

**MainStreet Bancshares Inc.**

**Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
With Independent Auditor's Report**

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## **Independent Auditor's Report**

To the Board of Directors and Stockholders  
MainStreet Bancshares Inc.  
Fairfax, Virginia

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of MainStreet Bancshares Inc. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of MainStreet Bancshares Inc. and its subsidiary as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Yount, Hyde & Barbours, P.C.*

Richmond, Virginia  
February 16, 2018

**MainStreet Bancshares Inc.**  
**Consolidated Balance Sheets**

<b>December 31,</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and due from banks	\$ 37,492,616	\$ 17,272,838
Federal funds sold	—	797,000
Total cash and cash equivalents	37,492,616	18,069,838
Investment securities available for sale, at fair value	51,314,180	36,354,090
Investment securities held to maturity (fair value of \$27,903,552 and \$27,502,829, respectively)	27,516,929	27,713,601
Restricted equity securities, at cost	4,241,250	3,426,300
Loans, net of allowance for loan losses of \$5,705,451 and \$3,980,494, respectively	654,339,234	463,925,745
Premises and equipment, net	13,964,889	12,308,920
Other real estate owned, net	—	134,459
Accrued interest and other receivables	3,849,266	2,261,126
Bank owned life insurance	13,636,598	10,201,847
Other assets	1,596,521	1,314,966
<b>Total Assets</b>	<b>\$ 807,951,483</b>	<b>\$ 575,710,892</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Non-interest bearing deposits	\$ 171,571,856	\$ 106,050,502
Interest bearing demand deposits	48,432,354	41,610,534
Savings and NOW deposits	47,855,384	44,832,784
Money market deposits	82,827,995	75,670,024
Other time deposits	316,967,721	205,402,893
Total deposits	667,655,310	473,566,737
Federal Home Loan Bank advances	48,141,666	40,191,666
Other borrowings	5,638,000	—
Subordinated debt	14,747,525	14,018,750
Other liabilities	2,967,800	1,539,177
<b>Total Liabilities</b>	<b>739,150,301</b>	<b>529,316,330</b>
<b>Stockholders' Equity:</b>		
Common stock, \$4 par value. (Authorized 7,500,000 shares; issued and outstanding 5,471,892 shares (including 111,358 nonvested shares) for December 31, 2017 and 4,275,232 shares (including 112,685 nonvested shares) for December 31, 2016)	21,442,136	16,650,188
Capital surplus	35,692,805	22,152,193
Retained earnings	11,685,788	7,800,365
Accumulated other comprehensive loss	(19,547)	(208,184)
<b>Total Stockholders' Equity</b>	<b>68,801,182</b>	<b>46,394,562</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 807,951,483</b>	<b>\$ 575,710,892</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**MainStreet Bancshares Inc.**  
**Consolidated Statements of Income**

<b>Years Ended December 31,</b>	<b>2017</b>	<b>2016</b>
<b>INTEREST INCOME:</b>		
Interest and fees on loans	\$ 25,080,364	\$ 20,197,027
Interest on investment securities	1,576,130	1,287,084
Interest on federal funds sold	297,159	93,113
Total interest income	<u>26,953,653</u>	<u>21,577,224</u>
<b>INTEREST EXPENSE:</b>		
Interest on interest bearing demand deposits	193,795	10,969
Interest on savings and NOW deposits	182,417	167,102
Interest on money market deposits	565,304	299,540
Interest on other time deposits	3,114,234	2,327,510
Interest on Federal Home Loan Bank advances and other borrowings	451,912	265,531
Subordinated debt interest expense	963,567	—
Total interest expense	<u>5,471,229</u>	<u>3,070,652</u>
Net interest income	21,482,424	18,506,572
Provision for loan losses	1,885,000	645,000
Net interest income after provision for loan losses	<u>19,597,424</u>	<u>17,861,572</u>
<b>NON-INTEREST INCOME:</b>		
Deposit account service charges	836,401	731,005
Other loan fees	445,659	203,674
Bank owned life insurance income	434,751	201,884
Other operating income	560,680	385,638
Total non-interest income	<u>2,277,491</u>	<u>1,522,201</u>
<b>NON-INTEREST EXPENSES:</b>		
Salaries and employee benefits	9,652,288	8,587,722
Occupancy expenses	605,444	733,698
Furniture and equipment expenses	1,271,760	1,143,082
Advertising and marketing	264,345	276,214
Outside services	663,036	615,069
Franchise tax	451,014	343,225
FDIC insurance	431,696	369,000
Data processing	742,380	576,860
Loss on sale of other real estate owned	50,735	—
Other operating expenses	1,525,452	1,270,079
Total non-interest expenses	<u>15,658,150</u>	<u>13,914,949</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>6,216,765</u>	<u>5,468,824</u>
Income tax expense	2,334,555	1,593,491
<b>NET INCOME</b>	<u>\$ 3,882,210</u>	<u>\$ 3,875,333</u>
Net income per common share, basic and diluted	\$ 0.85	\$ 0.91
Weighted average number of shares, basic and diluted	4,551,189	4,260,622

*The accompanying notes are an integral part of these consolidated financial statements.*

**MainStreet Bancshares Inc.**  
**Consolidated Statements of Comprehensive Income**

<b>Year Ended December 31,</b>	<b>2017</b>	<b>2016</b>
Net income	\$ 3,882,210	\$ 3,875,333
Other comprehensive income (loss), net of tax:		
Unrealized securities gains (losses) arising during period (net of tax (benefit), \$86,475 and (\$41,160), respectively)	167,864	(79,898)
Add: reclassification adjustment for amortization of unrealized losses on securities transferred from available for sale to held to maturity (net of tax, \$12,356 and \$12,356, respectively)	23,986	23,986
Other comprehensive income (loss)	<u>191,850</u>	<u>(55,912)</u>
Comprehensive income	<u>\$ 4,074,060</u>	<u>\$ 3,819,421</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**MainStreet Bancshares Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity**

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance at December 31, 2015</b>	\$ 16,515,300	\$ 21,836,106	\$ 3,925,032	\$ (152,272)	\$42,124,166
<b>Vesting of restricted stock grants</b>	134,888	(134,888)	—	—	—
<b>Stock based compensation expense</b>	—	450,975	—	—	450,975
<b>Net income</b>	—	—	3,875,333	—	3,875,333
<b>Other comprehensive loss</b>	—	—	—	(55,912)	(55,912)
<b>Balance at December 31, 2016</b>	\$ 16,650,188	\$ 22,152,193	\$ 7,800,365	\$ (208,184)	\$46,394,562
<b>Proceeds from sale of common stock, net of offering costs</b>	4,600,000	13,215,583	—	—	17,815,583
<b>Vesting of restricted stock grants</b>	191,948	(191,948)	—	—	—
<b>Stock based compensation expense</b>	—	516,977	—	—	516,977
<b>Net income</b>	—	—	3,882,210	—	3,882,210
<b>Reclassification of stranded tax effects from change in tax rate</b>	—	—	3,213	(3,213)	—
<b>Other comprehensive income</b>	—	—	—	191,850	191,850
<b>Balance at December 31, 2017</b>	\$ 21,442,136	\$ 35,692,805	\$ 11,685,788	\$ (19,547)	\$68,801,182

*The accompanying notes are an integral part of these consolidated financial statements.*

**MainStreet Bancshares Inc.**  
**Consolidated Statements of Cash Flows**

<b>Year Ended December 31,</b>	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,882,210	\$ 3,875,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion, net	1,304,248	1,102,980
Deferred income tax benefit	(1,018,020)	(192,554)
Loss on sale of other real estate owned	50,735	—
Gain on disposal of fixed assets	—	(5,440)
Provision for loan losses	1,885,000	645,000
Stock based compensation expense	516,977	450,975
Income from bank owned life insurance	(434,751)	(201,884)
Subordinated debt amortization expense	28,775	—
Changes in assets and liabilities		
Increase in accrued interest and other receivables	(1,588,140)	(378,949)
Decrease in other assets	673,962	125,496
Increase in other liabilities	1,428,623	494,587
<b>Net cash provided by operating activities</b>	<b>6,729,619</b>	<b>5,915,544</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Maturity of investment securities available for sale	68,000,000	60,000,000
Purchase of investment securities available for sale	(85,330,015)	(64,953,603)
Payments on investment securities available for sale	2,338,964	1,983,948
Purchase of investment securities held to maturity	—	(8,006,217)
Proceeds from sale of other real estate owned	83,724	—
Net increase in loan portfolio	(192,298,489)	(66,279,425)
Increase in bank owned life insurance	(3,000,000)	(9,999,963)
Purchase of restricted stock	(1,452,950)	(555,750)
Redemption of restricted stock	638,000	637,500
Purchase of premises and equipment	(2,478,231)	(579,211)
<b>Net cash used in investing activities</b>	<b>(213,498,997)</b>	<b>(87,752,721)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in non-interest bearing deposits	65,521,354	37,642,022
Net increase in interest bearing demand, savings and time deposits	128,567,219	50,370,668
Net decrease in securities sold under agreements to repurchase	—	(18,674)
Net increase in subordinated debt	700,000	14,018,750
Net proceeds from sale of common stock, net of offering costs	17,815,583	—
Net increase (decrease) in Federal Home Loan Bank advances and other borrowings	13,588,000	(9,317,000)
<b>Net cash provided by financing activities</b>	<b>226,192,156</b>	<b>92,695,766</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>19,422,778</b>	<b>10,858,589</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>18,069,838</b>	<b>7,211,249</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 37,492,616</b>	<b>\$ 18,069,838</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Income taxes paid	\$ 1,853,003	\$ 1,557,800
Interest paid	\$ 5,237,086	\$ 3,000,483
Net unrealized gain (loss) on securities available for sale	\$ 254,353	\$ (121,058)

