Dividend on preferred stock	-	-	(148,450)	-	(148,450)
Amortization of stock issuance cost	-	-	(8,914)	-	(8,914)
Issuance of common stock, net of stock issuance costs of $1,333,980	18,137	19,976,677	-	-	19,994,814
Share-based compensation	41	154,585	-	-	154,626
Balance, December 31, 2016	$ 57,352	$ 60,224,408	$ (1,955,864)	$ (134,426)	$ 58,191,470

See accompanying notes

Mountain Commerce Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015 (Restated)
Operating activities:		
Net income	**$ 4,233,466**	$ 3,071,096
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**608,863**	530,444
Amortization of core deposit intangible	**67,518**	104,424
Amortization of prepayment penalty	**120,180**	120,180
Amortization of debt issuance costs	**36,898**	36,899
Amortization of premiums on investment securities, net	**122,630**	129,123
Provision for loan losses	**157,500**	775,000
Provision for and losses on sale of other real estate owned	**1,322,421**	84,043
Share based compensation	**154,626**	62,916
Deferred income tax (benefit) expense	**(426,229)**	254,119
Gain on sale of securities	**(98,075)**	(26,423)
Increase in bank owned life insurance	**(176,521)**	(168,303)
Increase in deferred loan costs	**200,447**	213,856
Secondary market activities:		
Loans originated	**(11,180,823)**	(11,851,777)
Loans sold	**11,601,513**	12,458,068
Gain on sale loans sold	**(499,289)**	(232,751)
Net change in operating assets and liabilities:		
Accrued interest receivable	**(370,063)**	(165,006)
Prepaid expenses and other assets	**242,734**	(352,234)
Accrued interest payable	**(9,946)**	153
Other liabilities	**803,254**	385,390
Net cash provided by operating activities	**6,911,104**	5,429,217
Investing activities:		
Activity for investments available for sale:		
Purchases	**(25,172,231)**	(3,985,400)
Maturities, principal repayments, and proceeds from sales	**13,878,409**	16,383,509
Purchase of bank owned life insurance	**-**	(2,400,000)
Net increase in loans	**(100,349,975)**	(86,117,883)
Proceeds from sale of real estate owned	**41,731**	428,457
Purchase of premises and equipment	**(305,335)**	(2,923,172)
Net cash used by investing activities	**(111,907,401)**	(78,614,489)

See accompaning notes

Mountain Commerce Bancorp
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015 (Restated)
Financing activities:		
Net increase in deposits	**$ 102,704,457**	$ 81,482,329
Proceeds from (repayments of) other short-term borrowings	**(5,500,000)**	5,500,000
Repayment of FHLB advances	**(3,276)**	(7,018,140)
Payment of preferred stock dividend	**(148,450)**	(148,450)
Amortization of stock issuance costs	**(8,914)**	(8,915)
Proceeds from issuance of common stock	**21,328,794**	776,741
Repurchase of common stock	**-**	(715,201)
Net cash provided by financing activities	**118,372,611**	79,868,364
Increase in cash and cash equivalents	**13,376,314**	6,683,092
Cash and cash equivalents, beginning of year	**14,987,932**	8,304,840
Cash and cash equivalents, end of year	**$ 28,364,246**	$ 14,987,932
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest on deposits and other borrowings	**$ 4,466,912**	$ 3,341,250
Income taxes	**$ 2,724,000**	$ 1,613,000
Noncash investing and financing activities:		
Real estate acquired in satisfaction of loans	**$ 436,500**	$ 3,119,868
Other comprehensive income (loss), net of taxes	**(259,780)**	(96,309)
Transfer to premises and equipment from real estate owned	**1,195,000**	-
Transfer to real estate owned from premises and equipment	**-**	700,000
Accrual of stock issuance costs	**1,333,980**	-

See accompaning notes

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Notes to Consolidated Financial Statements

1. Nature of Operations

Nature of Operations

Mountain Commerce Bancorp, Inc. (the "Bancorp") is a bank holding company headquartered in Knoxville, Tennessee whose principal activity is the ownership and management of its wholly-owned subsidiary Mountain Commerce Bank (the "Bank"). The Bank provides a variety of financial services to individuals and corporate customers located primarily in East Tennessee and the surrounding areas. The Bank's primary deposit products include checking, savings, certificates of deposit and IRA accounts. Its primary lending products are one-to-four family residential, commercial real estate, and consumer lending. The Bank operates under a state bank charter and provides full banking services. As a "state-chartered" bank, the Bank is subject to regulation by the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation.

Basis of Consolidation

The consolidated financial statements include the accounts of Mountain Commerce Bancorp, Inc. for the years ended December 31, 2016 and 2015 and its wholly-owned subsidiary, Mountain Commerce Bank (collectively also referred to as the "Company"). All material intercompany balances and transactions have been eliminated in consolidation.

2. Significant Accounting Policies

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. The Company's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or for other reasons. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Past due status is determined based on contractual terms. In connection with the determination of the estimated losses on impaired loans, management obtains independent appraisals for the significant underlying collateral.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, the estimated losses on loans in the future could materially change.

Other real estate owned, acquired through or in lieu of loan foreclosure and excess land held for sale not acquired through foreclosure, is carried at the lower of cost or fair value less cost to sell. Cost includes the balance of the loan plus acquisition costs and improvements made thereafter to facilitate sale. Costs related to the holding of the real estate are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Cash and cash equivalents

The Company considers all cash and amounts due from depository institutions with maturities less than 90 days, interest-bearing deposits in other banks, and federal funds sold to be cash equivalents for purposes of the statements of cash flows. At various times during the year, the Company has deposits in excess of FDIC limits at correspondent institutions. The Company periodically evaluates the credit worthiness of its correspondent institutions to monitor its credit risk.

Investment securities

The Company classifies all its investments as securities available-for-sale. Securities available-for-sale are carried at fair value, based on quoted market prices or other third party pricing services, with unrealized gains and losses reported in other comprehensive income. Realized gains and losses on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method.

Restricted stock

The restricted stock consists of Federal Home Loan Bank (“FHLB”) stock. Members of the FHLB are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The investment is carried at cost. No ready market exists for the stock, and it has no quoted market value. Because of the redemption provisions of the security, the Company estimates that fair value equals cost for these investments and that there was no impairment at December 31, 2016 or December 31, 2015.

Loans held for sale

Loans held for sale are residential mortgages carried at the lower of cost or market value. The market value for loans held for sale are based on what mortgage buyers are currently offering the Bank on a “best efforts” basis to buy the loans.

Loans

Loans are stated at unpaid principal plus deferred loan costs, less the allowance for loan losses. Loan fees and associated costs are deferred and amortized into interest income over the life of the loan.

Accrual of interest on loans is discontinued on a loan when management believes, after considering the economic and business conditions and collection efforts that the borrowers' financial condition is such that the collection of interest is doubtful. Loans are also placed on nonaccrual status when they become delinquent for more than 90 days. Past due status is based on contractual terms of the loan. Loans are charged off if collection of principal or interest is considered doubtful. Interest income on impaired loans is recognized only to the extent of interest payments received.

Premises and equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Amortization of leasehold improvements is calculated using the straight-line method over the lesser of the useful life of the assets or the term of the lease based upon expected renewals. Depreciation, computed using the straight-line method for financial accounting purposes, is based on the estimated useful lives of three to thirty nine years.

