NOBLEBANK
& TRUST

April 27, 2017

Dear Shareholder,

2016 was a very good year for NobleBank & Trust as we saw improved metrics on a number of fronts. Our net income of $1,727,649 was the highest total generated in our eleven year history. With this improvement in earnings, we saw our Return on Assets (ROA) increase by 29 basis points to .79% and Return on Equity (ROE) increase to 8.77% from 5.13% in 2015. While these numbers are good, they can and need to be better. Your Board, officers and staff are committed to ensuring that your Bank is a high performing bank.

In addition to earnings improvement, we continue to see good growth in our balance sheet. While we did not attain our budgeted goal for loan growth in 2016, we did increase loans by almost $9Million over 2015. We were on track to hit the growth goals, but had two unexpected payoffs toward year end. We continue to be able to attract good, stable deposits as we saw an increase in this area of $31Million (18.30%) over the previous year. Total assets grew by over 14% to $225,525,938, approximately $18Million over budget. The growth we have experienced is a direct result of outstanding performance by our entire staff as they have all been focused on attracting and retaining good customers.

Even with the excellent growth in our balance sheet, the Bank's capital level remains strong and liquidity remains adequate to fund our loans. We have also been able to maintain excellent credit quality as metrics, i.e., past dues, charge offs, criticized loans, etc. remain well above industry standards.

Below is a brief recap of our performance relative to budget as well as our trend line:

	Actual 12/31/2013	Actual 12/31/2014	Actual 12/31/2015	Actual 12/31/2016	Budget 12/31/2016
Total Deposits	$149,674,018	$152,971,640	$171,276,064	$202,625,803	$183,359,759
Total Loans	$94,864,765	$104,551,159	$119,901,121	$128,804,536	$132,965,178
Total Assets	$171,904,651	$177,701,440	$197,440,752	$225,525,938	$207,559,563
Net Income	$1,024,294	$1,200,557	$957,134	$1,727,649	$1,306,294

Our Board and officers recently went through a very thorough strategic planning session and have developed the Bank's "blueprint" for the next three years. We are excited about our future as our focus will continue to be on strong profitable growth. We are excited about the creation of a one bank holding company as we believe it will provide the Bank with flexibility and the ability to grow…..with the ultimate goal of providing the best possible value to you our valued shareholders!

Please feel free to call any time you want information on your Bank or have any questions about what we are dong to make your investment in NobleBank & Trust as good as it can possibly be.

Sincerely,

Anthony Humphries
President & CEO

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Welcome To Personal Banking
www.noblebank.com
256-741-1800

OFFICE LOCATIONS
Alexandria - Birmingham - Oxford - Piedmont

NOBLE BANK AND TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOBLE BANK AND TRUST
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DECEMBER 31, 2016 AND 2015

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Warren Averett
CPAs AND ADVISORS

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Noble Bank and Trust

We have audited the accompanying statements of financial condition of Noble Bank and Trust as of December 31, 2016 and 2015, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to 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.

Auditors' 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 auditors' 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 auditors consider 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 Noble Bank and Trust as of December 31, 2016 and 2015, 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.

Warren Averett, LLC

Anniston, Alabama
April 3, 2017

NOBLE BANK AND TRUST
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 5,200,076	$ 4,194,461
Interest bearing deposits in banks	16,969,951	3,396,249
Federal funds sold	775,000	-
TOTAL CASH AND CASH EQUIVALENTS	22,945,027	7,590,710
SECURITIES AVAILABLE-FOR-SALE	59,980,779	55,914,377
SECURITIES RESTRICTIVE INVESTMENTS	1,325,900	1,397,000
INVESTMENT IN ANNUITIES	1,560,190	1,560,190
LOANS, NET OF ALLOWANCE FOR LOAN LOSSES	126,904,391	118,327,097
LOANS, HELD-FOR-SALE	307,000	202,000
ACCRUED INTEREST RECEIVABLE	760,820	695,259
PREPAID EXPENSES	293,045	341,476
FORECLOSED REAL ESTATE	584,241	810,700
PREMISES AND EQUIPMENT, NET	6,490,440	6,831,143
BANK OWNED LIFE INSURANCE	3,441,973	3,357,916
DEFERRED TAX	926,331	252,372
INCOME TAXES RECEIVABLE	-	152,524
OTHER ASSETS	5,800	7,988
TOTAL ASSETS	$ 225,525,937	$ 197,440,752

See notes to the financial statements

NOBLE BANK AND TRUST
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2016 AND 2015

LIABILITIES AND STOCKHOLDERS' EQUITY

	2016	2015
DEPOSITS		
Interest-bearing	$ 169,517,056	$ 144,037,585
Noninterest-bearing	33,108,746	27,238,479
TOTAL DEPOSITS	202,625,802	171,276,064
BORROWINGS	2,905,000	5,420,000
FEDERAL FUNDS PURCHASED	-	1,450,000
ACCRUED INTEREST PAYABLE	156,184	80,003
DEFERRED COMPENSATION	279,086	194,565
INCOME TAXES PAYABLE	408,352	-
OTHER LIABILITIES	144,065	82,382
TOTAL LIABILITIES	206,518,489	178,503,014
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; 5,000,000 shares authorized; 1,478,360 and 1,461,025 shares issued and outstanding for the years ended December 31, 2016 and 2015, respectively	1,478,360	1,461,025
Additional paid-in capital	14,294,676	14,138,661
Accumulated other comprehensive income	(1,141,197)	105,682
Retained earnings	4,375,609	3,232,370
TOTAL STOCKHOLDERS' EQUITY	19,007,448	18,937,738
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 225,525,937	$ 197,440,752

See notes to the financial statements

NOBLE BANK AND TRUST
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
INTEREST INCOME		
Interest and fees on loans	$ 6,668,794	$ 5,927,078
Interest on investment securities	1,427,611	1,327,514
Interest on due from accounts	118,552	59,395
Total interest income	8,214,957	7,313,987
INTEREST EXPENSE		
Interest on money market and checking	389,403	356,679
Interest on savings	3,211	2,780
Interest on certificates of deposit	362,231	158,726
Interest on borrowed funds	34,441	67,387
Total interest expense	789,286	585,572
NET INTEREST INCOME	7,425,671	6,728,415
PROVISION FOR LOAN LOSSES	363,919	661,396
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,061,752	6,067,019

See notes to the financial statements

NOBLE BANK AND TRUST
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
NONINTEREST INCOME		
Service charges, fees, and commissions	$ 1,701,014	$ 1,420,385
Bank owned life insurance income	84,057	88,859
Realized gain on sale of securities	255,089	518,150
Miscellaneous noninterest income	13,718	31,854
Total noninterest income	2,053,878	2,059,248
NONINTEREST EXPENSES		
Salaries and employee benefits	3,579,313	3,357,903
Data processing expense	1,030,942	1,061,509
Occupancy expense	665,771	627,490
Professional fees	302,340	240,151
Business development expense	208,065	221,245
Insurance expense	201,004	180,620
Equipment expense	194,204	170,315
Supplies expense	132,493	114,504
Write-downs and losses on foreclosed real estate	95,272	312,372
Deferred compensation expense	93,022	88,652
Communication expense	64,895	67,350
Travel expense	54,514	61,545
Teller outages and other losses	20,507	194,461
Other expenses	230,496	223,844
Total noninterest expenses	6,872,838	6,921,961
INCOME BEFORE INCOME TAXES	2,242,792	1,204,306
INCOME TAX PROVISION	515,143	247,172
NET INCOME	$ 1,727,649	$ 957,134

See notes to the financial statements

NOBLE BANK AND TRUST
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
NET INCOME	$ 1,727,649	$ 957,134
OTHER COMPREHENSIVE INCOME (LOSS)		
Net change in unrealized gain (loss) on available-for-sale securities, net of deferred tax of $642,331 and $80,874 as of December 31, 2016 and 2015, respectively	(1,246,879)	(156,990)
COMPREHENSIVE INCOME	$ 480,770	$ 800,144