*The accompanying notes are an integral part of these consolidated financial statements.*

**MainStreet Bancshares Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2017 and 2016**

**Note 1 - ORGANIZATION**

MainStreet Bancshares Inc. (the “Company”) is a bank holding company incorporated under the laws of the Commonwealth of Virginia whose principal activity is the ownership and management of MainStreet Bank. On May 18, 2016, the shareholders of MainStreet Bank (the “Bank”) approved a Reorganization Agreement and Plan of Share Exchange (“Reorganization”) whereby the Bank would reorganize into a holding company structure. The Plan of Share Exchange called for each outstanding share of Bank common stock to be automatically converted into and exchanged for one share of the Company’s common stock, and the common shareholders of the Bank would become the common shareholders of the Company on the effective date of the Reorganization. The Company is authorized to issue 7,500,000 shares of common stock with a par value of \$4.00 per share. Additionally, the Company is authorized to issue 2,000,000 shares of preferred stock at a par value \$1.00 per share. There is currently no preferred stock outstanding. There are no plans currently nor does the Board of Directors of the Company anticipate any need in the foreseeable future to issue shares of preferred stock.

On July 15, 2016, the Reorganization became effective, and the Bank became a wholly-owned subsidiary of the Company. The holding company is regulated under the Bank Holding Company Act of 1956, as amended (“BHC Act”) and is subject to inspection, examination, and supervision by the Federal Reserve Board.

MainStreet Bank is headquartered in Fairfax, Virginia where it also operates a branch. The Bank was incorporated on March 28, 2003 and received its charter from the Bureau of Financial Institutions of the Commonwealth of Virginia (the “Bureau”) on March 16, 2004. The Bank commenced regular operations on May 26, 2004 and is supervised by the Bureau and the Federal Reserve Bank of Richmond. The Bank is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation. The Bank places special emphasis on serving the needs of individuals, and small and medium-sized business and professional concerns in the Washington, D.C. metropolitan area.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting** – The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

**Principles of consolidation** – The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

**Cash and cash equivalents** – For the purpose of presentation in the Statements of Cash Flows, the Bank has defined cash and cash equivalents as those amounts included in the balance sheet captions “Cash and due from banks” and “Federal funds sold.”

**Investment securities** – The Bank’s investment securities are classified as either held to maturity, available for sale or trading. At December 31, 2017 and December 31, 2016, the Bank held approximately \$27.5 million and \$27.7 million, respectively, in securities classified as held to

maturity. The Bank held no securities classified as trading. Municipal securities that were originally purchased as available for sale were transferred to held to maturity during 2013. The unrealized loss on the securities transferred to held to maturity is being amortized over the expected life of the securities. At December 31, 2017 and December 31, 2016, the unamortized unrealized loss was \$145,091 and \$181,429, respectively, before tax, and remains in accumulated other comprehensive income (loss).

Securities which are not classified as held to maturity or trading are classified as securities available for sale. Securities available for sale are reported at fair value. Any unrealized gain or loss, net of applicable income taxes, is reported as a separate addition to or reduction from stockholders' equity. Gains and losses arising from the sale of securities available for sale are recognized based on the specific identification method on a trade-date basis and included in results of operations.

Securities held to maturity includes securities purchased with the ability and positive intent to hold to maturity. Debt securities are stated at historical cost adjusted for amortization of premiums and accretion of discount. Any investment security, for which there has been a value impairment deemed by management to be other than temporary, is written down to its estimated market value or fair value with a charge to current operations.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (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) whether the Bank intends to sell the security, whether it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, and whether the Bank expects to recover the security's entire amortized cost basis. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted equity securities consist of the Federal Reserve Bank and Federal Home Loan Bank of Atlanta ("FHLB") stock in the amount of \$1,550,150 and \$2,564,300, respectively, as of December 31, 2017, compared to \$1,159,200 and \$2,140,300, respectively, as of December 31, 2016. Restricted equity securities also consisted of \$126,800 in Community Bankers Bank stock at December 31, 2017 and December 31, 2016. This restricted stock is recorded at cost because its ownership is restricted and it lacks a market for resale. The Bank is required to maintain Federal Reserve Bank stock at a level of 6% of capital and surplus. The FHLB requires the Bank to maintain stock, at a minimum, in an amount equal to 4.5% of outstanding borrowings and 0.20% of total assets. When evaluating restricted stock for impairment, its value is based on ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Bank does not consider these investments to be other than temporarily impaired at December 31, 2017 or December 31, 2016 and no impairment has been recognized.

**Loans** - The Bank makes commercial and consumer loans to customers. Our recorded investment in loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their unpaid principal balances adjusted for charge-offs, unearned discounts, any deferred fees or costs on originated loans, and the allowance for loan losses. Interest on loans is credited to operations based on the principal amount outstanding. Loan fees and origination costs are deferred and the net amount is amortized as an adjustment of the related loan's yield using the effective interest method. The Bank is amortizing these amounts over the contractual life of the related loans.

A loan's past due status is based on the contractual due date of the most delinquent payment due. All loans which are 30 or more days past due at the end of the month are reported to the Board of Directors. Commercial loans are generally placed on nonaccrual status when the collection of principal or interest is 90 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Consumer loans are generally placed on nonaccrual status when the collection of principal or interest is 120 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Loans greater than 90 days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest. For those loans that are carried on nonaccrual status, payments are first applied to principal outstanding. A loan may be returned to accrual status if the borrower has demonstrated a sustained period of repayment performance in accordance with the contractual terms of the loan and there is reasonable assurance the borrower will continue to make payments as agreed. It is Bank policy to charge-off loans whose collectability is sufficiently questionable and can no longer be justified as an asset on the balance sheet. To determine if a loan should be charged-off, all possible sources of repayment are analyzed, including: (1) the potential for future cash flow, (2) the value of the Bank's collateral, and (3) the strength of co-makers or guarantors. All principal and previously accrued interest is charged to the allowance for loan losses. All future payments received on the loan are credited to the allowance for loan losses as a recovery. These policies are applied consistently across our loan portfolio.

**Impairment of a loan** - The Bank considers a loan impaired when it is probable that the Bank will be unable to collect all interest and principal payments as scheduled in the loan agreement. A loan is not considered impaired during a period of an insignificant delay in payment if the ultimate collectability of all amounts due is expected. Impairment is measured on a loan by loan basis for all commercial, construction and residential loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Consistent with the Bank's method for nonaccrual loans, payments on impaired loans are first applied to principal outstanding. Smaller balance consumer loans are not individually evaluated for impairment.

Troubled Debt Restructuring (TDR) occurs when the Bank agrees to modify the original terms of a loan due to the deterioration in the financial condition of the borrower. TDRs are considered impaired loans. Upon designation as a TDR, the Bank evaluates the borrower's payment history, past due status and ability to make payments based on the revised terms of the loan. If a loan was accruing prior to being modified as a TDR and if the Bank concludes that the borrower is able to continue making such payments, and there are no other factors or circumstances that would cause it to conclude otherwise, the loan will remain on an accruing status. If a loan was on nonaccrual status at the time of the TDR, the loan will remain on nonaccrual status following the modification and may be returned to accrual status based on the policy for returning loans to accrual status as noted above. Restructured loans for which there was no rate concession, and therefore made at a market rate of interest, may be eligible to be removed from TDR status in periods subsequent to the restructuring depending on the performance of the loan. As of December 31, 2017 and December 31, 2016, the Bank had approximately \$3.5 million of loans classified as TDR. At December 31, 2017, TDR loans consisted of two loans. One loan in the amount of approximately \$1.5 million is currently performing in accordance with its modified terms. The other loan in the amount of approximately \$2.0 million is on non-accrual. At, December 31, 2016, all TDR's were performing in accordance with their modified terms.

**Allowance for Loan Losses** - The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Loan losses are charged against the allowance

for loan losses for the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when:

- Management believes that the collectability of the principal is unlikely regardless of delinquency status.
- The loan is a consumer loan and is 120 days past due.
- The loan is a non-consumer loan, unless the loan is well secured and recovery is probable.
- The borrower is in bankruptcy, unless the debt has been reaffirmed, is well secured and recovery is probable.

Subsequent recoveries, if any, are credited to the allowance.