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Real estate owned

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at the lower of cost or fair value less estimated costs 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 net realizable value. Costs relating to development and improvement of properties are capitalized, whereas costs relating to the holding of property are expensed. Gains on sale of real estate are recognized when the sales proceeds are realized in cash, or if the sale is financed, the financing is in accordance with standard underwriting requirements, including required down payments. Losses are recognized immediately. Real estate owned also includes excess land held for sale not acquired through foreclosure.

Valuations are periodically performed by management, and an allowance for real estate losses is established by a charge to operations if the carrying value of a property exceeds its estimated net realizable value.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2016 and 2015 was $215,427 and $244,254, respectively.

Income taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investment securities, allowance for loan losses, accumulated depreciation, and net operating loss carryforwards. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established to reduce deferred tax assets if it is determined to be "more likely than not" that all or some portion of the potential deferred tax asset will not be realized.

Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Company's financial statements. Any penalties or interest relating to tax issues would be included as a component of income tax expense.

Comprehensive income

Comprehensive income is defined as the change in equity from transactions and other events from nonowner sources. It includes all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income includes net income and certain elements of “other comprehensive income (loss)” such as foreign currency translations, accounting for futures contracts, employers' accounting for pensions; and accounting for certain investments in debt and equity securities. The only element of “other comprehensive income (loss)” that the Company has is the net unrealized gains (losses) on available-for-sale securities.

Stock-based compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Company measures the cost of employee services received in exchange for an award based on the grant date fair value of the award. Excess tax benefits are reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

The Company uses a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured based on the fair value of the award as of the grant date and recognized over the vesting period.

Mandatorily redeemable preferred stock

Mandatorily redeemable preferred stock consists of 5% cumulative convertible preferred stock that holders may tender for redemption after certain criteria are met within the private placement agreement. As required by accounting standards generally accepted in the United States, the Company classifies the mandatorily redeemable financial instrument as a liability, as the holder may tender for redemption at any time beginning on September 30, 2018. The preferred stock may also be converted to common stock at $9 per share at any time through March 31, 2015 rising to $12 per share thereafter. The conversion price is subject to change under certain conditions as outlined in the related private placement memorandum.

Restatement

During 2016, the Company determined that some participation payment remittances for an SBA guaranteed loan had been recorded incorrectly. The remittances had been posted to a loan expense account and should have been posted to the participation payable account. The Company has corrected the error by restating previously issued financial statements.

The impact on the previously issued financial statements is as follows:

	As Previously Reported	Net Change	As Currently Reported
Accumulated deficit as of December 31, 2015	$(6,094,468)	$ 62,502	$(6,031,966)
Other liabilities for the year ended December 31, 2015	$ 2,061,922	$ (62,502)	$ 1,999,420
Other operating costs for the year ended December 31, 2015	$ 785,236	$ (62,502)	$ 722,734
Net income for the year ended December 31, 2015	$ 3,008,594	$ 62,502	$ 3,071,096

3. New Accounting Pronouncements

From time to time the Financial Accounting Standards Board ("FASB") issues exposure drafts of proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Company and monitors the status of changes to and proposed effective dates of exposure drafts. There were no new accounting pronouncements adopted during 2016.

4. Investment Securities

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

	Investment Securities Available For Sale			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016:				
Debt securities				
Mortgage-backed securities				
--government sponsored entity	**$ 35,063,730**	**$ 175,582**	**$ (315,002)**	**$ 34,924,310**
Mutual fund	**2,000,000**	**-**	**(143,883)**	**1,856,117**
U.S. Treasury notes	**4,982,951**	**48,629**	**-**	**5,031,580**
Municipal securities	**2,029,062**	**16,838**	**-**	**2,045,900**
Total securities	**$ 44,075,743**	**$ 241,049**	**$ (458,885)**	**$ 43,857,907**
December 31, 2015:				
Debt securities				
Mortgage-backed securities				
--government sponsored entity	$ 21,798,753	$ 256,597	$ (10,503)	$ 22,044,847
Mutual fund	2,000,000	-	(119,217)	1,880,783
U.S. Treasury notes	6,974,021	60,959	-	7,034,980
Municipal securities	2,033,702	15,298	-	2,049,000
Total securities	$ 32,806,476	$ 332,854	$ (129,720)	$ 33,009,610

The amortized cost and estimated fair value of debt securities as of December 31, 2016, by contractual maturity, are shown below. Actual maturities and principal payments on mortgage-backed securities will differ from contractual maturities because of scheduled principal payments and borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
December 31, 2016:		
Due in one year or less	$ -	$ -
Due after one year through five years	4,987,845	5,036,521
Due after five years through ten years	7,559,035	7,615,347
Due after ten years	29,528,863	29,349,922
Total securities	$ 42,075,743	$ 42,001,790

Investments with market values of approximately $16.0 million and $15.4 million as of December 31, 2016 and 2015, respectively, were pledged to secure public and private deposits.

The fair value of securities with temporary impairment at December 31, 2016 and 2015 is shown below:

	Less Than Twelve Months		Over Twelve Months	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of securities:				
December 31, 2016:				
Mortgage-backed securities				
--government sponsored entity	**$ 16,366,717**	**$ (315,002)**	**$ -**	**$ -**
Mutual fund	**-**	**-**	**1,856,117**	**(143,883)**
Total securities	**$ 16,366,717**	**$ (315,002)**	**$ 1,856,117**	**$ (143,883)**
Description of securities:				
December 31, 2015:				
Mortgage-backed securities				
--government sponsored entity	$ 2,681,810	$ (10,503)	$ -	$ -
Mutual fund	-	-	1,880,783	(119,217)
Total securities	$ 2,681,810	$ (10,503)	$ 1,880,783	$ (119,217)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The number of securities with unrealized losses was fourteen and four at December 31, 2016 and 2015, respectively. Management believes that all of the unrealized losses as of December 31, 2016 and 2015 are recoverable based upon review of the issuers and the nature of the securities. The impairment is due primarily to changes in the short and long term interest rate environment since the purchase of the securities and is not related to credit issues of the issuer. The Company has sufficient cash and investments showing unrealized gains and borrowing sources to provide sufficient liquidity to hold the securities until maturity or recovery of the impairment.

During the year ended 2016, the Bank had proceeds from the sale of securities of $9,050,000 and gross realized gains of $98,075. During the year ended December 31, 2015, the Bank had proceeds from the sale of securities of $11,532,935 and gross realized gains of $26,423.

5. Loans

Loans, net of unearned income, consist of the following as of December 31:

	2016	2015
Secured by real estate:		
Construction/development/land	**$ 40,060,751**	$ 32,555,526
Farmland	**7,624,517**	5,380,108
Residential	**151,057,777**	126,697,007
Junior mortgage	**1,630,595**	1,660,416
Multifamily	**24,483,441**	17,488,877
Commercial–owner occupied	**80,603,815**	63,505,122
Commercial–nonowner occupied	**147,841,060**	108,048,491
Total real estate loans	**453,301,956**	355,355,547
Non-real estate loans:		
Commercial–other	**50,933,836**	52,046,226
Consumer loans	**11,196,749**	8,400,512
Total non-real estate loans	**62,130,585**	60,446,738
Total loans	**$ 515,432,541**	$ 415,782,285

Secured by real estate loan segment

The Company's secured by real estate loans are underwritten based primarily on the proposed borrower's credit history and financial capacity. The Company's loan officers work to obtain current financial statements and two years of tax returns on the borrower. Comparable information is obtained from any guarantors, as applicable. A detailed analysis of the borrower/guarantor's cash flow, liquidity and debt levels is also conducted. The Company's loan officers also perform a thorough analysis of the proposed real estate collateral. Risks that are common to the Company's loans secured by real estate include general economic conditions, the personal or business circumstances of the borrowers, and reductions in collateral values. In addition to these common risks for the Company's secured by real estate loans, the various loan classes within the segment also have certain risks specific to them.