See notes to the financial statements

NOBLE BANK AND TRUST
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2014	$ 1,461,025	$ 14,140,795	$ 262,672	$ 2,786,595	$ 18,651,087
Dividends declared and paid	-	-	-	(511,359)	(511,359)
Net income	-	-	-	957,134	957,134
Other comprehensive income	-	-	(156,990)	-	(156,990)
Options/warrants expense	-	(2,134)	-	-	(2,134)
BALANCE AT DECEMBER 31, 2015	1,461,025	14,138,661	105,682	3,232,370	18,937,738
Dividends declared and paid	-	-	-	(584,410)	(584,410)
Net income	-	-	-	1,727,649	1,727,649
Other comprehensive loss	-	-	(1,246,879)	-	(1,246,879)
Exercise of stock warrant/options	17,335	156,015	-	-	173,350
BALANCE AT DECEMBER 31, 2016	$ 1,478,360	$ 14,294,676	$ (1,141,197)	$ 4,375,609	$ 19,007,448

See notes to the financial statements

NOBLE BANK AND TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,727,649	$ 957,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	363,919	661,396
Net amortization of securities	437,013	291,608
Depreciation of premises and equipment	380,485	380,675
Write-down of foreclosed real estate	102,400	20,000
(Gain) loss on sale of foreclosed real estate	(7,128)	272,372
Realized gain on sale of securities, net	(255,089)	(518,150)
Change in accrued interest receivable	(65,561)	(182,565)
Change in prepaid expenses	48,431	(34,085)
Change in deferred tax	(31,628)	(95,726)
Change in income tax receivable	152,524	-
Change in other assets	2,188	(13,906)
Change in accrued interest payable	76,181	16,719
Change in deferred compensation	84,521	88,652
Change in income tax payable	408,352	(146,113)
Change in other liabilities	61,683	(116,817)
Net cash provided by operating activities	3,485,940	1,581,194
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Purchases	(45,161,183)	(40,809,371)
Sales	26,291,319	30,150,541
Maturities, paydowns, and calls	12,732,328	7,494,591
Purchases of securities restrictive investments	(23,200)	(32,800)
Proceeds from sales of other investment securities	94,300	-
Net change in annuities value	-	(7,200)
Net change in loans receivable	(9,005,448)	(16,435,258)
Net change in loans held-for-sale	(105,000)	(202,000)
Proceeds from the sale of foreclosed real estate	576,334	533,052
Capitalized improvements of foreclosed real estate	(380,912)	(13,276)
Purchases of premises and equipment	(39,782)	(593,227)
Change in bank owned life insurance	(84,057)	(88,859)
Net cash used in investing activities	(15,105,301)	(20,003,807)

See notes to the financial statements

NOBLE BANK AND TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 31,349,738	$ 18,304,423
Exercise of stock warrant	173,350	-
Allocation from granting of warrants/options	-	(2,134)
Net change in notes payable	(2,515,000)	420,000
Net change in federal funds purchased	(1,450,000)	875,000
Cash dividends	(584,410)	(511,359)
Net cash provided by financing activities	26,973,678	19,085,930
INCREASE IN CASH AND CASH EQUIVALENTS	15,354,317	663,317
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,590,710	6,927,393
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 22,945,027	$ 7,590,710
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 713,105	$ 568,853
NONCASH DISCLOSURES		
Loans transferred to other real estate owned	$ 77,091	$ 815,808
Proceeds from sales of foreclosed real estate financed through loans	$ 12,856	$ 72,184
Net change in unrealized gain (loss) on securities available-for-sale, net of taxes	$ (1,246,879)	$ (156,990)

See notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations
Noble Bank and Trust (the Bank) was formed on October 5, 2005, by national charter and currently operates five branches in Alabama. The main branch is located in Anniston, and the other branches are located in Oxford, Piedmont, Alexandria, and Birmingham (added in 2015). On June 27, 2013, the Bank was permitted to change its charter from a national bank to a state bank. They are now regulated by the State of Alabama and/or the Federal Reserve.

Major Services and Principal Markets
The Bank's main line of business consists of providing banking services for its customers, most of whom are located in Calhoun County, Alabama and Jefferson County, Alabama.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. The Bank's loans are generally secured by specific items of collateral, including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management used available information to recognize losses on loans, further reduction in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents
The Bank considers cash and due from banks, federal funds sold, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. The Bank maintains cash and cash equivalents in various correspondent bank accounts and, at times, may exceed that which is federally insured.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits (approximately $386,000 and $510,000 at December 31, 2016 and 2015, respectively).

Securities Available-for-Sale
Securities available-for-sale represent those securities intended to be held for an indefinite period of time, including securities that management intends to use as part of its asset/liability strategy or that may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital, or other similar factors. Securities available-for-sale are recorded at market value with unrealized gains and losses, net of any tax effect, and are reported as other comprehensive income (loss) in a separate component of stockholders' equity until realized. Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount on the securities sold, using the specific identification method. The estimated values are provided by security dealers who have obtained quoted prices.

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

Securities Restrictive Investments
Securities restrictive investments represent those securities whose sale is restricted to approved other organizations or the issuing company. Those securities are carried at cost, and their value is determined by the ultimate recoverability of par value.

Investment in Annuities
The Bank has purchased annuity contracts on certain key employees. These contracts are recorded at their cash surrender value or the amount that can be realized. Income from these contracts and changes in the cash surrender value are recorded in noninterest income.

Loans
Loans that management has the intent and ability to hold for the foreseeable future are reported at their outstanding principal balances net of any unearned income, charge-offs, and unamortized fees and costs. Loan origination and commitment fees, as well as certain origination costs, when material, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method or the straight-line method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Troubled Debt Restructurings (TDRs)
Modifications to a borrower's debt agreement are considered troubled debt restructurings (TDRs) if a concession is granted for economic or legal reasons related to a borrower's financial difficulties that otherwise would not be considered. TDRs are undertaken in order to improve the likelihood of recovery on the loan and may take the form of modifications made with the stated interest rate lower than the current market rate for new debt with similar risk, other modifications to the structure of the loan that fall outside of normal underwriting policies and procedures, or in certain limited circumstances, forgiveness of principal or interest. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accruing status, depending on the individual facts and circumstances of the borrower.

Income Recognition on Impaired and Nonaccrual Loans
Loans, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-collateralized and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as nonaccrual.

Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms of interest and principal.

While a loan is classified as nonaccrual, and the future collectability of the recorded loan balance is doubtful, collections of principal and interest are generally applied as a reduction to principal outstanding, except in the case of loans with scheduled amortizations where the payment is generally applied to the oldest payment due. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan has been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered. Interest income recognized on a cash basis was immaterial for the years ended December 31, 2016 and 2015.

Allowance for Loan Losses
The allowance for loan losses represents management's estimate of probable and reasonable credit losses in loans as of the balance sheet date. The estimate of the allowance is based on a variety of factors including an evaluation of the loan portfolio, past loss experience, adverse situations that have occurred but are not yet known that may affect the borrower's ability to repay, the estimated value of underlying collateral, and current economic conditions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

For purposes of determining the allowance for loan losses, the Bank has segmented loans into the following segments: commercial, financial and agricultural; real estate – construction, land development, and other land; real estate – mortgage; and consumer. Significant judgment is used to determine the estimation method that fits the credit risk characteristics of each portfolio segment. The Bank uses internally developed models in this process. Management must use judgment in establishing input metrics for the modeling processes. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as information becomes available and as economic conditions change.

Loans considered to be uncollectible are charged-off against the allowance. The amount and timing of charge-offs on loans includes consideration of the loan type, length of delinquency, insufficiency of collateral value, lien priority, and the overall financial condition of the borrower. Recoveries on loans previously charged-off are credited back to the allowance. Loans that have been charged-off against the allowance are periodically monitored to evaluate whether further adjustments to the allowance are necessary.