The allowance represents an amount that, in management's judgment, will be adequate to absorb probable losses inherent in the loan portfolio. Management's judgment in determining the level of the allowance is based on evaluations of the collectability of loans while taking into consideration such factors as trends in delinquencies and charge-offs, changes in the nature and volume of the loan portfolio, current economic conditions that may affect a borrower's ability to repay and the value of collateral, overall portfolio quality and review of specific potential losses. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The evaluation also considers the following risk characteristics of each loan portfolio segment:

- Real estate residential mortgage loans, including equity lines of credit, carry risks associated with the continued credit-worthiness of the borrower and the changes in the value of the collateral.
- Real estate construction loans and land improvement carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Commercial real estate loans carry risks of the client's ability to repay the loan from the cash flow derived from the underlying real estate. Risks inherent in managing a commercial real estate portfolio relate to sudden or gradual drops in property values as well as changes in the economic climate. Real estate security diminishes risks only to the extent that a market exists for the subject collateral. These risks are attempted to be mitigated by carefully underwriting loans of this type and by following appropriate loan-to-value standards.
- Commercial and industrial loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.
- Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral (e.g., rapidly-depreciating assets such as automobiles), or lack thereof. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired, and is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

For collateral dependent loans, an updated appraisal will be ordered if a current one is not on file. Appraisals are performed by independent third-party appraisers with the relevant industry experience. Adjustments to the appraised value may be made based on recent sales of like properties or general market conditions when appropriate. The general component covers non-classified or performing loans and those loans classified as substandard or special mention that are not impaired. The general component is based on historical loss experience adjusted for qualitative factors, such as current economic conditions, including current home sales and foreclosures, unemployment rates and retail sales. Non-impaired classified loans are assigned a higher allowance factor based on an internal migration analysis, which increases with the severity of classification, than non-classified loans. The characteristics of the loan ratings are as follows:

- Pass rated loans are to persons or business entities with an acceptable financial condition, appropriate collateral margins, appropriate cash flow to service the existing loan, and an appropriate leverage ratio. The borrower has paid all obligations as agreed and it is expected that this type of payment history will continue. When necessary, acceptable personal guarantors support the loan.
- Special mention loans have a specific defined weakness in the borrower's operations and the borrower's ability to generate positive cash flow on a sustained basis. The borrower's recent payment history is characterized by late payments. The Bank's risk exposure is mitigated by collateral supporting the loan. The collateral is considered to be well-margined, well maintained, accessible and readily marketable.
- Substandard loans are considered to have specific and well-defined weaknesses that jeopardize the viability of the Bank's credit extension. The payment history for the loan has been inconsistent and the expected or projected primary repayment source may be inadequate to service the loan. The estimated net liquidation value of the collateral pledged and/or ability of the personal guarantor(s) to pay the loan may not adequately protect the Bank. There is a distinct possibility that the Bank will sustain some loss if the deficiencies associated with the loan are not corrected in the near term. A substandard loan would not automatically meet our definition of impaired unless the loan is significantly past due and the borrower's performance and financial condition provide evidence that it is probable that the Bank will be unable to collect all amounts due.
- Doubtful rated loans have all the weaknesses inherent in a loan that is classified substandard but with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high.
- Loss rated loans are not considered collectible under normal circumstances and there is no realistic expectation for any future payment on the loan. Loss rated loans are fully charged off.

**Other Real Estate Owned** - Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, and recent sales of like properties, length of time the properties have been held and our ability and intention with regard to continued ownership of the properties. The Bank may incur additional write-downs of foreclosed assets to fair value less costs to sell if valuations indicate a further deterioration in market values. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets and improvements are capitalized.

**Interest income on loans** – Interest on loans is accrued and credited to income on daily balances of the principal amount outstanding. The accrual of interest on loans is discontinued when, in the

opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Generally, the Bank will return a loan to accrual status when all delinquent interest and principal becomes current and remains current for six consecutive months under the terms of the loan agreement or the loan is well-secured or in process of collection. Upon returning to accrual status, interest payments applied to the principal balance of a loan while in nonaccrual status are recognized as a yield adjustment over the remaining life.

**Loan origination and commitment fees and certain related direct costs** - Loan origination and commitment fees charged by the Bank and certain direct loan origination costs are deferred and the net amount is amortized as a yield adjustment. The Bank amortizes these net amounts over the life of the related loans or, in the case of demand loans, over the estimated life. Net fees related to standby letters of credit are recognized over the commitment period.

**Premises and equipment** – Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization computed principally on the straight-line basis over the estimated useful life of each asset, which ranges from 3 to 27.5 years. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful lives of the improvements. Construction in progress includes assets which will be reclassified and depreciated once placed into service.

**Repurchase agreements** – The Bank routinely enters into repurchase agreements with customers, which are included in the balance sheet line item “securities sold under agreements to repurchase”. As part of the repurchase agreements, the Bank pledges marketable investment securities from its investments portfolio as collateral for the customer repurchase agreements. The Bank had no outstanding repurchase agreements at December 31, 2017 and December 31, 2016. The rate of interest incurred under these borrowings fluctuates in response to market conditions. Customer repurchase agreements were no longer offered as of December 31, 2016.

**Income taxes** – The Bank uses an asset and liability approach in financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The principal items relate primarily to differences between the allowance for loan losses, deferred loan fees, and accumulated depreciation and amortization. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of December 31, 2017 and 2016, there were no such liabilities recorded.

Interest and penalties associated with unrecognized tax benefits, if any, would be classified as additional income taxes in the statement of operations.

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

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“AOCI”). The Company early adopted this new standard in the current year. ASU 2018-02 requires reclassification from AOCI to retained earnings for stranded tax effects resulting from the impact of the newly enacted federal corporate income tax rate on items included in AOCI. The amount of this reclassification in 2017 was \$3,213.

**Stock compensation plans** – Stock compensation accounting guidance (FASB ASC 718, “Compensation – Stock Compensation”) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees’ service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Bank’s common stock at the date of grant is used for restricted stock awards. No stock options were granted during 2017 and 2016.

**Earnings per share** – Net income per common share has been determined under the provisions of FASB ASC 260, “Earnings Per Share” and has been computed based on the weighted average common shares outstanding during the year (4,551,189 for 2017 and 4,260,622 for 2016). Diluted earnings per share reflect additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

The only potential dilutive stock of the Bank as defined in FASB ASC 260 is stock options granted to various directors, officers, and employees of the Bank. Restricted stock is included in the computation of basic earnings per share as the holder is entitled to full benefits of a shareholder during the vesting period.

**Off-balance sheet instruments** – In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

**Advertising and marketing expense** – Advertising and marketing costs are expensed as incurred.

**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 at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from the estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, deferred income taxes, and fair value measurements. In connection with the determination of the allowances for losses on loans and valuation of OREO, management obtains independent appraisals for significant properties.

**Fair value of financial instruments** – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

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

### Note 3 – RESTRICTIONS ON CASH

To comply with Federal Reserve regulations, the Bank is required to maintain certain average cash reserve balances. The daily average cash reserve requirements were approximately \$8.2 million and \$4.5 million for the weeks including December 31, 2017 and December 31, 2016, respectively.

### Note 4 - INVESTMENT SECURITIES

The amortized cost, unrealized holding gains and losses, and the fair value of investment securities at December 31, 2017 and 2016, are summarized as follows:

<u>Classified as Available for Sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
<i>December 31, 2017</i>				
U.S. Treasury Securities	\$ 29,997,511	\$ —	\$ (3,318)	\$ 29,994,193
Collateralized Mortgage Backed Subordinated Debt	4,146,657	32,936	(29,050)	4,150,543
Municipal Securities	2,000,000	111,875	—	2,111,875
U.S. Government Agencies	589,052	33	—	589,085
Total	<u>\$ 14,460,588</u>	<u>26,582</u>	<u>(18,686)</u>	<u>\$ 14,468,484</u>
	<u>\$ 51,193,808</u>	<u>\$ 171,426</u>	<u>\$ (51,054)</u>	<u>\$ 51,314,180</u>
<u>Classified as Held to Maturity</u>	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
<i>December 31, 2017</i>				
Municipal Securities	\$ 26,516,929	\$ 557,155	\$ (170,532)	\$ 26,903,552
Subordinated Debt	1,000,000	—	—	1,000,000
Total	<u>\$ 27,516,929</u>	<u>\$ 557,155</u>	<u>\$ (170,532)</u>	<u>\$ 27,903,552</u>

<b>Classified as Available for Sale</b>	<b>Amortized Cost</b>	<b>Gross Unrealized</b>		<b>Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
<i>December 31, 2016</i>				
U.S. Treasury Securities	\$ 14,999,532	\$ —	\$ (234)	\$ 14,999,298
Collateralized Mortgage Backed Subordinated Debt	5,279,819	45,521	(91,439)	5,233,901
U.S. Government Agencies	2,000,000	3,750	(4,710)	1,999,040
	14,208,720	1,108	(87,977)	14,121,851
Total	<u>\$ 36,488,071</u>	<u>\$ 50,379</u>	<u>\$(184,360)</u>	<u>\$ 36,354,090</u>

  

<b>Classified as Held to Maturity</b>	<b>Amortized Cost</b>	<b>Gross Unrealized</b>		<b>Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
<i>December 31, 2016</i>				
Municipal Securities	\$ 26,713,601	\$366,442	\$(577,214)	\$26,502,829
Subordinated Debt	1,000,000	—	—	1,000,000
Total	<u>\$ 27,713,601</u>	<u>\$366,442</u>	<u>\$(577,214)</u>	<u>\$ 27,502,829</u>

At December 31, 2017 and 2016 securities with a carrying value of approximately \$19.9 million and \$12.4 million, respectively, were pledged to secure customer repurchase agreements and FHLB advances.