Construction/development/land loans are highly dependent on the supply and demand for real estate in the Company's markets. Prolonged deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for the Company's borrowers.

Farmland loans are to be made only to those borrowers who are strongly capitalized, have adequate management depth, demonstrate proven track records, display reliable cash flow, and have the ability to provide the bank with necessary financial reporting.

Residential loans are to individuals and are typically secured by previously built homes that conform to property requirements of secondary market investors or FHA or VA, as applicable. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral.

Junior mortgage loans are typically secured by second liens on residential real estate, thereby making such loans particularly susceptible to declining collateral values. A substantial decline in collateral value could render the Company's second lien position to be effectively unsecured. Additional risks include lien perfection inaccuracies and disputes with first lien holders that may further weaken collateral positions. Further, the open-end structure of these loans creates the risk that customers may draw on the lines in excess of the collateral value if there have been significant declines since origination.

Multifamily are primarily dependent on the ability of the Company's commercial loan customers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. The ability of that borrower to service the Company's loan on a basis consistent with the contractual terms may be at risk to the extent that a borrower's actual business results significantly underperform the original projections. While these loans and leases are generally secured by real property, personal property, or business assets such as inventory or accounts receivable, it is possible that the liquidation of the collateral will not fully satisfy the obligation.

Commercial-owner occupied loans are secured by owner-occupied nonfarm nonresidential properties for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party who owns the property. These loans are highly dependent on the ongoing operations of the owner and their ability to service the debt in accordance with the contractual terms and conditions of loan agreement.

Commercial-non-owner occupied loans are secured by other nonfarm nonresidential properties where the primary source of repayment is derived from rental income associated with the property or the proceeds of the sale, refinancing, or permanent financing of the property. These loans are highly dependent on the supply and demand for commercial property within the Company's market.

Non-real estate loan segment
The Company underwrites its non-real estate loans using credit reports and analytical tools and is based primarily on the borrower's ability to generate the required cash flows to service the debt in accordance with the contractual terms and conditions of the loan agreement. Common risks to non-real estate loans include general economic conditions within the Company's markets, such as unemployment, the personal or business circumstances of the borrowers, reductions in collateral values and demand for borrower's products and services, as applicable. In addition to these common risks for the Company's non-real estate loans, various non-real estate loan classes may also have certain risks specific to them.

Other commercial loans are primarily for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises. These loans also include loans for purchasing or carrying securities and are primarily dependent on the ongoing operations of the borrower which can be significantly impacted by economic condition within the Company's market.

Consumer loans include loans secured by deposit accounts or personal property such as automobiles, boats, and motorcycles, as well as unsecured consumer debt. The value of underlying collateral, if any, within this class is especially volatile due to potential rapid depreciation in values since date of loan origination in excess of principal repayment.

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case–by–case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparties. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties.

Standby letters of credit and written financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk are commitments to extend credit (including availability of lines of credit) of $126,274,367 and standby letters of credit and financial guarantees written of $3,149,697 at December 31, 2016. Additionally, the Company had no outstanding commitments to lend related to secondary market mortgage loans at December 31, 2016.

A troubled debt restructuring ("TDR") occurs when a borrower is experiencing financial difficulty and the Company grants a non-market concession to provide the borrower relief from one or more of the contractual loan conditions. Concessions that the Company might consider include the allowance of interest-only payments on a temporary basis, the reduction of interest rates, the extension of the loan term, the forgiveness of principal, or a combination of these. There were no new TDRs identified in 2016 or 2015.

There were no loans that were modified as troubled debt restructuring within the previous 12 months that had a payment default during the years ended December 31, 2016 and 2015.

As of December 31, 2016 and 2015, all loans identified as TDRs in prior periods are performing.

6. Allowance for Loan Losses and Credit Quality

The allowance for loan losses is maintained at a level that the Company believes is sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provision for loan losses and recoveries of prior loan charge-offs, and decreased by loans charged off. The provision is calculated to bring the allowance to a level which, according to a systematic process of measurement, reflects the amount management estimates is needed to absorb probable losses within the portfolio. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Management performs quarterly assessments to determine the appropriate level of allowance for loan losses. Differences between actual loan loss experience and estimates are reflected through adjustments that are made by either increasing or decreasing the allowance based upon current measurement criteria. Real estate and non-real estate loan portfolios are evaluated separately for purposes of determining the allowance. The specific components of the allowance include allocations to individual loans that have been deemed impaired. Management's general reserve allocations are based on judgment of qualitative and quantitative factors about both macro and micro economic conditions reflected within the portfolio of loans and the economy as a whole. Factors considered in this evaluation include, but are not necessarily limited to, probable losses from loan and other credit arrangements, general economic conditions, changes in credit concentrations or pledged collateral, historical loan loss experience, and trends in portfolio volume, maturities, composition, delinquencies, and nonaccruals. Historical weighted loss rates for each risk grade of loans are adjusted by qualitative factors to estimate the amount of reserve needed by segment. While management has allocated the allowance for loan losses to various portfolio segments, the entire allowance is available for use against any type of loan loss deemed appropriate by management.

During 2015, the Bank modified its loan loss methodology for unimpaired residential construction and land development and its unimpaired commercial construction. This modification resulted in further sub-segmentation of these classes of loans and the related historical charge-off rates. Also during 2015, the Bank modified its loan loss methodology to include a minimum historical factor to be utilized with each loan category as well as increasing four of the five risk ratings, which resulted in a higher reserve allocation for each rating. The change to both inputs was due to senior management's decision to require a higher reserve allocation for the various loan categories and credit grades, which should directly reflect the underlying risk within the overall loan portfolio. These changes in methodology resulted in a nonrecurring increase of approximately $1.9 million in 2015 of the Bank's reserves on non-impaired loans. There was no change in methodology during 2016.

The following tables detail the Company's allowance for loan loss activity for the years ended December 31, 2016 and 2015.

	2016		
	Secured by Real Estate	**Non-Real Estate**	**Total**
Allowance for credit losses:			
Beginning balance	**$ 4,695,125**	**$ 491,206**	**$ 5,186,331**
Provision for (recovery of losses)	**(400,978)**	**558,478**	**157,500**
Loans charged off	**-**	**(198,439)**	**(198,439)**
Recoveries credited to allowance	**120,390**	**15,277**	**135,667**
Net (charge-offs) recoveries	**120,390**	**(183,162)**	**(62,772)**
Ending balance	**$ 4,414,537**	**$ 866,522**	**$ 5,281,059**

	2015		
	Secured by Real Estate	**Non-Real Estate**	**Total**
Allowance for credit losses:			
Beginning balance	$ 3,797,740	$ 715,832	$ 4,513,572
Provision for (recovery of losses)	979,403	(204,403)	775,000
Loans charged off	(599,839)	(310,885)	(910,724)
Recoveries credited to allowance	517,821	290,662	808,483
Net (charge-offs) recoveries	(82,018)	(20,223)	(102,241)
Ending balance	$ 4,695,125	$ 491,203	$ 5,186,331

The Company identifies loans for potential impairment through a variety of means including, but not limited to, ongoing loan review, renewal processes, delinquency data, market communications, and public information. If it is determined that it is probable that the Company will not collect all principal and interest amounts contractually due, the loan is generally deemed to be impaired. Also, TDR loans are considered impaired.