The allowance for loan losses consists of three components: general, specific, and unallocated as follows:

- The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors, which includes trend assessments in delinquent and nonaccrual loans, unanticipated charge-offs, prevailing economic conditions, changes in lending personnel experience, changes in lending policies or procedures, and other influencing factors.
- The specific component is determined for impaired loans, including TDRs, individually based on management's evaluation of the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantors; and the realizable value of any collateral. Reserves are established for these loans based upon an estimate of probable losses for the individual loans deemed to be impaired. This estimate considers all available evidence using one of the methods provided by applicable authoritative guidance. Loans determined to be collateral dependent are measured at the fair value of collateral less disposal costs. Loans for which impaired reserves are provided are excluded from the general component reserve calculations described above to prevent duplicate reserves.
- The unallocated component is not allocated to any specific category of loans. This unallocated portion of the allowance reflects management's best estimate of the elements of imprecision and estimation risk inherent in the calculation of the overall allowance. Due to the subjectivity involved in determining the overall allowance, including the unallocated portion, the portion considered unallocated may fluctuate from period to period based on management's evaluation of the factors affecting the assumptions used in calculating the allowance, including historical loss experience, current economic conditions, industry or borrower concentrations, and the status of merged institutions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. If management determines that the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through a charge-off to the allowance. Interest income is recognized as earned unless the loan is placed on nonaccrual status.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Generally, impaired loans include loans on nonaccrual status, loans that have been assigned a specific allowance for credit losses, loans that have been partially charged off, and loans designated as troubled debt restructurings.

Based on facts and circumstances available, management believes that the allowance for loan losses is adequate to cover any probable losses in the Bank’s loan portfolio. However, future adjustments to the allowance may be necessary, and the Bank’s results of operations could be adversely affected if circumstances differ substantially from the assumptions used by management in determining the allowance for loan and lease losses. Management believes that it has established the allowance in accordance with generally accepted accounting principles and has taken into account the views of its regulators and the current economic environment. There can be no assurance that in the future the Bank's regulators or its economic environment will not require further increases in the allowance.

Asset Quality
Written underwriting standards established by management govern the lending activities of the Bank. An established loan policy requires appropriate documentation including borrower financial data and credit reports. For loans secured by real property, the Bank generally requires property appraisals, title insurance or a title opinion, hazard insurance, and flood insurance, where appropriate. Loan payment performance is monitored and late charges are assessed on past due accounts. Legal proceedings are instituted, as necessary, to minimize loss. Commercial and residential loans of the Bank are periodically reviewed through a loan review process. All other loans are also subject to loan review through a periodic sampling process.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Bank uses an asset risk classification system consistent with guidelines established by the Uniform Financial Institution Ratings System (UFIRS) as part of its efforts to monitor asset quality. In connection with examinations of insured institutions, both federal and state examiners also have the authority to identify problem assets and, if appropriate, classify them. The Bank has eight credit quality indicators for loans, as follows:

- Superior Quality (minimal risk) – Loans in this category are considered to be of the highest quality. The borrower is very liquid. Overall asset quality is very good. Leverage is very low and is stable or decreasing. For consumer loans, debt to income ratio should be very low and for business loans, cash flow is continually very high relative to all demands. Earnings are always very strong, being stable or even increasing through economic swings. Multiple sources of financing exist and can be easily obtained by this borrower. This rating is equivalent to a UFIRS rating of “1”.
- High Quality (low risk) – Loans in this category are considered to be of above average quality. The borrower is very liquid. Overall, leverage is relatively low and is stable. Earnings are very strong and stable. For consumer loans, the debt to income ratio should be low and for business loans, cash flow is more than sufficient to meet total demands. Other sources of financing are available and are readily available to this borrower. This rating is equivalent to a UFIRS rating of “1”.
- Good Quality (normal risk) – Loans in this category are considered to be of good quality. These consumer borrowers have a history of successful credit performance and the business borrowers have successful financial performance, but could be susceptible to economic changes. Asset quality is good. The balance sheet shows decent liquidity. Overall leverage is at a normal level. Income and cash flow may fluctuate but are still sufficient to meet demands. Other sources of financing should be easily obtainable. This rating is equivalent to a UFIRS rating of “1”.
- Acceptable Quality (increased risk) – Loans in this grade are considered to be acceptable credit risk but may require more than the normal servicing. Loans should be in this category not because they are problem credits, but because they may be higher than normal risk and the Bank needs to follow their performance more closely than others. Asset quality is marginally acceptable. Overall, leverage may fluctuate and is frequently at the upper end of the range of what is considered normal. Income and cash flow may be marginal but continue to support demands. The outlook for continued improvement is good. Access to other financing sources is limited to a few banks. This rating is equivalent to a UFIRS rating of “1”.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- Special Mention (high risk) – A “Special Mention” loan has potential weaknesses that deserve management’s close attention. Such weaknesses could be that the borrower’s ability to repay from primary (intended) sources (i.e., income or cash flow) is marginal and is threatened by a potential weakness which, if not checked or corrected, could result in deterioration of the repayment prospects for the loan and/or the Bank being inadequately protected against the risk of principal or income loss at some future date. The borrower is highly susceptible to current economic or market conditions, which may adversely affect the borrower’s ability to repay the debt. A consumer borrower may have had a reduction of income or have an unusually high level of financial leverage. A business borrower may be experiencing adverse operating trends or operating with unusually high financial leverage, thereby increasing the risk of untimely payment. A loan classified as “Special Mention” should be transitional and temporary (6 months). This rating is equivalent to a UFIRS rating of “2”.
- Classified Substandard – Loans with a rating of “Substandard” show that the borrower’s ability to repay is threatened by a clearly defined weakness which jeopardizes liquidation of the loan. The distinct possibility exists that the Bank will sustain some principal or income loss if the deficiencies are not corrected. This rating is equivalent to a UFIRS rating of “3”.
- Classified Doubtful – Loans with a rating of “Doubtful” show that the borrower’s ability to repay in full, on the basis of currently existing facts, is highly questionable and improbable. Some loss of principal or income is likely; however, the total amount of such loss cannot be determined at the present time. A “Doubtful” risk grade should be temporary; therefore, when and if loss exposure is determined, the amount of loss will be charged off or the loan should be upgraded. Loans in this category shall be immediately placed on non-accrual with all payments applied to principal until such time as the potential loss exposure is eliminated. This rating is equivalent to a UFIRS rating of “4”.
- Classified Loss – Loans classified as “Loss” are considered partially or totally uncollectible and of such little value that their continuation as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this asset even though partial recovery may be affected in the future. This rating is equivalent to a UFIRS rating of “5”.

Loans Held-for-Sale
Loans held-for-sale consist of loans originated by the Bank’s loan department that are sold without recourse, normally within 10 working days. All of the loans are sold at face value plus any interest accrued from the date of origination. The loans are reflected at cost, which is also market value. The Bank had no loans held-for-sale as of December 31, 2016 and 2015.

Premises and Equipment
Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Expenditures for additions and major improvements that significantly extend the useful life of assets are capitalized. Expenditures for repairs and maintenance are charged against income when incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Depreciation is provided generally by straight-line method based on the estimated useful lives of the respective assets, which generally range from three to 39 years.

Foreclosed Real Estate
Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property. In-substance foreclosed properties are those properties for which the Bank has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed real estate is recorded at the fair value less estimated costs to sell, which becomes the property's new cost basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying value amount or fair value less cost to sell. Costs incurred in maintaining other real estate and subsequent adjustments to the carrying amount of the property are included in income (loss) on other real estate. Costs incurred to complete, repair/renovate, or make the property whole are capitalized, if these costs increase the fair value of the property.

Bank-Owned Life Insurance
The Bank has purchased life insurance policies on certain key employees. These policies are recorded at their cash surrender value or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in other operating income.