The scheduled maturities of investment securities at December 31, 2017 were as follows:

	<b>Available for sale securities</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 30,028,728	\$ 30,025,331
Due after one year through five years	650,991	652,933
Due after five years through ten years	2,000,000	2,111,875
Due after ten years	18,514,089	18,524,041
Total	<u>\$ 51,193,808</u>	<u>\$ 51,314,180</u>

  

	<b>Held to maturity securities</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 1,665,047	\$ 1,681,041
Due after one year through five years	1,172,419	1,197,983
Due after five years through ten years	4,695,711	4,803,533
Due after ten years	19,983,742	20,220,995
Total	<u>\$ 27,516,919</u>	<u>\$ 27,903,552</u>

The following table presents the fair value and unrealized losses for securities at December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	Investment Securities With Unrealized Losses					
	Less than 12 months		12 months or more		Total Fair Value	Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		
<b>Securities available for sale:</b>						
U.S. Treasury Securities	\$ 29,994,193	\$ (3,318)	—	—	\$ 29,994,193	\$ (3,318)
Collateralized Mortgage Backed	1,555,578	(10,052)	\$1,838,325	\$ (18,998)	3,393,903	(29,050)
U.S. Government Agencies	1,349,100	(2,155)	3,387,340	(16,531)	4,736,440	(18,686)
Total securities available for sale	<u>\$ 32,898,871</u>	<u>\$ (15,525)</u>	<u>\$5,225,665</u>	<u>\$ (35,529)</u>	<u>\$ 38,124,536</u>	<u>\$ (51,054)</u>

**Securities held to maturity:**

Municipal Securities	\$ 704,039	\$ (3,647)	\$ 5,934,118	\$ (166,885)	\$ 6,638,157	\$ (170,532)
Total securities held to maturity	<u>\$ 704,039</u>	<u>\$ (3,647)</u>	<u>\$ 5,934,118</u>	<u>\$ (166,885)</u>	<u>\$ 6,638,157</u>	<u>\$ (170,532)</u>

The following table presents the fair value and unrealized losses for available for sale securities by aging category at December 31, 2016:

	Investment Securities With Unrealized Losses					
	Less than 12 months		12 months or more		Total Fair Value	Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		
<b>Securities available for sale:</b>						
U.S. Treasury Securities	\$ 14,999,298	\$ (234)	—	—	\$ 14,999,298	\$ (234)
Collateralized Mortgage Backed	3,690,351	(87,478)	\$ 134,250	\$ (3,961)	3,824,601	(91,439)
Subordinated Debt	495,290	(4,710)	—	—	495,290	(4,710)
U.S. Government Agencies	2,254,289	(34,819)	4,602,997	(53,158)	6,857,286	(87,977)
Total securities available for sale	<u>\$ 21,439,228</u>	<u>\$ (127,241)</u>	<u>\$4,737,247</u>	<u>\$ (57,119)</u>	<u>\$ 26,176,475</u>	<u>\$ (184,360)</u>
<b>Securities held to maturity:</b>						
Municipal Securities	\$ 12,337,253	\$ (577,214)	—	—	\$ 12,337,253	\$ (577,214)
Total securities held to maturity	<u>\$ 12,337,253</u>	<u>\$ (577,214)</u>	<u>—</u>	<u>—</u>	<u>\$ 12,337,253</u>	<u>\$ (577,214)</u>

The factors considered in evaluating securities for impairment include whether the Bank intends to sell the security, whether it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, and whether the Bank expects to recover the security's entire amortized cost basis. These unrealized losses are primarily attributable to current financial

market conditions for these types of investments, particularly changes in interest rates, causing bond prices to decline, and are not attributable to credit deterioration. At December 31, 2017, there was one U.S. Treasury security with a fair value of approximately \$30.0 million, four collateralized mortgage backed securities with fair values totaling approximately \$1.6 million, two U.S. government agencies with fair values totaling \$1.3 million, and one municipal security with fair values totaling \$704,039 considered temporarily impaired and in an unrealized loss position of less than 12 months. At December 31, 2017, there were three collateralized mortgage backed securities with fair values totaling \$1.8 million, three U.S. government agencies with fair values totaling approximately \$3.4 million, and twelve municipal securities with fair values totaling \$5.9 million that were in an unrealized loss position of more than 12 months. The Bank does not consider the securities in the available for sale or held to maturity portfolio to be other-than-temporarily impaired at December 31, 2017 and December 31, 2016. There were no securities sold during 2017 and 2016.

All municipal securities originally purchased as available for sale were transferred to held to maturity during 2013. The unrealized loss on the securities transferred to held to maturity is being amortized over the expected life of the securities. The unrealized loss, before tax, at December 31, 2017 and December 31, 2016 was \$145,091 and \$181,429, respectively.

#### Note 5 – LOANS

Loans are summarized as follows at December 31,

	<u>2017</u>	<u>2016</u>
Residential Real Estate		
Single family	\$ 112,428,967	\$ 87,126,885
Multifamily	13,366,435	11,188,951
Commercial real estate		
Owner occupied	101,112,303	91,253,806
Non-owner occupied	149,222,755	99,037,985
Construction and Land Development	103,591,969	54,945,250
Commercial – Non Real Estate		
Commercial & industrial	90,152,045	46,415,355
Consumer – Non Real Estate		
Unsecured	2,382,296	3,232,189
Secured	88,376,644	75,240,879
	<hr/>	<hr/>
Total Gross Loans	660,633,414	468,441,300
Less: unearned fees	(356,068)	(19,681)
Less: unamortized discount on consumer secured loans	(232,661)	(515,380)
Less: allowance for loan losses	(5,705,451)	(3,980,494)
	<hr/>	<hr/>
Net Loans	<u>\$ 654,339,234</u>	<u>\$ 463,925,745</u>

The consumer loans above include \$955,362 and \$95,213 of overdrafts reclassified as loans for the years ended December 31, 2017 and 2016, respectively.

The Bank held no loans for sale at December 31, 2017 and 2016.

**Impaired Loans By Class  
December 31, 2017**

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<b>With no related allowance:</b>					
Residential Real Estate					
Single family	\$ 1,541,560	\$ 1,541,560	—	\$ 1,556,669	\$ 63,192
Commercial Real Estate					
Owner occupied	1,939,392	1,939,392	—	1,950,595	59,588
<b>With an allowance recorded:</b>					
Residential Real Estate					
Single family	90,745	90,745	\$ 19,870	90,745	—
<b>Total:</b>					
Residential Real Estate	\$ 1,632,305	\$ 1,632,305	\$ 19,870	\$ 1,647,414	\$ 63,192
Commercial Real Estate	1,939,392	1,939,392	—	1,950,595	59,588

**Impaired Loans By Class  
December 31, 2016**

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<b>With no related allowance:</b>					
Commercial Real Estate					
Owner occupied	\$ 1,961,797	\$ 1,961,797	—	\$ 1,984,381	\$ 134,465
<b>With an allowance recorded:</b>					
Residential Real Estate					
Single family	1,745,139	1,745,139	\$ 228,863	1,810,497	70,587
<b>Total:</b>					
Residential Real Estate	\$ 1,745,139	\$ 1,745,139	\$ 228,863	\$ 1,810,497	\$ 70,587
Commercial Real Estate	1,961,797	1,961,797	—	1,984,381	134,465

No additional funds are committed to be advanced in connection with impaired loans.

There were no nonaccrual loans at December 31, 2017 and December 31, 2016 excluded from the impaired loan disclosure. If interest on nonaccrual loans had been accrued, such income would have been \$105,923 and \$17,131 in 2017 and 2016, respectively.

**Credit Quality By Class**  
**As of December 31, 2017**

<u>INTERNAL RISK RATING GRADES</u>	<u>Pass</u>	<u>Watch</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Residential Real Estate						
Single family	\$ 111,178,324	\$ 768,925	—	\$ 481,718	—	\$112,428,967
Multifamily	13,366,435	—	—	—	—	13,366,435
Commercial Real Estate						
Owner occupied	95,235,005	2,705,899	—	3,171,399	—	101,112,303
Non-owner occupied	149,222,755	—	—	—	—	149,222,755
Construction & Land Development	103,591,969	—	—	—	—	103,591,969
Commercial – Non Real Estate						
Commercial & industrial	85,362,137	3,901,576	—	888,332	—	90,152,045
Consumer - Non Real Estate						
Unsecured	2,382,296	—	—	—	—	2,382,296
Secured	88,376,644	—	—	—	—	88,376,644
<b>Totals</b>	<b>\$648,715,565</b>	<b>\$ 7,376,400</b>	<b>—</b>	<b>\$ 4,541,449</b>	<b>—</b>	<b>\$660,633,414</b>

**Credit Quality By Class**  
**As of December 31, 2016**

<u>INTERNAL RISK RATING GRADES</u>	<u>Pass</u>	<u>Watch</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Residential Real Estate						
Single family	\$ 85,384,560	\$ 1,568,964	—	\$ 173,361	—	\$ 87,126,885
Multifamily	11,188,951	—	—	—	—	11,188,951
Commercial Real Estate						
Owner occupied	88,929,571	952,290	—	1,371,945	—	91,253,806
Non-owner occupied	98,490,854	—	\$ 547,131	—	—	99,037,985
Construction & Land Development	54,945,250	—	—	—	—	54,945,250
Commercial – Non Real Estate						
Commercial & industrial	44,353,428	1,423,424	—	638,503	—	46,415,355
Consumer - Non Real Estate						
Unsecured	3,232,189	—	—	—	—	3,232,189
Secured	75,240,879	—	—	—	—	75,240,879
<b>Totals</b>	<b>\$461,765,682</b>	<b>\$ 3,944,678</b>	<b>\$ 547,131</b>	<b>\$ 2,183,809</b>	<b>—</b>	<b>\$468,441,300</b>