The following table presents the Company's recorded investment in loans considered to be impaired and related information on those impaired loans for the years ended December 31, 2016 and 2015.

	December 31, 2016					
					Year to Date	
	Unpaid Principal Balance	Cumulative Direct Charge-offs	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans without a related allowance:						
Construction/ development/land	$ -	$ -	$ -	$ -	$ 618,750	$ -
Farmland	494,671	-	494,671	-	55,832	7,626
Residential	881,013	-	881,013	-	287,494	-
Commercial – owner occupied	-	-	-	-	37,340	-
	1,375,684	-	1,375,684	-	999,416	7,626
Loans with a related allowance:						
Construction/ development/land	$ -	$ -	$ -	$ -	$ -	$ -
Farmland	-	-	-	-	-	-
Residential	-	-	-	-	-	-
Commercial – owner occupied	375,354	-	375,354	35,534	156,398	-
Commercial - other	-	-	-	-	1,318	-
Individual	-	-	-	-	5,670	-
Impaired loans	$ 1,751,038	$ -	$ 1,751,038	$ 35,534	$ 1,162,802	$ 7,626

	December 31, 2015					
					Year to Date	
	Unpaid Principal Balance	Cumulative Direct Charge-offs	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans without a related allowance:						
Construction/ development/land	$ -	$ -	$ -	$ -	$ -	$ -
Multifamily	-	-	-	-	-	-
Commercial – owner occupied	-	-	-	-	-	-
	-	-	-	-	-	-
Loans with a related allowance:						
Construction/ development/land	$ 1,485,000	$ -	$ 1,485,000	$ 733,500	$ 2,337,754	$ 310,669
Residential	-	-	-	-	74,179	9,035
Commercial – owner occupied	-	-	-	-	-	10,349
other	-	-	-	-	167,400	-
Impaired loans	$ 1,485,000	$ -	$ 1,485,000	$ 733,500	$ 2,579,333	$ 330,053

As part of the ongoing monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to the risk rating of commercial loans, the level of classified commercial loans, net charge-offs, nonperforming loans and general economic conditions. The Company's loan review function generally reviews all commercial loan relationships greater than $250,000 on an annual basis and at various times through the year. Smaller commercial and retail loans are sampled for review throughout the year by our internal loan review department. Through the loan review process, loans are identified for upgrade or downgrade in risk rating and changed to reflect current information as part of the process.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

- Pass - This grade includes loans to borrowers of acceptable credit quality and risk. The Company further differentiates within this grade based upon borrower characteristics, which include: capital strength, earnings stability, leverage, and industry.

- Special Mention - This grade includes loans that require more than a normal degree of supervision and attention. These loans have all the characteristics of an adequate asset, but due to being adversely affected by economic or financial conditions have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan.

- Substandard - This grade includes loans that have well defined weaknesses, which make payment default or principal exposure possible, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business to meet the repayment terms.

- Doubtful - These loans have all the weaknesses inherent in a "substandard" loan with the added factor that the weaknesses are so severe that collection or liquidation in full, on the basis of current existing facts, conditions and values, is extremely unlikely, but because of certain specific pending factors, the amount of loss cannot yet be determined.

- Loss - This grade includes loans that are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. "Loss" is not intended to imply that the asset has no recovery or salvage value, but simply that it is not practical or desirable to defer writing off all or some portion of the loan, even though partial recovery may be affected in the future.

The following tables present the Company's investment in loans by internal credit grade indicator at December 31, 2016 and 2015.

	December 31, 2016					
	Pass	**Special Mention**	**Sub-Standard**	**Doubtful**	**Loss**	**Total**
Construction/ development/land	**$ 40,060,751**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 40,060,751**
Farmland	**6,779,578**	**350,268**	**494,671**	**-**	**-**	**7,624,517**
Residential	**150,173,083**	**-**	**884,694**	**-**	**-**	**151,057,777**
Junior mortgage	**1,630,595**	**-**	**-**	**-**	**-**	**1,630,595**
Multifamily	**24,483,441**	**-**	**-**	**-**	**-**	**24,483,441**
Commercial- owner occupied	**80,228,461**	**-**	**375,354**	**-**	**-**	**80,603,815**
Commercial- nonowner occupied	**147,841,060**	**-**	**-**	**-**	**-**	**147,841,060**
Commercial-other	**50,910,489**	**-**	**23,347**	**-**	**-**	**50,933,836**
Consumer loans	**11,196,749**	**-**	**-**	**-**	**-**	**11,196,749**
Total loans	**$513,304,207**	**$ 350,268**	**$ 1,778,066**	**$ -**	**$ -**	**$515,432,541**

	December 31, 2015					
	Pass	**Special Mention**	**Sub-Standard**	**Doubtful**	**Loss**	**Total**
Construction/ development/land	$ 31,070,526	$ -	$ 1,485,000	$ -	$ -	$ 32,555,526
Farmland	5,380,108	-	-	-	-	5,380,108
Residential	126,697,007	-	-	-	-	126,697,007
Junior mortgage	1,660,416	-	-	-	-	1,660,416
Multifamily	17,488,877	-	-	-	-	17,488,877
Commercial- owner occupied	63,505,122	-	-	-	-	63,505,122
Commercial- nonowner occupied	108,048,491	-	-	-	-	108,048,491
Commercial-other	52,016,529	-	29,697	-	-	52,046,226
Consumer loans	8,400,512	-	-	-	-	8,400,512
Total loans	$414,267,588	$ -	$ 1,514,697	$ -	$ -	$415,782,285

The following tables detail the Company's recorded investment in loans related to each segment in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology at December 31, 2016 and 2015.

	2016				
	Loans Individually Evaluated Impairment	**Allowance for Loans Individually Evaluated**	**Cash Secured Loans Excluded From Collectively Evaluated**	**Loans Collectively Evaluated for Impairment**	**Allowance for Loans Collectively Evaluated**
Secured by real estate:					
Construction/development /land	$ -	$ -	$ -	$ 40,060,751	$ 1,179,303
Farmland	494,671	-	-	7,129,846	39,674
Residential	881,013	-	-	150,176,764	790,726
Junior mortgage	-	-	-	1,630,595	9,476
Multifamily	-	-	-	24,483,441	140,673
Commercial-owner occupied	375,354	35,534	-	80,228,461	669,350
Commercial-nonowner occupied	-	-	-	147,841,060	1,928,828
Total	1,751,038	35,534	-	451,550,918	4,758,030
Non-real estate loans					
Commercial-other	-	-	-	50,933,836	363,199
Consumer loans	-	-	-	11,196,749	124,296
Total	-	-	-	62,130,585	487,495
Total loans	$ 1,751,038	$ 35,534	$ -	$513,681,503	$ 5,245,525

(Continued)

	2015				
	Loans Individually Evaluated Impairment	Allowance for Loans Individually Evaluated	Cash Secured Loans Excluded From Collectively Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
Secured by real estate:					
Construction/development /land	$ 1,485,000	$ 733,500	$ -	$ 31,070,526	$ 1,597,487
Farmland	-	-	-	5,380,108	30,816
Residential	-	-	-	126,697,007	666,538
Junior mortgage	-	-	-	1,660,416	9,140
Multifamily	-	-	-	17,488,877	45,668
Commercial-owner occupied	-	-	-	63,505,122	453,745
Commercial-nonowner occupied	-	-	-	108,048,491	1,158,231
Total	1,485,000	733,500	-	353,850,547	3,961,625
Non-real estate loans					
Commercial-other	-	-	-	52,046,226	397,260
Consumer loans	-	-	-	8,400,512	93,946
Total	-	-	-	60,446,738	491,206
Total loans	$ 1,485,000	$ 733,500	$ -	$414,297,285	$ 4,452,831

Nonaccrual and Past Due Loans

The following tables present the aging of the recorded investment in past due and nonaccrual loans, by loan class, as of December 31, 2015 and 2014. All nonaccrual loans are loans that have been delinquent for 90 days or more. There were no loans past due 90 days and still accruing interest at December 31, 2015 and 2014.