Deposits
Customer deposits include public funds held on deposit under the Security for Alabama Funds Enhancement Act (SAFE) Program. The SAFE Program was established by the Alabama legislature to provide protection for public funds enrolled in the SAFE Program. Under this program, financial institutions are required to collateralize public fund deposits (Note 2).

The Bank participates in the Certificate of Deposit Account Registry Service (CDARS), which is a network of banks that offer certificates of deposit products to individual and corporate customers in such amounts that allow such deposits to qualify for Federal Deposit Insurance Corporation (FDIC) insurance coverage.

The Bank is party to an agreement with QwickRate, an internet-based certificate of deposit listing service, to utilize their program to raise institutional time deposits.

Borrowings
The Bank records Federal Home Loan Bank advances and federal funds purchased at their principal amount. Interest expense is recognized based on the coupon rate of the obligations.

Common Stock
Common stock has voting rights that are equal to one vote per share.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Comprehensive Income

Comprehensive income or loss is generally defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) is comprised of items not recorded as components of net income. The accumulated balance of other comprehensive income (loss) is reported separately from retained earnings in the equity section of the statements of financial condition.

In the calculation of comprehensive income (loss), certain reclassification adjustments are made to avoid double counting items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income (loss) in that period or earlier periods. The disclosure of the reclassification amounts and other details of other comprehensive income (loss) are as follows:

	2016	2015
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	$ (916,220)	$ 280,286
Reclassification adjustments for gains included in net income	(255,089)	(518,150)
Net unrealized gains (losses)	(1,171,309)	(237,864)
Income tax related to items of other comprehensive income	(75,570)	80,874
Other comprehensive income (loss)	$ (1,246,879)	$ (156,990)

Stock Based Compensation

Pursuant to the provisions of the Amended and Restated 2005 Incentive Stock Compensation Plan (the Plan), the stockholders and the Board of Directors approved 180,000 shares of common stock as reserved for stock options, warrants, or restricted stock for various employees and directors. Note 13 summarizes the various grants of options, warrants, and restricted stock.

Advertising

The Bank's policy is to expense advertising costs as incurred. Advertising expense was $22,774 and $39,056 for the years ended December 31, 2016 and 2015, respectively.

Employee Benefit Plans

The Bank has a qualified 401(k) profit sharing plan covering substantially all employees. Eligible participating employees may elect to contribute tax-deferred contributions. Bank contributions include matching annual and discretionary amounts as determined by the Board of Directors. The 401(k) plan allows participants to invest in unrelated mutual funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Bank has also provided a deferred compensation plan for certain key employees and directors. These plans are target benefit arrangements with defined contributions based on the key employee's earned salary. The amounts are unfunded and are included in other liabilities on the Bank's books. As such, the beneficiaries are general creditors of the Bank.

Bank contributions to these benefit plans are included in salaries and employee benefits (see Notes 14 and 15).

Income Taxes
The Bank files a federal income tax return and State of Alabama excise tax return. These returns are filed using the accrual basis of accounting. Provisions for income taxes are based on amounts reported in the statements of income (after exclusion of nontaxable income, such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes.

Transfers of Financial Assets
Transfers of financial assets are accounted for as sales when control over assets has been surrendered. Control over transferred assets is deemed surrendered when (1) the assets have been isolated from the Bank, put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the 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.

Off-Balance Sheet Financial Instruments
In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded. See Note 9 for a further discussion of these financial instruments.

The Bank has available as a source of short-term financing the purchase of federal funds from other commercial banks from available lines totaling $7,300,000, all of which is available and unused.

The Bank also has a line of credit with the Federal Home Loan Bank of Atlanta (FHLB) of up to approximately $55,694,750, of which $52,789,750 is available and $52,039,750 is unused as of December 31, 2016. The Bank has a $750,000 letter of credit with the FHLB, which is included in the amount available noted above. The ability to utilize the remaining line is dependent on the amount of eligible collateral that is free to pledge to the FHLB. In addition, as part of the borrowing agreement, the Bank is required to purchase FHLB stock (see Note 2).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurements
The Bank adopted authoritative guidance issued by the Financial Accounting Standards Board (FASB) on fair value measurements. This standard defines fair value for financial reporting purposes as the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could execute a transaction. New fair value measurements are not required, but fair value disclosures are required for financial assets or liabilities where other accounting pronouncements require or permit fair value reporting.

For each asset and liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated. The valuation premise is a concept that determines whether an asset is measured on a stand-alone basis or in combination with other assets. The Bank measures its assets and liabilities on a stand-alone basis then aggregates assets and liabilities with similar characteristics for disclosure purposes.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Bank. Unobservable inputs are inputs that reflect the Bank's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value guidance established three categories within a fair value hierarchy which are presented below:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, volatilities, and default rates, and inputs that are derived principally from or corroborated by observable market data.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The adoption of this authoritative guidance had no impact on the financial statements of the Bank other than the additional disclosures included in Note 16.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events
Management has evaluated subsequent events and their potential effects on these financial statements through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Reclassifications
Certain reclassifications have been made to the 2015 financial statements included herein to conform to the 2016 presentation. These reclassifications had no effect on the financial position, results of operations, or cash flows of the Bank.

Recently Issued Accounting Standards
In May 2014, the FASB issued ASU 2014-09 and in August 2015 issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance may be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initial application recognized at the date of initial application for fiscal years beginning after December 15, 2018, and early application is permitted. The Bank is in the process of reviewing the potential impact the adoption of this guidance will have on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU, among other things: a) 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; b) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and c) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). The effective date of this ASU for the Bank is January 1, 2019. The new guidance permits early adoption of the own credit provision. In addition, the new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Bank is reviewing the impact that the adoption of this ASU may have on its financial statements.

2. SECURITIES

Securities Available-for-Sale

The amortized cost and fair value of available-for-sale securities, with gross unrealized gains and losses, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2016				
Debt securities:				
U.S. government-sponsored enterprises (GSEs)*	$ 5,029,959	$ -	$ 287,720	$ 4,742,239
State and municipal	42,425,694	86,627	1,232,762	41,279,559
Mortgage-backed securities:				
U.S. Government-sponsered enterprises (GSE)* residential	14,254,211	-	295,230	13,958,981
Total securities available-for-sale	$ 61,709,864	$ 86,627	$ 1,815,712	$ 59,980,779

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2015				
Debt securities:				
U.S. government-sponsered enterprises (GSEs)*	$ 11,074,838	$ 5,628	$ 156,820	$ 10,923,646
State and municipal	29,235,971	426,895	73,307	29,589,559
Mortgage-backed securities:				
U.S. Government-sponsered enterprises (GSE)* residential	15,443,444	48,499	90,771	15,401,172
Total securities available-for-sale	$ 55,754,253	$ 481,022	$ 320,898	$ 55,914,377

* Such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal Home Loan Banks.

The Bank did not classify any investments as held-to-maturity at December 31, 2016 and 2015.

2. SECURITIES – CONTINUED

Investment securities with a carrying amount of $15,424,472 and $14,629,244 were pledged to secure various public funds under the SAFE Program at December 31, 2016 and 2015, respectively.

The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2016, were as follows:

	Amortized Cost	Fair Value
Within one year	$ 1,897,275	$ 1,909,078
Over one year through five years	14,259,153	14,004,722
Over five years through 10 years	10,955,138	10,695,719
Over 10 years	34,598,298	33,371,260
	$ 61,709,864	$ 59,980,779

Mortgage-backed securities have been included in the maturity tables based upon the guaranteed pay-off date of each security.

The actual maturities may differ from the contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

For the years ended December 31, 2016 and 2015, proceeds from sales, maturities, and calls of securities available-for-sale amounted to $36,427,570 and $34,315,541; gross realized gains were $309,182 and $548,297 and gross realized losses were $54,093 and $30,147.