**Loans Past Due and Nonaccruals**

**As of December 31, 2017**

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days Past Due and Still Accruing</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Nonaccruals</u>	<u>Total Loans</u>
Residential Real Estate							
Single family	—	—	—	—	\$112,338,222	\$ 90,745	\$112,428,967
Multifamily	—	—	—	—	13,366,435	—	13,366,435
Commercial Real Estate							
Owner Occupied	—	—	—	—	99,172,912	1,939,391	101,112,303
Non-owner occupied	—	—	—	—	149,222,755	—	149,222,755
Construction and Land Development	—	—	—	—	103,591,969	—	103,591,969
Commercial - Non Real Estate							
Commercial & Industrial	—	—	—	—	90,152,045	—	90,152,045
Consumer - Non Real Estate							
Unsecured	\$ 12,277	\$ 45,193	\$ 10,415	\$ 67,885	2,314,411	—	2,382,296
Secured	91,589	22,985	3,851	118,425	88,258,219	—	88,376,644
<b>Total</b>	<b>\$ 103,866</b>	<b>\$ 68,178</b>	<b>\$ 14,266</b>	<b>\$ 186,310</b>	<b>\$658,416,968</b>	<b>\$2,030,136</b>	<b>\$660,633,414</b>

**Loans Past Due and Nonaccruals**

**As of December 31, 2016**

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days Past Due and Still Accruing</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Nonaccruals</u>	<u>Total Loans</u>
Residential Real Estate							
Single family	—	\$ 251,965	—	\$ 251,965	\$ 86,701,559	\$ 173,361	\$ 87,126,885
Multifamily	—	—	—	—	11,188,951	—	11,188,951
Commercial Real Estate							
Owner Occupied	—	—	—	—	91,253,806	—	91,253,806
Non-owner occupied	—	—	—	—	99,037,985	—	99,037,985
Construction and Land Development	—	—	—	—	54,945,250	—	54,945,250
Commercial - Non Real Estate							
Commercial & Industrial	—	—	—	—	46,415,355	—	46,415,355
Consumer - Non Real Estate							
Unsecured	\$ 5,750	\$ 3,107	\$ 5,413	14,270	3,217,919	—	3,232,189
Secured	56,727	—	10,145	66,872	75,174,007	—	75,240,879
<b>Total</b>	<b>\$ 62,477</b>	<b>\$ 255,072</b>	<b>\$ 15,558</b>	<b>\$ 333,107</b>	<b>\$467,934,832</b>	<b>\$ 173,361</b>	<b>\$468,441,300</b>

## Note 6 - ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses are summarized as follows for the year ended December 31, 2017 and 2016:

### Allowance for Credit Losses By Portfolio Segment As of December 31, 2017

	Real Estate			Consumer	Commercial	Total
	Residential	Commercial	Construction			
<b>Allowance for credit losses:</b>						
Beginning Balance	\$ 834,034	\$ 1,782,008	\$ 433,341	\$ 676,356	\$ 254,755	\$ 3,980,494
Charge-offs	(67,617)	—	—	(163,115)	—	(230,732)
Recoveries	4,197	38,614	—	26,322	1,556	70,689
Provision	18,716	518,156	400,015	201,978	746,135	1,885,000
Ending Balance	<u>\$ 789,330</u>	<u>\$ 2,338,778</u>	<u>\$ 833,356</u>	<u>\$ 741,541</u>	<u>\$ 1,002,446</u>	<u>\$ 5,705,451</u>
Ending Balance:						
Individually evaluated for Impairment	\$ 19,870	—	—	—	—	\$ 19,870
Collectively evaluated for Impairment	\$ 769,460	\$ 2,338,778	\$ 833,356	\$ 741,541	\$ 1,002,446	\$ 5,685,581
<b>Loans Receivable:</b>						
Ending Balance:						
Individually evaluated for Impairment	\$ 1,632,305	\$ 1,939,392	—	—	—	\$ 3,571,697
Collectively evaluated for Impairment	\$124,163,097	\$248,395,666	\$103,591,969	\$90,758,940	\$ 90,152,045	\$657,061,717

**Allowance for Credit Losses By Portfolio Segment**  
**As of December 31, 2016**

	Real Estate			Consumer	Commercial	Total
	Residential	Commercial	Construction			
<b>Allowance for credit losses:</b>						
Beginning Balance	\$ 909,396	\$ 1,458,488	\$ 296,272	\$ 809,460	\$ 208,848	\$ 3,682,464
Charge-offs	—	—	—	(484,054)	—	(484,054)
Recoveries	299	40,414	—	60,920	35,451	137,084
Provision	(75,661)	283,106	137,069	290,030	10,456	645,000
Ending Balance	\$ 834,034	\$ 1,782,008	\$ 433,341	\$ 676,356	\$ 254,755	\$ 3,980,494
Ending Balance:						
Individually evaluated for Impairment	\$ 228,863	—	—	—	—	\$ 228,863
Collectively evaluated for Impairment	\$ 605,171	\$ 1,782,008	\$ 433,341	\$ 676,356	\$ 254,755	\$ 3,751,631
<b>Loans Receivable:</b>						
Ending Balance:						
Individually evaluated for Impairment	\$ 1,745,139	\$ 1,961,797	—	—	—	\$ 3,706,936
Collectively evaluated for Impairment	\$96,570,697	\$188,329,994	\$54,945,250	\$78,473,068	\$ 46,415,355	\$464,734,364

No loans were modified under the terms of a TDR during the years ended December 31, 2017 and 2016, and there were no loans modified as TDR's that subsequently defaulted during the years ended December 31, 2017 and 2016 that were modified as TDR's within the twelve months prior to default.

**Note 7 - RELATED PARTY TRANSACTIONS**

The Bank grants loans and letters of credit to its executive officers, directors and their affiliated entities. Such loans are 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 unrelated persons, and, in the opinion of management, do not involve more than normal risk or present other unfavorable features.

The aggregate amount of such loans outstanding at December 31, 2017 was approximately \$3.1 million, compared to \$3.3 million at December 31, 2016. During 2017, new loans and line of credit advances to such related parties was approximately \$241,000 compared to \$80,000 during 2016. Repayments on loans to directors and officers were \$469,000 and \$340,000 during 2017 and 2016, respectively.

The Bank maintains deposit accounts with some of its executive officers, directors and their affiliated entities. Such deposit accounts at December 31, 2017 and December 31, 2016 amounted to approximately \$2.7 million and \$3.1 million, respectively.

#### Note 8 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows at December 31:

	<u>2017</u>	<u>2016</u>
<b>Cost</b>		
Building	\$ 9,727,109	\$ 9,709,010
Land	2,407,018	2,407,018
Leasehold improvements	461,879	461,879
Furniture, fixtures and equipment	1,591,958	2,116,298
Computer software and equipment	1,549,515	2,409,600
	<u>15,737,479</u>	<u>17,103,805</u>
<b>Less accumulated depreciation</b>	(4,128,463)	(4,794,885)
<b>Construction in progress</b>	<u>2,355,873</u>	<u>—</u>
<b>Premises and equipment, net</b>	<u>\$ 13,964,889</u>	<u>\$ 12,308,920</u>

Depreciation and amortization charged to operations was \$822,262 and \$801,882 during the years ended December 31, 2017 and December 31, 2016, respectively.

#### Note 9 - DEPOSITS

Time deposits in denominations of \$250,000 or more totaled approximately \$63.4 million and \$46.1 million at December 31, 2017 and 2016, respectively.

At December 31, 2017, maturities of time deposits are as follows:

	<u>Year ended December 31,</u>
2018	\$ 251,575,593
2019	32,385,925
2020	17,337,473
2021	5,522,360
2022	<u>10,146,370</u>
<b>Total</b>	<u>\$ 316,967,721</u>

Brokered deposits, as defined by the FDIC, totaled approximately \$102.9 million and \$63.8 million at December 31, 2017 and December 31, 2016, respectively.

#### Note 10 – BORROWED FUNDS

On October 25, 2005, the Bank entered into a fifteen-year principal reducing credit agreement (“PRC”) with the FHLB in the amount of \$750,000. Interest accrues at the rate of 5.24% and is due October 26, 2020. Principal reductions occur monthly commencing on November 25, 2005,

in the amount of \$4,167. The balance on the PRC as of December 31, 2017 was \$141,666 and \$191,666 at December 31, 2016.

On July 23, 2015, the Bank entered into a six-month callable fixed rate credit (“FRC”) floater with the FHLB in the amount of \$10.0 million. Interest accrues at a rate of 1.30% with a maturity date of July 23, 2020 and a next option date of January 23, 2018.

On July 23, 2015, the Bank entered into a nine-month callable FRC floater with the FHLB in the amount of \$10.0 million. Interest accrues at a rate of 1.50% with a maturity date of October 23, 2020 and a next option date of July 23, 2018.

On July 23, 2015, the Bank entered into a one-year callable FRC floater with the FHLB in the amount of \$10.0 million. Interest accrues at a rate of 1.43% with a maturity date of July 23, 2020 and a next option date of July 23, 2018.

On November 4, 2015, the Bank entered into two three-month callable FRC floaters with the FHLB in the amount of \$5.0 million each. Interest accrues at a rate of 1.33% with a maturity date of November 4, 2020 and a next option date of February 5, 2018.

On December 29, 2017, the Bank entered into a daily rate credit (“DRC”) with the FHLB in the amount of \$8.0 million. Interest accrues at a rate of 1.59% with a maturity date of December 31, 2018.