2016	30-59 Days	60-89 Days	90+ Days	Total Past Due	Current Loans	Total Loans	Non-Accrual Loans
Construction/ development/ land	$ -	$ -	$ -	$ -	$ 40,060,751	$ 40,060,751	$ -
Farmland	77,006	494,671	-	571,677	7,052,840	7,624,514	-
Residential	234,477	265	884,694	1,119,436	149,938,341	151,057,777	884,694
Junior mortgage	-	-	-	-	1,630,595	1,630,595	-
Multifamily	-	-	-	-	24,483,441	24,483,441	-
Commercial-owner Occupied	-	-	375,354	375,354	80,228,461	80,603,815	375,354
Commercial-non-owner occupied	-	-	-	-	147,841,060	147,841,060	-
Commercial-other	-	-	-	-	50,933,836	50,933,836	-
Consumer loans	-	-	-	-	11,196,749	11,196,749	-
Total Loans	$ 311,483	$ 494,936	$ 1,260,048	$ 2,066,467	$ 513,366,074	$ 515,432,541	$ 1,260,048

There were no loans past due 90 days and still accruing interest at December 31, 2015 and 2014.

2015	30-59 Days	60-89 Days	90+ Days	Total Past Due	Current Loans	Total Loans	Non-Accrual Loans
Construction/ development/ land	$ -	$ -	$ 1,485,000	$ 1,485,000	$ 31,070,526	$ 32,555,526	$ 1,485,000
Farmland	-	-	-	-	5,380,108	5,380,108	-
Residential	256,355	-	-	256,355	126,440,652	126,697,007	-
Junior mortgage	-	-	-	-	1,660,416	1,660,416	-
Multifamily	-	-	-	-	17,488,877	17,488,877	-
Commercial-owner Occupied	1,320,535	-	-	1,320,535	62,184,587	63,505,122	-
Commercial-non-owner occupied	-	-	-	-	108,048,491	108,048,491	-
Commercial-other	154,302	-	-	154,302	51,891,924	52,046,226	-
Consumer loans	-	-	-	-	8,400,512	8,400,512	-
Total Loans	$ 1,731,192	$ -	$ 1,485,000	$ 3,216,192	$ 412,566,093	$ 415,782,285	$ 1,485,000

7. Premises and Equipment

Premises and equipment are summarized as follows as of December 31:

	2016	2015
Land and improvements	$ 5,939,548	$ 4,744,548
Computer software	755,869	734,442
Buildings and leasehold improvements	9,381,400	9,315,651
Parking lot improvements	26,286	26,286
Furniture, fixtures and equipment	3,705,103	3,486,944
Construction in progress	78,553	78,553
	19,886,759	18,386,424
Less accumulated depreciation	(6,433,168)	(5,824,305)
Total premises and equipment, net	$ 13,453,591	$ 12,562,119

Depreciation expense for the years ended December 31, 2016 and 2015 was $608,863 and $530,444, respectively.

8. Real Estate Owned

Real estate owned is summarized as follows as of December 31:

	2016	2015
Foreclosed real estate	**$ 11,268,047**	$ 10,943,955
Land held for sale	**954,000**	2,226,600
Valuation allowance	**(3,440,886)**	(2,266,742)
	$ 8,781,161	$ 10,903,813

No sales of land held for sale occurred during the years ended December 31, 2016, and 2015. During 2016, $1,195,000 was transferred to premises and equipment from real estate owned, net of a write down of $77,600. During 2015, $700,000 of property was transferred to real estate owned from premises and equipment, net of a write-down of $98,400. At December 31, 2016 and 2015, respectively, land held for sale represented branch expansion property deemed to be surplus. As of December 31, 2016, real estate owned, net of the allowance, was comprised of $8,344,661 in construction/development/land real estate loans and $436,500 of owner-occupied commercial real estate loans. As of December 31, 2016, approximately $885,000 in residential real estate loans were in the process of foreclosure.

9. Bank Owned Life Insurance

The Company has purchased bank owned life insurance (“BOLI”) as a financing tool for employee benefits. The earnings on the BOLI are recorded as other noninterest income. Since the Company intends to hold the BOLI until the death of the insured, the Company benefits from the tax-free nature of income generated from the life insurance policies.

The value of the life insurance to the Company is the tax preferred treatment of increases in life insurance cash values and death benefits and the cash flow generated at the death of the insured. The largest risk to the BOLI program is credit risk of the insurance carriers. To mitigate this risk, annual financial condition reviews are completed on all carriers.

The change in BOLI’s cash surrender value for the years ended December 31, 2016 and 2015 was $176,521 and $168,303, respectively, and is included in “Other Operating Income” in the statements of operations.

10. Core Deposit Intangible

The balance of the core deposit intangible resulting from the acquisition of Erwin National Bank was $0 and $67,518 at December 31, 2016 and 2015, respectively. Amortization expense for the core deposit intangible was $67,518 and $104,424 in 2016 and 2015, respectively. The core deposit intangible has been amortized completely as of December 31, 2016.

11. Operating Leases

The Company leases certain branch properties and equipment under operating leases. Rent expense for 2016 and 2015 was approximately $483,000 and $476,000, respectively. Approximate rent commitments under non-cancelable operating leases including renewal options that are reasonably assured of being exercised were as follows:

2017	$ 491,000
2018	545,000
2019	320,000
2020	47,000
2021	47,000
Thereafter	279,000
	$ 1,729,000

12. Deposits

A summary of deposits is as follows December 31,

	2016	2015
Demand deposits:		
Noninterest-bearing accounts	**$ 67,156,351**	$ 61,897,381
NOW and MMDA accounts	**53,750,247**	54,034,107
Savings accounts	**304,662,603**	189,759,306
Total demand deposits	**425,569,201**	305,690,794
Time deposits:		
Less than $250,000	**65,796,750**	82,136,842
$250,000 or more	**42,961,320**	43,795,178
Total time deposits	**108,758,070**	125,932,020
Total deposits	**$ 534,327,271**	$ 431,622,814

Included in time deposits above are brokered deposits of $30.1 million and $20.1 million for the years ended December 31, 2016 and 2015, respectively.

The time deposits have terms of one to five years. The time deposits by contractual maturities are as follows:

2017	$ 87,635,514
2018	18,819,851
2019	1,190,514
2020	578,192
2021	533,999
	$ 108,758,070

13. Federal Home Loan Bank Advances

The Company has obtained advances from the FHLB. The advances carry a weighted average interest rate of 0.906% (an effective interest rate of 0.907%) and mature in one year. Maturities based upon contractual terms are as follows:

2017	9,585,987
	$ 9,585,987

Interest rates are fixed and expense (including amortization of prepayment penalty) associated with the advances from the FHLB totaled $183,816 and $158,273 for the years ended December 31, 2016 and 2015, respectively. Pursuant to collateral agreement with the FHLB, advances are secured by a blanket pledge of 1 - 4 family residential mortgages and FHLB stock.