2. SECURITIES – CONTINUED

The following table shows the gross unrealized losses and fair value of the entity's available-for-sale securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016 and 2015.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of December 31, 2016						
Debt securities:						
U.S. government-sponsored enterprises (GSEs)*	$ 4,742,239	$ 287,720	$ -	$ -	$ 4,742,239	$ 287,720
State and municipals	31,640,875	1,232,762	-	-	31,640,875	1,232,762
Mortgage-backed securities:						
GSE residential	13,958,981	295,230	-	-	13,958,981	295,230
	$ 50,342,095	$ 1,815,712	$ -	$ -	$ 50,342,095	$ 1,815,712

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of December 31, 2015						
U.S. government-sponsored enterprises (GSEs)*	$ 9,929,353	$ 156,820	$ -	$ -	$ 9,929,353	$ 156,820
State and municipals	6,467,424	64,536	1,783,126	8,771	8,250,550	73,307
Mortgage-backed securities:						
GSE residential	9,841,341	90,771	-	-	9,841,341	90,771
	$ 26,238,118	$ 312,127	$ 1,783,126	$ 8,771	$ 28,021,244	$ 320,898

2. SECURITIES – CONTINUED

U.S. Government-Sponsored Enterprises (GSEs)
The Bank has five U.S. Government-sponsored enterprise securities with unrealized losses at December 31, 2016. The unrealized losses on these investments were caused by the general downturn in the economy and illiquid markets and reflected aggregate depreciation from amortized cost of 5.72%. The expected present value of future cash flows is expected to approximate the contractual cash flows. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment.

The Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2016 because the decline in market value is attributable to the current economic environment and not credit quality; moreover, the Bank does not intend to sell the investments, and it is not more likely than not that the Bank will be required to sell the investments, before recovery of their amortized cost basis, which may be maturity.

State and Municipal
The Bank has 86 state and municipal securities with unrealized losses at December 31, 2016. The unrealized losses on these investments were caused by the general downturn in the economy and illiquid markets and reflected aggregate depreciation from amortized cost of 3.75%. The expected present value of future cash flows is expected to approximate the contractual cash flows. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment.

The Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2016 because the decline in market value is attributable to the current economic environment and not credit quality; moreover, the Bank does not intend to sell the investments, and it is not more likely than not that the Bank will be required to sell the investments, before recovery of their amortized cost basis, which may be maturity.

Mortgage-Backed Securities: Residential GSEs
The Bank had 10 mortgage-backed security with unrealized losses at December 31, 2016. The unrealized losses on these investments were caused by the general downturn in the economy and illiquid markets and reflected aggregate depreciation from amortized cost of 2.07%. The expected present value of future cash flows is expected to approximate the contractual cash flows. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment.

The Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2016 because the decline in market value is attributable to the current economic environment and not credit quality; moreover, the Bank does not intend to sell the investments, and it is not more likely than not that the Bank will be required to sell the investments, before recovery of their amortized cost basis, which may be maturity.

2. SECURITIES – CONTINUED

Other-than-Temporary Impairment

The Bank recognizes other-than-temporary impairment (OTTI) in accordance with ASC Topic 320, *Investments – Debt and Equity Securities*, which requires that the Bank assess whether it intends to sell or it is more likely than not that the Bank will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to anticipated recovery of the amortized cost basis, the amount of the impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as a loss in the statements of income but is recognized in other comprehensive income (loss). The Bank believes that it will fully collect the carrying value of securities on which it has recorded a noncredit related impairment in other comprehensive income (loss). The Bank held no investments with an other-than-temporary impairment at December 31, 2016 and 2015.

Securities, Restrictive Investment

The aggregate carrying value of the Bank's cost-method investments totaled $1,325,900 and $1,397,000 at December 31, 2016 and 2015, respectively. These investments were not evaluated for impairment because (1) the Bank did not estimate the fair value of these investments in accordance with ASC Topic 825, *Financial Instruments*, and (2) the Bank did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments. As of December 31, 2016, the Bank concluded that any impairments identified were temporary with no adjustments needed.

The carrying amount of securities restrictive investment at December 31 is as follows:

	2016	2015
First National Bankers Bank	$ 536,000	$ 518,000
Federal Home Loan Bank	316,700	411,000
Federal Reserve Bank	473,200	468,000
	$ 1,325,900	$ 1,397,000

3. LOANS

The composition of loans by primary loan classification and by performing and impaired loan status at December 31, 2016 and 2015, is as follows:

December 31, 2016	Performing Loans	Impaired Loans	Total
Commercial, financial, and agricultural	$ 26,694,915	$ -	$ 26,694,915
Real estate – construction, land, and other land	8,918,712	400,443	9,319,155
Real estate – mortgage	86,991,719	678,054	87,669,773
Consumer	4,756,348	57,344	4,813,692
Subtotal	127,361,694	1,135,841	128,497,535
Allowance for loan losses	(1,482,000)	(111,144)	(1,593,144)
Net loans	$ 125,879,694	$ 1,024,697	$ 126,904,391

December 31, 2015	Performing Loans	Impaired Loans	Total
Commercial, financial, and agricultural	$ 22,460,344	$ 92,890	$ 22,553,234
Real estate – construction, land, and other land	9,282,657	446,148	9,728,805
Real estate – mortgage	82,390,317	715,479	83,105,796
Consumer	4,255,090	56,198	4,311,288
Subtotal	118,388,408	1,310,715	119,699,123
Allowance for loan losses	(1,263,348)	(108,678)	(1,372,026)
Net loans	$ 117,125,060	$ 1,202,037	$ 118,327,097

3. LOANS – CONTINUED

The changes in the allowance for loan losses for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Balance at beginning of year	$ 1,372,026	$ 1,254,297
Loans charged off	(207,121)	(577,618)
Recoveries on loans previously charged off	64,320	33,951
Net charge-offs	(142,801)	(543,667)
Provision charged to operating expenses	363,919	661,396
Balance at end of year	$ 1,593,144	$ 1,372,026

The allocation and changes in the allowance for loan losses, by loan classification, as of and for the years ended December 31, 2016 and 2015, are as follows:

As of and for the year ended December 31, 2016

	Commercial, financial, and agricultural	Real estate – construction, land development, and other land	Real estate – mortgage	Consumer	Unallocated	Total
Balance at beginning of year	$ 179,238	$ 158,675	$ 1,020,712	$ 59,731	$ (46,330)	$ 1,372,026
Charge-offs	(78,848)	-	(36,991)	(91,282)	-	(207,121)
Recoveries	3,000	-	27,499	33,821	-	64,320
Net charge-offs	(75,848)	-	(9,492)	(57,461)	-	(142,801)
Provision	178,767	(49,624)	110,184	61,580	63,012	363,919
Ending balance	$ 282,157	$ 109,051	$ 1,121,404	$ 63,850	$ 16,682	$ 1,593,144

3. LOANS – CONTINUED

As of and for the year ended December 31, 2015

	Commercial, financial, and agricultural	Real estate – construction, land development, and other land	Real estate – mortgage	Consumer	Unallocated	Total
Balance at beginning of year	$ 124,612	$ 200,136	$ 952,487	$ 43,016	$ (65,954)	$ 1,254,297
Charge-offs	-	(118,575)	(383,201)	(75,842)	-	(577,618)
Recoveries	-	-	2,130	31,821	-	33,951
Net charge-offs	-	(118,575)	(381,071)	(44,021)	-	(543,667)
Provision	54,626	77,114	449,296	60,736	19,624	661,396
Ending balance	$ 179,238	$ 158,675	$ 1,020,712	$ 59,731	$ (46,330)	$ 1,372,026

The following table outlines the amount of each loan classification based on internally assigned risk ratings as of December 31, 2016 and 2015:

As of and for the year ended December 31, 2016

	Commercial, financial, and agricultural	Real estate – construction, land development and other land	Real estate – mortgage	Consumer	Total
Grade:					
Pass*	$ 25,216,173	$ 8,918,712	$ 85,723,828	$ 4,756,348	$ 124,615,061
Pass – impaired	-	400,443	274,902	-	675,345
Substandard	1,478,742	-	1,267,891	-	2,746,633
Substandard – impaired	-	-	403,152	57,344	460,496
Total	$ 26,694,915	$ 9,319,155	$ 87,669,773	$ 4,813,692	$ 128,497,535

* Loans graded as superior quality, high quality, good quality, and acceptable quality are classified as “Pass” grade for disclosure purposes.