The Bank also has a credit availability agreement with the FHLB based on a percentage of total assets. As of December 31, 2017, the credit availability with FHLB is approximately \$176.3 million. This credit availability agreement provides the Bank with access to a myriad of advance products offered by the FHLB. The rate of interest charged is based on market conditions. At December 31, 2017, fifty-one specific loans comprised of commercial real estate and multi-family loans totaling \$58.6 million were used to collateralize FHLB advances. There were also seventeen securities with an amortized cost of \$13.2 million and a fair value of \$13.3 million pledged as collateral to secure FHLB advances at December 31, 2017.

The following summarizes the contractual maturities of long-term FHLB advances at December 31, 2017:

2018	\$ 8,050,000
2019	50,000
2020	<u>40,041,666</u>
	<u>\$ 48,141,666</u>

The average balance on FHLB advances at December 31, 2017 and December 31, 2016 was approximately \$42.4 million and \$40.5 million, respectively. The weighted average interest rate

paid at December 31, 2017 and 2016 was 1.43% and 0.70%, respectively. The weighted average rate of advances outstanding at December 31, 2017 and 2016 was 1.06% and 0.64%, respectively.

On December 31, 2017, the Bank purchased \$5.6 million in federal funds for four days from Community Bankers Bank at a rate of 2.25%. There were no such purchases at December 31, 2016.

#### Note 11 – INCOME TAXES

The Company files tax returns in the U.S. Federal jurisdiction. With few exceptions, the Bank is no longer subject to tax examination by tax authorities for years prior to 2013.

The Commonwealth of Virginia assesses a Bank Franchise Tax on banks instead of a state income tax. The Bank Franchise Tax expense is reported in non-interest expense and the tax's calculation is unrelated to taxable income.

For the tax year 2017, the Company will file a consolidated federal income tax returns and for the foreseeable future.

The provision for income taxes consists of the following components:

	<u>2017</u>	<u>2016</u>
Current expense	\$ 2,601,020	\$ 1,786,045
Deferred (benefit)	(1,018,020)	(192,554)
Deferred tax adjustment for enacted change in tax rate	751,555	—
Total	<u>\$ 2,334,555</u>	<u>\$ 1,593,491</u>

Income tax expense for 2017 includes a downward adjustment of net deferred tax assets in the amount of \$738,648, recorded as a result of the enactment of H.R.1 Tax Cuts and Jobs Act on December 22, 2017. The Act reduced the corporate Federal tax rate from 34% to 21% effective January 1, 2018.

Income tax expense differed from amounts computed by applying the U.S. federal income tax rate of 34% to income before income tax expense as a result of the following:

	<b>Year ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Computed "expected" income tax expense	\$ 2,115,182	\$ 1,859,400
Increase (decrease) in income taxes resulting from:		
Non-deductible expense	27,384	22,533
Tax exempt Interest	(253,989)	(219,801)
BOLI Income	(147,815)	(68,641)
Restricted Stock Adjustment	(144,855)	—
Deferred Tax Asset Adjustment	738,648	—
Total	<u>\$ 2,334,555</u>	<u>\$ 1,593,491</u>

The tax effects of temporary differences result in deferred tax assets and liabilities as presented below:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 978,443	\$ 896,031
Restricted stock	97,591	75,592
Nonaccrual interest	24,600	7,768
Net loan fees	74,774	6,692
Organizational Costs	7,420	—
Depreciation	12,023	—
Unrealized loss on securities available for sale	—	45,554
Unrealized losses on securities transferred to held to maturity	38,100	61,682
	<hr/>	<hr/>
Gross deferred tax assets	1,232,951	1,093,319
 <b>Deferred tax liabilities:</b>		
Depreciation	—	53,712
Unrealized gain on securities available for sale	32,909	—
Prepaid expense	6,841	26,946
	<hr/>	<hr/>
Gross deferred tax liabilities	39,750	80,658
	<hr/>	<hr/>
<b>Net deferred tax asset</b>	<b>\$ 1,193,201</b>	<b>\$ 1,012,661</b>

#### **Note 12 – EARNINGS PER SHARE**

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock which then shared in the earnings of the Bank. There were no such potentially dilutive securities outstanding in 2017 or 2016.

The weighted average number of shares used in the calculation of basic and diluted earnings per share includes unvested restricted shares of the Company's common stock outstanding.

	<u>2017</u>	<u>2016</u>
Net income	\$ 3,882,210	\$ 3,875,333
Weighted average number of shares, basic and diluted	4,551,189	4,260,622
Basic and diluted EPS (weighted average shares)	<u>\$ 0.85</u>	<u>\$ 0.91</u>

### **Note 13 - COMMITMENTS AND CONTINGENCIES**

The Bank was obligated under a non-cancelable operating lease, which expired in 2014, for its office facility located at 727 Elden Street. After this lease expiration, the Bank entered into a lease for 3,400 square feet on the first floor. The lease commenced on May 1, 2014 and expires on April 30, 2019. The Herndon lease provides for monthly payments of \$7,517 that increase 2% annually over the lease term. The lease also includes three renewal periods of 60 months each. The Bank is liable for payment of the pro-rata portion of general operating expenses of the leased property.

The Bank entered into a lease for the branch in Fairfax, Virginia during 2007. The lease commenced on January 1, 2007 and expired on December 31, 2016. The lease includes two renewal option periods of five years each. The Bank exercised the first five-year renewal option on November 3, 2015. Under this option, the lease agreement commenced on November 1, 2016 and expires on November 1, 2021, and will provide for monthly payments of \$7,725 that increase 3% annually over the lease term.

Total rent expense for the occupancy leases for the years ended December 31, 2017 and 2016 was \$206,348 and \$257,115, respectively.

Minimum annual rental commitments under the Herndon and Fairfax leases are as follows for the years ended December 31:

2018	\$ 184,569
2019	126,627
2020	98,837
2021	<u>84,413</u>
	<u>\$ 494,446</u>

The Bank's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit.

The amounts of loan commitments and standby letters of credit are set forth in the following table as of December 31, 2017 and 2016:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Loan commitments	\$ 158,553,160	\$ 103,447,519
Standby letters of credit	\$ 1,060,642	\$ 780,600
Commercial letters of credit	\$ 27,278	—

Commitments to extend credit and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the statements of financial condition. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank. The Bank has not incurred any losses on commitments in 2017 or 2016.

#### **Note 14 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK**

Substantially all the Bank's loans, commitments and standby letters of credit have been granted to customers located in the greater Washington, D.C. Metropolitan Area. The concentrations of credit by type of loan are set forth in Note 5.

The Bank maintains its cash and federal funds sold in correspondent bank deposit accounts. The amount on deposit at December 31, 2017 exceeded the insurance limits of the Federal Deposit Insurance Corporation by \$9.9 million. The Bank has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks.

#### **Note 15 - REGULATORY MATTERS**

The Bank, as a state bank, is subject to the dividend restrictions set forth by federal and state banking regulations. Under such restrictions, the Bank may not, without the prior approval of regulatory agencies, declare dividends in excess of the sum of the current year's earnings plus the retained earnings from the prior two years. As of December 31, 2017, the Bank has not declared dividends.

As a member of the Federal Reserve Bank system, the Bank is required to subscribe to shares of \$100 par value Federal Reserve Bank Stock equal to 6% of the Bank's capital and surplus. The Bank is only required to pay for one-half of the subscription. The remaining amount is subject to call when deemed necessary by the Board of Governors of the Federal Reserve.

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Basel III Capital Rules, a new comprehensive capital framework for U.S. banking organizations, became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2017 is 1.25% and 0.625% for 2016. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total capital, Common Equity Tier 1 capital, and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017, the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2017 and 2016, the most recent notification from the Federal Reserve Bank of Richmond categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum total risk-based, Common Equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Company's and the Bank's category.

The Company's and the Bank's actual regulatory capital amounts and ratios as of December 31, 2017 and 2016 are presented in the table below.

(000's except for percentages)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2017</b>						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 88.287	12.09%	\$ 58.402	>8.0%	N/A	N/A
Bank	\$ 83.457	11.43%	\$ 58.402	>8.0%	\$ 73.003	>10.0%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 68.834	9.43%	\$ 32.851	>4.5%	N/A	N/A
Bank	\$ 77.752	10.65%	\$ 32.851	>4.5%	\$ 58.402	>8.0%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 68.834	9.43%	\$ 43.802	>6.0%	N/A	N/A
Bank	\$ 77.752	10.65%	\$ 43.802	>6.0%	\$ 58.402	>8.0%
Tier 1 Capital						
(to Average Assets)						
Consolidated	\$ 68.834	9.23%	\$ 29.836	>4.0%	N/A	N/A
Bank	\$ 77.752	10.42%	\$ 29.836	>4.0%	\$ 37.295	>5.0%
<b>As of December 31, 2016</b>						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 63.883	12.71%	\$ 40.214	>8.0%	N/A	N/A
Bank	\$ 62.983	12.53%	\$ 40.214	>8.0%	\$ 50.267	>10.0%
Common Equity Tier 1 Capital						

(to Risk-Weighted Assets)						
Consolidated	\$ 46,603	9.27%	\$ 22,620	>4.5%	N/A	N/A
Bank	\$ 59,003	11.74%	\$ 22,620	>4.5%	\$ 40,214	>8.0%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 46,603	9.27%	\$ 30,160	>6.0%	N/A	N/A
Bank	\$ 59,003	11.74%	\$ 30,160	>6.0%	\$ 40,214	>8.0%
Tier 1 Capital						
(to Average Assets)						
Consolidated	\$ 46,603	8.65%	\$ 21,551	>4.0%	N/A	N/A
Bank	\$ 59,003	10.95%	\$ 21,551	>4.0%	\$ 26,939	>5.0%

#### Note 16 – DEFINED CONTRIBUTION BENEFIT PLAN

The Bank adopted a 401(k) defined contribution plan on October 1, 2004, which is administered by UBS Securities. Participants have the right to contribute up to a maximum of 15% of pretax annual compensation or the maximum allowed by the Internal Revenue Code, whichever is less. The Bank began making a matching contribution to the plan on January 1, 2010. The Bank matches dollar for dollar up to 3% of the employee’s contribution and then fifty cents on the dollar on the next two percentage points up to the employee contribution of 5%. The total amount the Bank matched during 2017 and 2016 was \$277,575 and \$218,547, respectively.