The Bank has a secured line of credit with the FHLB of approximately $77.6 million of which $68.0 million is available.

During 2012, the Company extinguished one advance and replaced it with a similar advance. Due to the transaction being treated as a modification of existing debt, the related prepayment penalty is netted against the advances outstanding and is being amortized over the maturity of the replacement advance. As of December 31, 2016 and 2015, the amount netted against the advances outstanding is $30,045 and $150,225, respectively.

14. Other Short-Term Borrowings

At December 31, 2016, the Company had no other short-term borrowings.

On December 31, 2015, the Company borrowed a $5.5 million other short-term borrowing. The borrowing carried a weighted average interest rate of 1.00% (an effective interest rate of 1.00%) and matures overnight.

Interest expense of $57 and $58 was associated with other short-term borrowings for the years ended December 31, 2016 and December 31, 2015, respectively.

15. Senior Note Payable

On June 25, 2014, the Company entered into a $10,000,000 senior note payable that matures in June 2019. The note has an interest rate of 7.125% and expense associated with the note totaled $712,500 and $712,500 for the years ended December 31, 2016 and 2015, respectively, exclusive of amortization of debt issuance costs. As of December 31, 2016 and 2015, the amount of unamortized debt issuance costs netted against the note is $86,079 and $122,977, respectively. The debt cannot be prepaid until subsequent to June 30, 2017.

The Company is required by the loan agreements to comply with certain financial and affirmative covenants. The Company was in compliance with the covenants at December 31, 2016.

16. Fair Value

Fair value is the price that would be received for an exchange of an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value accounting 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 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government, and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

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 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Treasury, U.S. Government and agency mortgage-backed debt securities, municipal securities and corporate debt securities.

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. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Investment Securities Available-for-Sale

Investment securities available-for-sale is recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices of like or similar securities, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Loans held for Sale

Loans held for sale, which represent current mortgage production not yet sold, are recorded at the lower of current market prices or cost. The Company treats the loans held for sale as nonrecurring Level 2 in the event a write down were needed.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2016 and 2015, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Real Estate Owned

The Company does not record real estate owned at fair value on a recurring basis. However, when the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the real estate owned as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the real estate owned as nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets and liabilities measured at fair value as of December 31:

	2016			2015		
	Fair Value Measurement Using			Fair Value Measurement Using		
Description	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Mutual fund	**$ 1,856,117**	**$ -**	**$ -**	$ 1,880,783	$ -	$ -
U.S. Treasury Notes	**-**	**5,031,580**	**-**	-	7,034,980	-
Municipal securities	**-**	**2,045,900**	**-**	-	2,049,000	-
Mortgage backed securities	**-**	**34,924,310**	**-**	-	22,044,847	-
Total Securities available for sale	**$ 1,856,117**	**$ 42,001,790**	**$ -**	$ 1,880,783	$ 31,128,827	$ -

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of December 31,

	2016			2015		
	Fair Value Measurement Using			Fair Value Measurement Using		
Description	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Real estate owned	**$ -**	**$ -**	**$ 8,781,161**	$ -	$ -	$ 10,906,813
Impaired loans	**$ -**	**$ -**	**$ 1,715,504**	$ -	$ -	$ 751,500

There were no transfers between levels of fair value from 2015 to 2016.

The following table presents quantitative information about financial and nonfinancial assets measured at fair value on a nonrecurring basis using Level 3 valuation inputs as of December 31, 2016 and 2015:

2016	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Real estate owned	$ 8,781,161	Discounted appraisals (1)	Appraisal adjustments (2)	10% to 28% (18%)
Impaired loans	$ 1,715,504	Appraisal (1)	Appraisal adjustment (2)	10% to 15% (11%)

(1) Fair value is generally based on appraisals of the underlying collateral
(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

2015	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Real estate owned	$ 10,903,813	Discounted appraisals (1)	Appraisal adjustments (2)	6% to 27% (17%)
Impaired loans	$ 751,500	Discounted appraisals (1)	Appraisal adjustments (2)	10%

(1) Fair value is generally based on appraisals of the underlying collateral
(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

17. Fair Value of Financial Instruments

FASB ASC Topic 820*, Fair Value Measurements and Disclosures,* requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are excluded from the disclosure requirements.

The estimated fair values of the Company's financial instruments were as follows as of December 31:

2016	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	**$ 28,364,246**	**$ 28,364,246**
Securities available for sale	**43,857,907**	**43,857,907**
Loans held for sale	**78,599**	**78,599**
Loans receivable	**510,151,482**	**511,167,384**
Accrued interest receivable	**1,718,171**	**1,718,171**
Bank owned life insurance	**6,991,438**	**6,991,438**
Restricted stock	**1,128,900**	**1,128,900**
Financial liabilities:		
Deposits	**534,327,271**	**518,904,966**
FHLB advances, net	**9,555,942**	**9,556,941**
Senior note payable	**9,913,921**	**10,000,000**
Accrued interest payable	**47,159**	**47,159**
Mandatorily redeemable preferred stock	**2,969,000**	**2,969,000**

2015	**Carrying Amount**	**Fair Value**
Financial assets:		
Cash and cash equivalents	$ 14,987,932	$ 14,987,932
Securities available for sale	33,009,610	33,009,610
Loans receivable	410,595,954	417,772,235
Accrued interest receivable	1,348,108	1,348,108
Bank owned life insurance	6,814,917	6,814,917
Restricted stock	1,128,900	1,128,900
Financial liabilities:		
Deposits	431,622,814	432,615,531
FHLB advances, net	9,439,038	9,551,714
Other short-term borrowings	5,500,000	5,500,000
Senior note payable	9,877,023	10,000,000
Accrued interest payable	57,105	57,105
Mandatorily redeemable preferred stock	2,969,000	2,969,000

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

- *Cash and Cash Equivalents:* The carrying amounts reported in the consolidated balance sheets approximate their fair value.
- *Securities Available for Sale*: See Footnote 16.
- *Loans held for Sale*: Loans held for sale, which represent current mortgage production not yet sold, are valued based on current market prices.
- *Loans Receivable:* For variable-rate loans that re-price frequently, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. No adjustment for illiquidity has been provided due to the impracticality to estimate.
- *Restricted Stock:* Due to the redemption provisions of the FHLB, the carrying amount of the stock approximates fair value.
- *Deposits:* The fair values disclosed for demand deposits (for example, interest-bearing checking, money market, and passbook accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit are estimated by discounting the amounts payable at the certificate rates using the rates currently offered for deposits of similar remaining maturities. No customer intangibles have been determined in the fair value computation.
- *FHLB Advances and other short-term borrowings:* The FHLB advances are fixed rate advances and fair values are estimated using discounted cash flow analysis based upon interest rates currently offered for similar debt. Fair value also takes into consideration any prepayment penalties. The other short-term borrowings are due overnight and the stated value is deemed to be fair value.
- *Accrued Interest Receivable and Payable:* The carrying amount of accrued interest receivable and payable approximates the fair values.
- *Bank Owned Life Insurance:* BOLI is stated at the net surrender value which approximates the fair value.
- *Mandatorily Redeemable Preferred Stock:* The carrying amount of mandatorily redeemable preferred stock is the cost per share plus accrued dividends. The Company believes that the carrying amount approximates fair

value as the Company has sole discretion to redeem the stock until 2018, the holders of the preferred stock have the right to put the stock back to the Company, and conversion features of the preferred stock prevents the practical determination of credit risk. As a result, the cost is presumed to approximate fair value.