3. LOANS – CONTINUED

As of and for the year ended December 31, 2015

	Commercial, financial, and agricultural	Real estate – construction, land development and other land	Real estate – mortgage	Consumer	Total
Grade:					
Pass*	$ 22,460,344	$ 9,282,657	$ 82,321,485	$ 4,255,090	$ 118,319,576
Pass – impaired	-	-	331,570	-	331,570
Special Mention	-	-	159,448	-	159,448
Substandard	92,890	427,409	293,293	-	813,592
Substandard – impaired	-	18,739	-	56,198	74,937
Total	$ 22,553,234	$ 9,728,805	$ 83,105,796	$ 4,311,288	$ 119,699,123

* Loans graded as superior quality, high quality, good quality, and acceptable quality are classified as "Pass" grade for disclosure purposes.

3. LOANS – CONTINUED

The following table details the recorded investments, unpaid principal balance, and the related allowance of impaired loans as of December 31, 2016 and 2015, and the average recorded investment of impaired loans for the years ended December 31, 2016 and 2015:

	At December 31, 2016			For the year ended December 31, 2016
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired Loans with no recorded allowance:				
Commercial, financial and agricultural	$ -	$ -	$ -	$ 1,517
Real estate – construction, land development and other land	405,695	400,443	-	416,552
Real estate – mortgage	-	-	-	191,955
Consumer	-	-	-	-
Total	405,695	400,443	-	610,024
Imparied loans with a recorded allowance:				
Real estate – construction, land development and other land	-	-	-	30,128
Real estate – construction	-	-	-	9,120
Real estate – mortgage	681,938	678,054	95,044	474,189
Consumer	57,344	57,344	16,100	50,047
Total	739,282	735,398	111,144	563,484
Total impaired loans	$ 1,144,977	$ 1,135,841	$ 111,144	$ 1,173,508

3. LOANS – CONTINUED

	At December 31, 2015			For the year ended December 31, 2015
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired Loans with no recorded allowance:				
Commercial, financial and agricultural	$ 3,033	$ 3,033	$ -	$ 27,530
Real estate – construction, land development and other land	427,409	427,409	-	262,710
Real estate – mortgage	383,909	383,909	-	1,139,345
Consumer	-	-	-	7,604
Total	$ 814,351	$ 814,351	$ -	$ 1,437,189
Imparied loans with a recorded allowance:				
Commercial, financial and agricultural	60,256	$ 89,857	$ 29,601	$ 30,128
Real estate – construction, land development and other land	18,240	18,739	499	276,240
Real estate – mortgage	266,440	331,570	65,130	154,595
Consumer	42,750	56,198	13,448	109,875
Total	$ 387,686	$ 496,364	$ 108,678	$ 570,838
Total impaired loans	$ 1,202,037	$ 1,310,715	$ 108,678	$ 2,008,027

For the years ended December 31, 2016 and 2015, the interest income recognized on impaired loans was immaterial.

3. LOANS – CONTINUED

Past due balances and loans on nonaccrual status at December 31, 2016 and 2015, by loan classification, are as follows:

At December 31, 2016

	Past due 30-89 days and still accuring	Past due 90 days or more and still accruing	Total past due and performing	Loans on nonaccrual status	Current	Total Loans
Commercial, financial and agricultural	$ -	$ -	$ -	$ -	$ 26,694,915	$ 26,694,915
Real estate – construction, land development, and other land	-	-	-	-	9,319,155	9,319,155
Real estate – mortgage	39,070	-	39,070	403,152	87,227,551	87,669,773
Consumer	13,138	-	13,138	57,344	4,743,210	4,813,692
Total	$ 52,208	$ -	$ 52,208	$ 460,496	$ 127,984,831	$ 128,497,535

At December 31, 2015

	Past due 30-89 days and still accuring	Past due 90 days or more and still accruing	Total past due and performing	Loans on nonaccrual status	Current	Total Loans
Commercial, financial and agricultural	$ 3,461	$ -	$ 3,461	$ 89,857	$ 22,459,916	$ 22,553,234
Real estate – construction, land development, and other land	-	-	-	18,739	9,710,066	9,728,805
Real estate – mortgage	406,334	-	406,334	134,900	82,564,562	83,105,796
Consumer	56,198	-	56,198	-	4,255,090	4,311,288
Total	$ 465,993	$ -	$ 465,993	$ 243,496	$ 118,989,634	$ 119,699,123

At December 31, 2016 and 2015, there were no loans classified as nonaccrual that were not deemed to be impaired. At the date such loans were placed on nonaccrual status, the Bank reversed all previously accrued interest income against current year earnings. Had such nonaccrual loans been on accrual status, interest income would have been immaterial for the year ended December 31, 2016. Interest income is subsequently recognized to the extent cash payments are received while the loan is classified as nonaccrual but is reviewed on a loan-by-loan basis.

The Bank has no commitments to loan additional funds to the borrowers of impaired loans.

3. LOANS – CONTINUED

The following table details the number of troubled debt restructurings by loan classification as of December 31, 2016 and 2015:

	At December 31, 2016		
	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Real estate – construction, land development and other land	1	$ 745,188	$ 400,443
Real estate – mortgage	3	516,839	483,607
Consumer	1	83,535	40,375
Total	5	$ 1,345,562	$ 924,425

	At December 31, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate – construction, land development and other land	2	$ 795,188	$ 446,148
Real estate – mortgage	5	760,590	627,124
Consumer	2	113,859	65,820
Total	9	$ 1,669,637	$ 1,139,092

Impaired loans also include loans that the Bank may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses, if any, that the Bank may have to otherwise incur. These loans are classified as impaired loans and, if on nonaccrual status as of the date of restructuring, the loans are included in the nonperforming loan balances noted above. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date.

3. LOANS – CONTINUED

The following table details the number of troubled debt restructurings by loan classification that have subsequently defaulted for the year ended December 31, 2016:

	At December 31, 2016	
	Number of Contracts	Recorded Investment
Real estate - mortgage	1	114,585

There were no troubled debt restructuring loans that subsequently defaulted for the year ended December 31, 2015.

The Bank has pledged eligible one to four family real estate mortgage loans, commercial mortgage loans, multifamily mortgage loans, and investments as collateral to the Federal Home Loan Bank of Atlanta to secure a line of credit in the amount of $55,694,750. At December 31, 2016 and 2015, the outstanding balance of the line of credit was $2,905,000 and $5,420,000, respectively. See Note 6.

Certain directors, executive officers, and principal stockholders, including their immediate families and associates, were loan customers of the Bank during 2016 and 2015. A summary of activity and amounts outstanding as of December 31 is as follows:

	2016	2015
Balance at beginning of year	$ 509,700	$ 1,687,892
New loans or advances	536,844	1,971,539
Principal repayments	(219,800)	(3,149,731)
Balance at end of year	$ 826,744	$ 509,700

4. PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31 are summarized below:

	2016	2015
Building and improvements	$ 5,929,708	$ 5,929,708
Equipment	1,235,435	1,203,120
Furniture and fixtures	566,317	565,771
Computer software	121,825	114,904
Leasehold improvements	84,085	84,085
	7,937,370	7,897,588
Less accumulated depreciation	2,895,307	2,514,822
	5,042,063	5,382,766
Land	1,448,377	1,448,377
Premises and equipment, net	$ 6,490,440	$ 6,831,143

The provision for depreciation charged to occupancy and equipment expense was $380,485 and $380,675 for the years ended December 31, 2016 and 2015, respectively.