#### Note 17 - STOCK BASED COMPENSATION PLAN

ASC Topic 718, *Compensation – Stock Compensation*, requires the Bank to recognize expense related to the fair value of share-based compensation awards in net income. Total compensation expense for restricted stock recorded for the years ended December 31, 2017 and December 31, 2016 were \$516,977 and \$450,975, respectively.

On May 17, 2006, the Bank’s stockholders approved the MainStreet Bank 2006 Incentive Stock Plan (the “2006 Plan”), which authorizes the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, and stock awards to employees and non-employee directors. Under the 2006 Plan, subject to capital adjustments, the maximum number of shares of the Bank’s common stock that may be issued is 186,638 plus the number of shares of common stock represented by awards previously made under the MainStreet Bank 2004 Stock Option and Incentive Plan (the “2004 Plan”) that were outstanding on, and that expire or are otherwise terminated or forfeited after, May 17, 2006. As a result of the stockholders’ approval of the 2006 Plan, no additional awards have been or will be made under the Bank’s 2004 Plan, although all awards that were outstanding under the 2004 Plan as of May 17, 2006 remained outstanding in accordance with their terms.

On March 16, 2015, there were 18,000 stock options under the 2004 Plan that expired. There are no remaining options outstanding under the 2004 or 2006 Plans at December 31, 2017. Stock options are no longer issued, and there have been no stock options exercised to date. All options were expired as of December 31, 2016.

At December 31, 2017, there were 111,358 restricted shares outstanding that were awarded under the 2006 Plan. During the year ended December 31, 2017, there were 46,915 restricted shares awarded, 255 restricted shares were forfeited, and no stock options were awarded under the 2006 Plan. The restricted shares awarded during 2017 vest equally on an annual basis over a three year period.

On November 20, 2007, the Bank granted 112,500 shares of restricted stock in connection with employment agreements entered into with two executive officers during December 2007. The restricted stock awards were made outside of the 2006 Plan and are governed by restricted stock agreements entered into by the Bank and each of the officers, dated November 20, 2007. The restricted stock vests in 5%, 10% or 15% increments over a period of 10 years, subject to earlier vesting in the event of certain termination events or a change of control of the Bank. As of December 31, 2017, the total number of restricted shares that have vested are 112,500.

A summary of the status of the Bank's nonvested restricted stock shares as of December 31, 2017 and changes during the year ended December 31, 2017 is presented below:

<u>Nonvested Restricted Stock Shares</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at January 1, 2017	112,685	\$ 9.54
Granted	46,915	14.66
Forfeited	(255)	11.73
Vested	(47,987)	9.74
Nonvested at December 31, 2017	<u>111,358</u>	<u>\$ 11.61</u>

As of December 31, 2017, there was \$908,885 of total unrecognized compensation cost related to nonvested restricted stock awards. The cost is expected to be recognized over approximately seven years. The total fair value of shares vested during the years ended December 31, 2017 and 2016 was \$756,483 and \$353,455, respectively.

#### **Note 18 – DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

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

In accordance with the guidance, a hierarchy of valuation techniques is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data

obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. The three levels of the fair value hierarchy under FASB ASC 820 based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Bank to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

#### **Securities available for sale**

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. As of December 31, 2017 and 2016, the Bank's entire portfolio of available for sale securities are considered to be Level 2 securities.

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

Description	(000's) Fair Value Measurements at December 31, 2017 Using			
	Balance as of December 31, 2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Available for sale securities:				
U.S. Treasury Securities	\$ 29,994	—	\$ 29,994	—
Collateralized Mortgage Backed	4,151	—	4,151	—
Subordinated Debt	2,112	—	2,112	—
Municipal Securities	589	—	589	—
U.S. Government Agencies	14,468	—	14,468	—
Total	<u>\$ 51,314</u>	<u>—</u>	<u>\$ 51,314</u>	<u>—</u>

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

Description	(000's) Fair Value Measurements at December 31, 2016 Using			
	Balance as of December 31, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Available for sale securities:				
U.S. Treasury Securities	\$ 14,999	—	\$ 14,999	—
Collateralized Mortgage Backed	5,234	—	5,234	—
Subordinated Debt	1,999	—	1,999	—
U.S. Government Agencies	14,122	—	14,122	—
Total	<u>\$ 36,354</u>	<u>—</u>	<u>\$ 36,354</u>	<u>—</u>

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

### Impaired loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable

market data (Level 2). However, if the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Bank because of marketability, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Statements of Income.

### Other real estate owned

Other real estate owned ("OREO") is measured at fair value less cost to sell, based on an appraisal conducted by an independent, licensed appraiser outside of the Bank. If the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Bank because of marketability, then the fair value is considered Level 3. OREO is measured at fair value on a nonrecurring basis. Any initial fair value adjustment is charged against the Allowance for Loan Losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense on the Statements of Income. The Bank had other real estate owned in the amount of \$134,459 at December 31, 2016 which consisted of one residential property. There was no other real estate owned at December 31, 2017.

The following table summarizes the value of the Bank's assets as of December 31, 2017 that were measured at fair value on a nonrecurring basis during the period:

Description	(000's)			
	<u>Carrying Value at December 31, 2017 Using</u>			
	Balance as of December 31, 2017	Quoted Prices In Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
<b>Impaired Loans</b>				
Residential Real Estate				
Single family	71	—	—	71

The following table summarizes the value of the Bank's assets as of December 31, 2016 that were measured at fair value on a nonrecurring basis during the period:

(000's)

**Carrying Value at December 31, 2016 Using**

Description	Balance as of December 31, 2016	Quoted Prices In Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
<b>Impaired Loans</b>				
Residential Real Estate Single family	\$ 1,516	—	—	\$ 1,516
<b>OREO</b>	134	—	—	134

(000's)

**Fair Value Measurements at December 31, 2017**

Description	Fair Value	Valuation Technique(s)	Unobservable Inputs	Discount
<b>Assets:</b>				
<b>Impaired Loans</b>				
Residential Real Estate Single family	71	Sales Comparison Approach	Adjustment for differences in comparable sales and age; selling costs	10% - 25%

(000's)

**Fair Value Measurements at December 31, 2016**

Description	Fair Value	Valuation Technique(s)	Unobservable Inputs	Discount
<b>Assets:</b>				
<b>Impaired Loans</b>				
Residential Real Estate Single family	\$ 1,516	Sales Comparison Approach	Adjustment for differences in comparable sales and age; selling costs	10% - 25%
<b>OREO</b>	134	Sales Comparison Approach	Adjustment for differences in comparable sales and age; selling costs	10%

FASB ASC 820 requires the Bank to disclose estimated fair values of its financial instruments.

The following methods and assumptions were used to estimate the approximate fair value of each class of financial instrument for which it is practicable to estimate fair value.

**Cash and due from banks and federal funds sold or purchased**

The carrying amount is a reasonable estimate of fair value.

### **Interest bearing deposits**

The carrying amount is a reasonable estimate of fair value.

### **Securities**

The fair value of securities is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. The carrying value of restricted stock approximates fair value based on the redemption provisions.

### **Loans**

The fair value of performing loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar remaining maturities. This calculation ignores loan fees and certain factors affecting the interest rates charged on various loans such as the borrower's creditworthiness and compensating balances and dissimilar types of real estate held as collateral. The fair value of impaired loans is measured as described within the Impaired Loans section of this note.

### **Bank Owned Life Insurance**

The carrying amounts of bank owned life insurance approximate fair value.

### **Accrued Interest**

The carrying amounts of accrued interest approximate fair value.

### **Deposits**

The fair values of non-interest-bearing demand deposits, interest-bearing demand deposits and savings and money market deposits are equal to their carrying amounts since the amounts are payable on demand. The fair value of fixed maturity certificates of deposit is estimated by discounting scheduled cash flows through maturity using interest rates currently offered for deposits of similar remaining maturities.

### **Repurchase Agreements**

The fair values of repurchase agreements is estimated using a discounted cash flow calculation that applies to contracted interest rates being paid on the debt to the current market interest rate of similar debt.

### **Borrowings**

The fair values of long-term borrowings is estimated using a discounted cash flow calculation that applies to contracted interest rates being paid on the debt to the current market interest rate of similar debt. The carrying values of short-term borrowings maturing within ninety days are approximate to fair values.

### **Commitments to extend credit and standby letters of credit**

The only amounts recorded for commitments to extend credit and standby letters of credit are the deferred fees arising from these unrecognized financial instruments. These deferred fees are not

material at December 31, 2017 and 2016, and as such, the related fair values have not been estimated.