- *Senior Note Payable:* The payable is fixed rate debt and the fair value is estimated using discounted cash flow analysis is based upon interest rates currently offered for similar debt. Fair value also takes into consideration any prepayment penalties.

18. Lines of Credit

The Bank has various secured and unsecured lines of credit available with financial institutions that approximate $47.3 million. There were no outstanding borrowings on these lines as of December 31, 2016 and 2015.

19. Mandatorily Redeemable Preferred Stock

The Company issued 5% cumulative convertible redeemable preferred stock in order to provide additional capital to support the Bank's operations. Shares were issued at a cost of $1,000 per share and have a par value of $.01 per share. The Company issued 2,969 shares, which raised total capital of $2,969,000. The preferred stock is mandatorily redeemable at the discretion of the stock holder beginning September 30, 2018. The preferred stock may also be converted to common stock at $9 per share at any time through March 31, 2015 rising to $12 per share thereafter. The Company can redeem the preferred stock at any time. The conversion price is subject to change under certain conditions as outlined in the related private placement memorandum. Dividends are paid quarterly in arrears and began on September 30, 2012 and are paid semi-annually thereafter when declared. Dividends totaling $148,450 were paid during the years ended December 31, 2016 and 2015. Due to the option held by the holder to redeem the stock on demand after September 30, 2018, the preferred stock is presented as a liability. Subsequent to year end, the Company called the preferred stock for redemption.

20. Income Taxes

The components of income tax expense (benefit) are summarized as follows as of December 31:

	2016	2015
Current:		
Federal	**$ 2,458,485**	$ 1,268,066
State	**555,994**	299,751
Total current taxes	**3,014,479**	1,567,817
Deferred:		
Federal	**(306,489)**	243,451
State	**(119,740)**	10,668
Total deferred taxes	**(426,229)**	254,119
Income tax expense	**$ 2,588,250**	$ 1,821,936

A reconciliation of actual income tax expense in the consolidated financial statements to the expected tax expense (computed by applying the statutory federal income tax rate of 34% to income before income taxes) is as follows as of December 31:

	2016	2015
Federal statutory rate times financial statement pretax income	**$ 2,319,383**	$ 1,642,381
Effect of:		
Bank-owned life insurance	**(58,750)**	(55,533)
State income taxes, net of federal income effect	**287,927**	204,876
Incentive stock based compensation	**23,614**	14,257
Other, net	**16,076**	15,955
Income tax expense	**$ 2,588,250**	$ 1,821,936

The tax effect of each type of temporary difference that gives rise to net deferred tax assets and liabilities is as follows as of December 31:

	2016	2015
Deferred tax assets relating to:		
Allowance for loan losses	**$ 2,022,118**	$ 1,985,845
Purchase accounting adjustments	**13,515**	13,515
Unrealized loss on AFS securities	**83,409**	-
Other, primarily OREO losses	**1,699,800**	1,125,974
	3,818,842	3,125,334
Deferred tax liabilities relating to:		
Unrealized gain on AFS securities	**-**	(77,781)
Depreciation	**(264,629)**	(54,906)
Federal Home Loan Bank stock	**(128,846)**	(128,846)
Core deposit intangible	**-**	(25,853)
	(393,475)	(287,386)
Deferred tax asset, net	**$ 3,425,367**	$ 2,837,948

21. Employee Benefit Plan

The Company's 401(k) profit sharing plan covers substantially all employees of the Company. There is no limit on which eligible officers and employees may contribute from their annual compensation on a tax-deferred basis. The Company matches employee contributions of up to 4% of employee compensation through Safe Harbor Matching. The Company can make additional contributions at its discretion. Total plan expense for the years ended December 31, 2016 and 2015 was approximately $181,000 and $166,000, respectively.

22. Deferred Compensation Agreements

The Company accrued a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. The liability as of December 31, 2016 and 2015 was approximately $253,000 and $245,000, respectively.

The Company maintains supplemental executive retirement plans (“SERP”) to provide additional retirement benefits to certain executives. The liability as of December 31, 2016 and 2015 was approximately $1,033,000 and $672,000, respectively. Total SERP expenses for the years ended December 31, 2016 and 2015 was approximately $361,000 and $312,000, respectively.

23. Employment Agreements

The Company has entered into employment agreements with various employees of the Company. The employment agreements have a revolving one-year term. The Board of Directors or employee may give a non-renewal notice at any time. At such time the employment contract would terminate in one year. The employment agreements provide for severance payments in the event of involuntary termination of employment of (2) times salary. Select key employment agreements provide for severance payments of (2.9) times salary in the event of a change of control of the Company or (2.9) times salary in the event of a change in control and involuntary termination within (24) months. The employment agreements also contain non-compete, non-solicitation of customers and non-solicitation of employees for a period of up to one year. The agreements also provide for normal and customary benefits for the subject individual based on the executive’s position.

24. Contingencies

The Company is subject to a variety of legal matters that have arisen in the ordinary course of our business. Litigation is primarily related to credit and collections activity as a result of defaulted borrowers asserting claims to defeat or delay foreclosure proceedings. There can be no assurance that loan workouts and other activities will not expose the Company to additional legal actions, including lender liability or environmental claims. Therefore, the Company may be exposed to liabilities, which could adversely affect its results of operations and financial condition.

25. Regulatory Capital Requirements

Bancorp's principal source of funds for dividend payments are dividends received from its subsidiary bank and remaining debt proceeds. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year’s net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. The Company paid $148,450 in dividends on preferred stock in 2016 and 2015.

The Bank is a federally-insured state-chartered bank and is subject to the rules and regulations of the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation (“FDIC”). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Bank and its financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital, common equity Tier 1, Tier I capital to risk-weighted assets (as defined in the regulations), and Tier I capital to adjusted total assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from 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 (Tier I leverage, Tier I risk-based, total risk-based capital) 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. No deduction from capital for interest-rate risk was required.

New regulatory capital regulations that were effective in March 2015 and created a new capital ratio, the Common Equity Tier 1 (CET 1) to risk-weighted assets as well as required an increase in the minimum capital requirement for Tier 1 capital to risk-weighted assets to 6% from 4%. The new capital regulations will require that in 2016 through 2019 that regulated financial institutions build up a capital conservation buffer within the CET 1 ratio of an additional 2.5%. This will begin with a .625% requirement in 2016 and will increased thereafter by .625% until the 2.5% CET 1 threshold is fully effective.