5. DEPOSITS

The aggregate amount of deposits from executive officers, directors, and principal stockholders was $16,579,094 and $15,811,426 at December 31, 2016 and 2015, respectively.

The Bank had $11,990,694 and $5,614,763 of time deposits outstanding greater than the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 at December 31, 2016 and 2015.

Demand deposit overdrafts reclassified as loan balances amounted to $82,188 and $84,107 at December 31, 2016 and 2015, respectively.

5. DEPOSITS – CONTINUED

The maturity schedule for all time deposits as of December 31, 2016, over the next five years, and in the aggregate is as follows:

Years Ending December 31,	
2017	$ 26,060,415
2018	11,810,818
2019	693,156
2020	385,506
2021	645,717
	$ 39,595,612

6. BORROWINGS

The Bank has advances under a line of credit with Federal Home Loan Bank under a variable rate advance program with a total balance of $2,905,000 and $5,420,000 as of December 31, 2016 and 2015, respectively. These advances are collateralized by eligible real estate mortgage loans, which had a value of approximately $5,165,770 and $7,260,950 for the years ended December 31, 2016 and 2015, respectively. Borrowings at December 31 consist of the following:

	2016	2015
FHLB advance dated April 10, 2015, with interest payable quarterly at 0.44%, matured April 11, 2016, and secured by one to four family residential, multi-family, commercial real estate mortgage loans, and securities.	$ -	$ 1,000,000
FHLB advance dated April 10, 2015, with interest payable quarterly at 0.80%, matures April 10, 2017, and secured by one to four family residential, multi-family, commercial real estate mortgage loans, and securities.	1,000,000	1,000,000
FHLB advance dated April 10, 2015, with interest payable quarterly at 1.15%, matures April 10, 2018, and secured by one to four family residential, multi-family, commercial real estate mortgage loans, and securities.	1,000,000	1,000,000

6. BORROWINGS – CONTINUED

	2016	2015
FHLB advance dated May 4, 2015, with interest payable quarterly at .81%, matures March 6, 2017, and secured by one to four family residential, multi-family, commercial real estate mortgage loans, and securities.	230,000	230,000
FHLB advance dated May 4, 2015, with interest payable quarterly at 0.78%, matures February 6, 2017, and secured by one to four family residential, multi-family, commercial real estate mortgage loans and securities.	380,000	380,000
FHLB advance dated May 4, 2015, with interest payable quarterly at 0.75%, matures January 4, 2017, and secured by one to four family residential, multi-family, commercial real estate mortgage loans, and securities.	295,000	295,000
FHLB advance dated May 4, 2015, with interest payable quarterly at 0.72%, matured December 5, 2016, and secured by one to four family residential, multi-family, commercial real estate mortgage loans and securities.	-	365,000
FHLB advance dated May 4, 2015, with interest payable quarterly at 0.52%, matured July 5, 2016, and secured by one to four family residential, multi-family, commercial real estate mortgage loans and securities.	-	355,000
FHLB advance dated May 4, 2015, with interest payable quarterly at 0.35%, matured February 4, 2016 and secured by one to four family residential, multi-family, commercial real estate mortgage loans, and securities.	-	795,000
	$ 2,905,000	$ 5,420,000

On October 12, 2007, the Bank was granted a letter of credit through the Federal Home Loan Bank totaling $750,000. This letter of credit was obtained due to a regulator requirement to support a letter of credit granted to a customer. There were no amounts outstanding under this line of credit at December 31, 2016 and 2015, and the agreement expires on October 21, 2017.

6. BORROWINGS – CONTINUED

The maturity schedule for all borrowings as of December 31, 2016, are as follows:

Years Ending December 31,		
2017	$	1,905,000
2018		1,000,000
	$	2,905,000

7. OPERATING LEASES

Land
The bank renewed the Alexandria, Alabama branch lease for an additional five-year period. The lease expires in 2021. Also, the lease requires the Bank to pay maintenance, insurance, and property taxes.

The Bank renewed a two-year, noncancelable operating lease agreement in March 2016 for the Piedmont, Alabama branch. The lease expires in 2018 and provides a one-year renewal option, which the Bank plans to exercise. Also, the lease requires the Bank to pay maintenance and insurance.

The Bank entered into a long-term, noncancelable operating lease agreement in 2015 for the Birmingham, Alabama branch. The lease expires in 2022 and provides for renewal options of three consecutive five year periods. Also, the lease requires the Bank to pay maintenance, insurance, and property taxes.

Lease expense totaled $143,862 and $89,015 during 2016 and 2015, respectively.

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

Year Ending December 31,		
2017	$	135,859
2018		135,402
2019		136,673
2020		139,216
Thereafter		162,892
	$	710,042

8. INCOME TAX PROVISION

The components of income tax expense for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Current:		
Federal	$ 516,792	$ 263,656
State	29,979	79,242
	546,771	342,898
Deferred:		
Federal	(31,628)	(95,726)
	$ 515,143	$ 247,172

The provision for federal income taxes differs from that computed by applying the federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

	2016	2015
Federal statutory income tax at 34%	762,549	409,464
Tax-exempt interest	(243,340)	(185,808)
Other temporary or permanent differences	(4,066)	23,516
	$ 515,143	$ 247,172

8. INCOME TAX PROVISION – CONTINUED

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

	2016	2015
Differences in accounting for loan losses, less valuation allowance	$ 276,452	$ 309,623
Differences in depreciation methods	(183,131)	(242,303)
Differences in unrealized gains and losses on investments	587,889	(54,442)
Differences in stock options and warrants	145,037	145,037
Difference in deferred compensation	97,780	66,152
Other Differences	2,304	28,305
	$ 926,331	$ 252,372
Deferred tax assets	$ 1,109,462	$ 549,117
Deferred tax liabilities	(183,131)	(296,745)
	$ 926,331	$ 252,372

Temporary differences giving rise to the deferred tax asset consist primarily of differences in the bad debt deduction for tax purposes and financial reporting purposes, differences in depreciation for tax purposes and financial reporting purposes, and the difference in unrealized gains and losses on investments.

9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition.

The Bank's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Unless noted otherwise, the Bank does not require collateral or other security to support financial instruments with credit risk. The outstanding notional amount of off-balance sheet risks at December 31, 2016 and 2015, is as follows:

	2016	2015
Unused lines of credit	$ 23,763,000	$ 25,253,000
Standby letters of credit	373,000	288,000
	$ 24,136,000	$ 25,541,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Performance and financial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in loan facilities extended to customers.

10. CONCENTRATION OF CREDIT RISK

Most of the Bank's deposit and lending activities occur with customers located within Calhoun County, Alabama. The Bank grants commercial, residential, and consumer loans primarily to customers in east Alabama. The concentrations of loans by type are set forth in Note 3.

11. REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

11. REGULATORY CAPITAL – CONTINUED

The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital, common equity Tier 1 to risk-weighted assets, Tier 1 capital to risk-weighted assets, and Tier 1 capital to adjusted total assets (as defined by regulations). The Bank will have to maintain minimum total risk-based, common equity Tier 1, Tier 1 risk-based, and Tier 1 leverage ratios as set forth by the regulators to meet the regulatory capital requirements. Management believes, as of December 31, 2016 and 2015, that the Bank met all the capital adequacy requirements to which it is subject.

In July 2013, the banking regulators (or FDIC) published final rules establishing a new comprehensive capital framework for U.S. banking organizations (the final rules). The final rules implement the Basel Committee of Banking Supervision's December 2010 framework known as Basel III, as well as certain provisions of the Dodd-Frank Act. The final rules, which define the components of capital and also address risk weights, became effective on January 1, 2015. The final rules include a new capital ratio designated as common equity Tier 1 ratio, which is a tighter definition of Tier 1 capital (banks must hold 4.5% by January 2015 and then a further 2.5% capital conservation buffer, totaling 7% that is implemented annually through January 2019); an increase in Tier 1 capital ratio from 4% to 6%; a framework for countercyclical buffers; adjustments to prompt corrective action thresholds; short and medium term quantitative liquidity ratios and establishes criteria that instruments must meet in order to be considered regulatory capital.