The carrying amounts and approximate fair values of the Bank's financial instruments are summarized as follows:

(000's)					
Fair Value Measurements at December 31, 2017 Using					
	Carrying Value	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value Balance
<b>Financial assets:</b>					
Cash and due from banks	\$ 37,493	\$ 37,493	\$ —	\$ —	\$ 37,493
Restricted equity securities	4,241	—	4,241	—	4,241
Securities					
Available for sale	51,314	—	51,314	—	51,314
Held to maturity	27,517	—	27,904	—	27,904
Loans, net	654,339	—	—	647,150	647,150
Bank owned life insurance	13,637	—	13,637	—	13,637
Accrued interest receivable	3,337	—	3,337	—	3,337
<b>Financial liabilities:</b>					
Deposits	\$ 667,655	\$ —	\$ 356,734	\$ 315,054	\$ 671,788
Federal Home Loan Bank	48,142	—	47,855	—	47,855
Other Borrowings	5,638	—	5,640	—	5,640
Accrued interest payable	505	—	505	—	505

(000's)					
Fair Value Measurements at December 31, 2016 Using					
	Carrying Value	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value Balance
<b>Financial assets:</b>					
Cash and due from banks	\$ 17,273	\$ 17,273	\$ —	\$ —	\$ 17,273
Federal funds sold	797	797	—	—	797
Restricted equity securities	3,426	—	3,426	—	3,426
Securities					
Available for sale	36,354	—	36,354	—	36,354
Held to maturity	27,714	—	27,503	—	27,503
Loans, net	463,926	—	—	471,090	471,090
Banked owned life insurance	10,202	—	10,202	—	10,202
Accrued interest receivable	2,146	—	2,146	—	2,146
<b>Financial liabilities:</b>					
Deposits	\$ 473,567	\$ —	\$ 269,783	\$ 205,215	\$ 474,998
Federal Home Loan Bank	40,192	—	38,117	—	38,117
Accrued interest payable	270	—	270	—	270

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience,

current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-balance sheet and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred income taxes and bank premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

**Note 19 – OTHER REAL ESTATE OWNED**

Other real estate owned is presented net of an allowance for losses. An analysis for the allowance for losses on other real estate owned is as follows:

	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 134,459	\$ 134,459
Additions	—	—
Sales	(134,459)	—
Provision for losses	—	—
Charge offs	—	—
Recoveries	—	—
Net recoveries (charge-offs)	—	—
Balance, end of year	<u>\$ —</u>	<u>\$ 134,459</u>

Expenses applicable to other real estate owned include the following:

	<b>2017</b>	<b>2016</b>
Net loss on sales of real estate	50,735	—
Operating expenses, net of rental income	\$ 2,731	\$ 11,469
Balance, end of year	<u>\$ 53,466</u>	<u>\$ 11,469</u>

As of December 31, 2017, there were no residential real estate loans in the process of foreclosure.

## Note 20 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Details regarding reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2017 and 2016 were as follows:

### Reclassifications Out of Accumulated Other Comprehensive Income for the Year Ended December 31, 2017:

<u>Details about AOCI Components</u>	<u>Amount Reclassified from AOCI</u>	<u>Affected Line Item in the Income Statement</u>
Realized gain on sale of securities	—	Net gain on sales of securities available for sale
Amortization of unrealized loss on securities	\$ (36,342)	Interest on investment securities
Income tax expense	12,356	Income tax expense
Disproportionate effects of tax rate change on securities	(3,213)	—
Total reclassifications	<u>\$ (27,199)</u>	Net of tax

### Reclassifications Out of Accumulated Other Comprehensive Income for the Year Ended December 31, 2016:

<u>Details about AOCI Components</u>	<u>Amount Reclassified from AOCI</u>	<u>Affected Line Item in the Income Statement</u>
Realized gain on sale of securities	—	Net gain on sales of securities available for sale
Amortization of unrealized loss on securities	\$ (36,342)	Interest on investment securities
Income tax expense	12,356	Income tax expense
Total reclassifications	<u>\$ (23,986)</u>	Net of tax

## Note 21 – CAPITAL OFFERING

On October 24, 2017, the Company completed a capital offering which raised \$17.8 million net of offering costs. The Company sold an aggregate of 1,150,000 shares of common stock at a price of \$16.00 per share. The issuance of additional shares of common stock is accretive to the Company's current book value. The Bank will use the proceeds of the offering to facilitate strategic initiatives, support organic growth and market expansion activities, and for general corporate purposes.

## Note 22 – SUBORDINATED NOTES

On December 30, 2016, the Company completed the issuance of \$14.3 million in aggregate principal amount of fixed-to-floating rate subordinated notes in a private placement transaction to various accredited investors. During the first quarter 2017, an additional \$700,000 of subordinated notes was issued for a total issuance of \$15.0 million. The net proceeds of the offering are intended to support growth and be used for other general business purposes. The notes have a maturity date of December 31, 2026 and have an annual fixed interest rate of 6.25% until December 31, 2021. Thereafter, the notes will have a floating interest rate based on three-month LIBOR rate plus 425 basis points (4.25%) (computed on the basis of a 360-day year of twelve 30-day months) from and including January 1, 2022 to the maturity date or any early redemption date. Interest will be paid semi-annually, in arrears, on July 1 and January 1 of each year during the time that the notes remain outstanding through the fixed interest rate period or earlier redemption date. Interest will be paid quarterly, in arrears, on April 1, July 1, October 1 and January 1 throughout the floating interest rate period or earlier redemption date.

## Note 23 – CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

Condensed financial statements pertaining only to the Company are presented below. The investment in subsidiary is accounted for using the equity method of accounting.

The Bank paid the Company a cash dividend of \$100,000 on December 20, 2016, after the Reorganization became effective, in order to capitalize the bank holding company. The payment of dividends by the subsidiary is restricted by various regulatory limitations. Banking regulations also prohibit extensions of credit to the parent company unless appropriately secured by assets. For more detail on dividends see Note 15 – REGULATORY MATTERS.

### Condensed Parent Company Only

#### Condensed Balance Sheet

<b>December 31,</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash on deposit with subsidiary	\$ 5,099,542	\$ 1,618,750
Investment in subsidiary	77,735,261	58,794,562
Other receivables	713,904	—
<b>Total Assets</b>	<b>\$ 83,548,707</b>	<b>\$ 60,413,312</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Subordinated debt, net of debt issuance costs	\$ 14,747,525	\$ 14,018,750
Stockholders' equity	68,801,182	46,394,562
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 83,548,707</b>	<b>\$ 60,413,312</b>

#### Condensed Statement of Income

<b>For the Year Ended December 31,</b>	<b>2017</b>	<b>2016</b>
<b>INCOME</b>		
Dividends from subsidiary	\$ —	\$ 100,000
Income before equity in undistributed earnings of subsidiary	—	100,000
Undistributed earnings of subsidiary	4,518,164	3,775,333
Subordinated debt interest expense	963,567	—
<b>NET INCOME BEFORE INCOME TAXES</b>	<b>\$ 3,554,597</b>	<b>\$ 3,875,333</b>
Income tax expense (benefit)	(327,613)	—
<b>NET INCOME</b>	<b>\$ 3,882,210</b>	<b>\$ 3,875,333</b>

## Condensed Statement of Cash Flows

<b>Year Ended December 31,</b>	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,882,210	\$ 3,875,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of subsidiary	(4,518,164)	(3,775,333)
Subordinated debt amortization expense	28,775	—
Increase in other receivables	(713,904)	—
<b>Net cash (used in) provided by operating activities</b>	<b>(1,321,083)</b>	<b>100,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in bank subsidiary	(13,713,708)	(12,500,000)
<b>Net cash used in investing activities</b>	<b>(13,713,708)</b>	<b>(12,500,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of subordinated debt, net of debt issuance costs	700,000	14,018,750
Net proceeds from sale of common stock, net of offering costs	17,815,583	—
<b>Net cash provided by financing activities</b>	<b>18,515,583</b>	<b>14,018,750</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,480,792</b>	<b>1,618,750</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>1,618,750</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 5,099,542</b>	<b>\$ 1,618,750</b>

### Note 24 – SUBSEQUENT EVENTS

In accordance with ASC 855-10/SFAS 165, the Bank evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Bank evaluated subsequent events through February 16, 2018.

Based on the evaluation, the Bank did not identify any recognized or non-recognized subsequent events that would have required adjustment to or disclosure in the financial statements.

### Note 25 - IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal

years. The Company does not expect the adoption of ASU 2016-01 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

During June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

During August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU 2017-07, “Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The amendments in this ASU require an employer that offers defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to report the service cost component of net periodic benefit cost in the same line item(s) as other compensation costs arising from services rendered during the period. The other

components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. If the other components of net periodic benefit cost are not presented on a separate line or lines, the line item(s) used in the income statement must be disclosed. In addition, only the service cost component will be eligible for capitalization as part of an asset, when applicable. The amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted. The Company does not expect the adoption of ASU 2017-07 to have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU 2017-08, “Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.” The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company is currently assessing the impact that ASU 2017-08 will have on its consolidated financial statements.

During May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting.” The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The Company is currently assessing the impact that ASU 2017-09 will have on its consolidated financial statements.

During February 2018, the FASB issued ASU 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” The amendments provide financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has elected to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act in the consolidated financial statements for the period ending December 31, 2017.