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
Total risk-based capital (to risk-weighted assets)	**$ 69,779**	**13.2%**	**$ 42,213**	**8.0%**	**$ 52,766**	**10.0%**
Tier 1 risk-based capital (to risk-weighted assets)	**$ 64,497**	**12.2%**	**$ 31,660**	**6.0%**	**$ 42,213**	**8.0%**
Tier 1 leverage capital (to adjusted total assets)	**$ 64,497**	**11.0%**	**$ 23,512**	**4.0%**	**$ 29,390**	**5.0%**
Tier 1 minimum common equity risk-based capital (to risk-weighted assets)	**$ 64,497**	**12.2%**	**$ 23,745**	**4.5%**	**$ 34,298**	**6.5%**

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Total risk-based capital (to risk-weighted assets)	$ 49,235	12.2%	$ 32,267	8.0%	$ 40,334	10.0%
Tier 1 risk-based capital (to risk-weighted assets)	$ 44,189	11.0%	$ 24,200	6.0%	$ 32,267	8.0%
Tier 1 leverage capital (to adjusted total assets)	$ 44,189	9.1%	$ 19,535	4.0%	$ 24,419	5.0%
Tier 1 minimum common equity risk-based capital (to adjusted total assets)	$ 44,189	11.0%	$ 18,077	4.5%	$ 26,112	6.5%

26. Stock Based Compensation

In organizing the Company, the Company issued to each of its directors and initial investors warrants to purchase additional shares of common stock. There were a total of 484,400 outstanding warrants to purchase one additional share of common stock. During 2015, 77,674 of the warrants were exercised at $10 per share, or $776,741. During 2016, 72,004 of the warrants were exercised at $10.00 per share, or $720,040.The remaining 259,722 warrants expired in 2016. The warrants were fully vested and exercisable for a period of 10 years. The warrants were exercisable at an exercise price equal to $10 per share, subject to limitations. The warrants had no intrinsic value as of December 31, 2016.

The Bancorp's Stock Option Plan (the Plan), which is shareholder-approved, permits the granting of stock options and restricted stock equal to 15% of Bancorp's outstanding common stock. Option prices are granted with an exercise price equal to the market price of Bancorp's stock at the date of the grant; those option awards generally vest over five years and have ten year contractual terms. Certain option and share awards provide for accelerated vesting if there is a change in control, or upon attainment of certain predetermined net income or total asset amounts (as defined in the Plan).

A summary of option activity is shown below:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life Outstanding
Outstanding at January 1, 2016	518,570	$ 7.69	2.0 years
Granted	-	-	-
Exercised	75,000	8.12	0.0 years
Cancelled / expired	132,190	10.00	0.0 years
Outstanding at December 31, 2016	311,380	$ 6.79	1.7 years
Vested and exercisable at December 31, 2016	249,297	$ 6.53	1.5 years

The aggregate intrinsic value of outstanding options was approximately $1,621,000 at December 31, 2016. The aggregate intrinsic value of exercisable options was approximately $1,364,000 at December 31, 2016.

No options were awarded in 2016. The options awarded in 2015 were valued at fair value recognition using the Black-Scholes method to be $1.29 per share. Significant assumptions used in calculating the value of options issued are as follows as of December 31:

	2015
Strike price	$ 8.23
Fair value at date of grant	6.50
Expected dividend ratio	0.00%
Risk free rate of interest	1.44%
Expected life of options	5 years
Calculated volatility	29.50%
Estimated fair value per share	$ 1.29

For the years ended December 31, 2016 and 2015, expense recognized for the vesting of stock option grants was approximately $116,000 and $63,000, respectively. The Company has unvested stock based compensation related to stock options of approximately $489,000 as of December 31, 2016 to be expensed over a 1.7-year weighted average period.

Restricted stock is issued to certain officers and directors on a discretionary basis. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at issue date. The fair value of the restricted stock was determined using the market price on the day of issuance. Restricted stock vests over single or multiple year periods. The Company issued 7,000 restricted shares with a one year vesting period and 20,000 shares with a four year vesting period during 2016. The expense recognized for the vesting of restricted stock was approximately $39,000 during 2016. The unearned compensation for these awards is approximately $226,000 as of December 31, 2016 to be expensed over a 3.4-year weighted average period.

The Company uses authorized but unissued shares to meet the Plan's needs.

27. Related Party Transactions

The Company has entered into lending transactions with certain directors and executive officers. 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.

Loans to related parties were as follows:

Balance, January 1, 2015	$ 1,039,125
New loans	-
New directors	9,314,610
Repayments	(114,480)
Ending balance, December 31, 2015	10,239,255
New loans	4,824,000
Repayments	(2,215,866)
Ending balance, December 31, 2016	$ 12,847,389

Credit cards issued to related parties were as follows:

	Credit Limit	Balances
Balance, December 31, 2015	$ 245,000	$ 30,089
Balance, December 31, 2016	$ 245,000	$ 33,615

Deposits from executive officers, directors, and their affiliates at December 31, 2016 and 2015 were approximately $5.5 million.

28. Condensed Financial Information of Mountain Commerce Bancorp, Inc. - Parent Company Only

The following are the condensed Parent Company Only financial statements as of December 31:

Condensed Balance Sheets

	2016	2015 (Restated)
ASSETS		
Cash and cash equivalents	**$ 6,825,431**	$ 1,714,074
Investment in subsidiary	**64,818,714**	44,898,593
Other assets	**764,226**	459,064
Total assets	**$ 72,408,371**	$ 47,071,731
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mandatorily redeemable preferred stock	**$ 2,969,000**	$ 2,969,000
Senior Note Payable	**9,913,921**	9,877,023
Other Liabilities	**1,333,980**	-
Total liabilities	**14,216,901**	12,846,023
Stockholders' equity:		
Common stock	**$ 57,352**	$ 39,174
Additional paid-in capital	**60,224,408**	40,093,146
Accumulated deficit	**(1,955,864)**	(6,031,966)
Accumulated other comprehensive income	**(134,426)**	125,354
Total stockholders' equity	**58,191,470**	34,225,708
Total liabilities and stockholders' equity	**$ 72,408,371**	$ 47,071,731

Condensed Statements of Operations

	2016	2015 (Restated)
Interest income	**$ -**	$ 15
Equity income of subsidiary	**4,725,274**	3,562,939
Total income	**4,725,274**	3,562,954
Interest expense	**(740,483)**	(740,483)
Other noninterest expense	**(56,485)**	(56,555)
Total expense	**(796,968)**	(797,038)
Income before income taxes	**3,928,306**	2,765,916
Income tax expense	**305,160**	305,180
Net income	**$ 4,233,466**	$ 3,071,096

Condensed Statements of Cash Flows

	2016	2015 (Restated)
Operating activities:		
Net income	**$ 4,233,466**	$ 3,071,096
Adjustments to reconcile net income to net cash used by operating activities:		
Undistributed income of subsidiary	**(4,725,274)**	(3,562,939)
Stock based compensation	**154,626**	62,916
Net change in other operating assets and liabilities	**(205,761)**	(268,281)
Net cash used by operating activities	**(542,943)**	(697,208)
Investing activities:		
Investment in bank subsidiary	**(15,517,129)**	(2,139,655)
Net cash used by investing activities	**(15,517,129)**	(2,139,655)
Financing activities:		
Repurchase of common stock	**-**	(715,201)
Proceeds from issuance of common stock	**21,328,794**	776,741
Dividend of preferred stock dividend	**(148,450)**	(148,450)
Amortization of stock issue costs	**(8,915)**	(8,914)
Net cash (used) provided by financing activities	**21,171,429**	(95,824)
Increase (decrease) in cash and cash equivalents	**5,111,357**	(2,932,687)
Cash and cash equivalents, beginning	**1,714,074**	4,646,761
Cash and cash equivalents, ending	**$ 6,825,431**	$ 1,714,074

29. Subsequent Events

The Company has evaluated subsequent events through February 28, 2017, the date these consolidated financial statements were available to be issued.

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