The Bank's capital amounts and ratios under the new capital guidance are as follows (dollars in thousands):

	Actual		For Capital Adquacy Purposes		To Be Well-Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total risk based capital	$ 21,742	14.040%	$ 13,356	8.625%	$ 15,486	10.00%
Common equity Tier 1	20,149	13.011%	7,936	5.125%	10,066	6.50%
Tier 1 risk based capital	20,149	13.011%	10,259	6.625%	12,389	8.00%
Tier 1 leverage	20,149	8.905%	9,051	4.000%	11,314	5.00%
As of December 31, 2015						
Total risk based capital	$ 20,204	14.23%	$ 11,358	8.00%	$ 14,197	10.00%
Common equity Tier 1	18,832	13.26%	6,389	4.50%	9,228	6.50%
Tier 1 risk based capital	18,832	13.26%	8,518	6.00%	11,358	8.00%
Tier 1 leverage	18,832	9.48%	7,943	4.00%	9,929	5.00%

12. RESTRICTIONS ON DIVIDENDS

The Bank is subject to the dividend restrictions set forth by the State Banking Department. Under such restrictions, the Bank may not, without the prior approval of the State Banking Department, declare dividends in excess of the sum of the current year's earnings plus the net earnings from the prior two years. For the year ending December 31, 2017, the Bank can declare dividends, without regulatory approval, of approximately $1,929,000 plus an additional amount equal to its net profits for 2017. However, restrictions exist related to the maintenance of adequate capital and, as such, may further restrict the amounts of allowable dividends which can be paid.

13. STOCK BASED COMPENSATION

On April 18, 2006, the stockholders and directors approved and adopted the Plan, a stock compensation plan for key employees and directors. The purpose of the Plan is to enhance stockholder investment by attracting, retaining, and motivating key employees and directors of the Bank and to align the interests of management with those of stockholders.

The weighted-average estimated fair value of the warrants and options was determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments, and the risk-free interest rate over the expected life of the option.

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options and, since the Bank's options do not have the characteristics of traded options, the option valuation models do not necessarily provide a reliable measure of the fair value of its options.

Compensation expense recorded for the following plans totaled $ -0- and ($2,134) for the years ended December 31, 2016 and 2015, respectively.

Warrant Agreements
In recognition of the efforts made and financial risks undertaken by the organizers in organizing the Bank, the Bank issued options during 2006 to the organizers to purchase up to 102,500 shares of Bank common stock. The option price is $10 per share, and they vest at the end of five years, and are exercisable for a 10-year period.

13. STOCK BASED COMPENSATION – CONTINUED

The weighted-average estimated fair value of stock warrants granted during 2006 was $3.06 per share. The assumptions used in the Black-Scholes model were as follows for stock options granted in 2006:

Risk-free interest rate	4.43%
Expected volatility of common stock	15%
Dividend yield	0%
Expected life of options	6.92 years

	Number of Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2015	7,500	$ 75,000
Granted	-	-
Exercised	-	-
Expired	7,500	$ 75,000
Options outstanding at December 31, 2016	-	-
Options exercisable at December 31, 2016	-	$ -
Remaining contractual life		-0- years

Stock Option Agreements
Stock options may be granted to certain Bank officers and employees. The maximum number of options that can be issued is 65,500. In 2006, 43,100 shares were granted, and 22,400 shares are available to grant in the future. The granted shares are $10 per share, vest in equal increments over five years, and are exercisable for a 10-year period.

The weighted-average estimated fair value of stock options granted during 2006 was $3.51 per share.

13. STOCK BASED COMPENSATION – CONTINUED

The assumptions used in the Black-Scholes model were as follows for stock options granted in 2006:

Risk-free interest rate	4.45%
Expected volatility of common stock	15%
Dividend yield	0%
Expected life of options	8.42 years

	Number of Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2015	22,035	$ 220,350
Granted	-	-
Exercised	17,335	173,350
Expired	4,700	$ 47,000
Options outstanding at December 31, 2016	-	-
Options exercisable at December 31, 2016	-	$ -
Remaining contractual life		-0- years

In October 2008, the Board of Directors approved the issuance of stock options for five Bank officers/managers. Each of the five employees would receive an option for 500 shares of stock at a strike price of $15. The Board of Directors ratified the granting of these options on February 17, 2009. The total expense over the five-year vesting period will be $11,804.

The weighted-average estimated fair value of stock options granted during 2008 was $4.7218 per share.

The assumptions used in the Black-Scholes model were as follows for stock options granted in 2008:

Risk-free interest rate	2.82%
Expected volatility of common stock	15%
Dividend yield	0%
Expected life of options	10 years

13. STOCK BASED COMPENSATION – CONTINUED

	Number of Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2015	2,000	$ 30,000
Granted	-	-
Exercised	-	-
Expired	-	-
Options outstanding at December 31, 2016	2,000	30,000
Options exercisable at December 31, 2016	2,000	$ 30,000
Remaining contractual life		2 years

14. EMPLOYEE BENEFIT PLAN

On November 1, 2005, the Bank adopted the Noble Bank and Trust 401k Profit Sharing Plan to provide eligible participants with retirement benefits (401(k)). This 401(k) is a "safe harbor 401(k) plan." The Bank will contribute a matching portion of employee contributions up to a maximum of 4.0% of compensation.

Profit sharing contributions to the 401(k) are made at the discretion of the employer. The 401(k) covers substantially all employees who meet certain age and length of service requirements. The employees are not required to contribute to participate in the profit sharing contributions. Contributions charged to operations for the years ended December 31, 2016 and 2015, were $112,496 and $101,534, respectively.

15. POSTRETIREMENT BENEFITS

The Bank has also entered into nonqualified deferred compensation agreements (the Agreements) covering certain executive officers. The Agreements provide for payments of scheduled benefits to the participants or their beneficiaries for a period between 7 to 13 years following specified retirement dates (Full Benefit Dates). The Full Benefit Dates range from year 2022 through 2036 and reflect the participant having reached age 65. The agreements provide for defined retirement benefits (Full Retirement Benefits) upon the fulfillment of certain conditions related primarily to continued length of service. Reduced retirement benefits (Limited Retirements Benefits) are also scheduled in the Agreements should separation of service occur prior to the Full Benefit Date, under certain conditions. The scheduled Limited Retirement Benefits reflect annual increases until reaching the Full Retirement Benefits on the Full Benefit Date. The Agreements provide that each annual increase is subject to annual approval by and at the discretion of the Bank's Board of Directors, thereby potentially reducing the scheduled Full Retirement Benefits and the Limited Retirement Benefits. The Agreements also provide for acceleration of the length of service requirement to receive the Full Retirement Benefits upon change of control (as defined in the Agreements) and acceleration of both the Full Retirement Benefits and the Full Benefit Date as a result of death or disability (as defined). The present value of the estimated liability under the Agreements is being accrued over the expected remaining years of service.

The aggregate benefit cost expected to be accrued for the year ending December 31, 2017, is $80,995.

The measurement date for the plan is December 31 of each year. A weighted average assumed discount rate of 5.50% was used in calculating the accumulated benefit obligation. The Plan is not considered a pay-related plan, and there are no plan assets on which to compute long-term rates of return. Since there are no plan assets, the Plan is underfunded by the total amount of the benefit obligation liability. Furthermore, the Bank plans on funding the required payments through the continuing operations of the Bank.

The present value of the Plan's accumulated benefit obligation amounted to $279,086 and $194,565 at December 31, 2016 and 2015, respectively. The benefit obligation expense for the years ended December 31, 2016 and 2015, was $93,022 and $88,652, respectively.

15. POSTRETIREMENT BENEFITS – CONTINUED

Expected benefit payments for the deferred compensation plan for the 10-year period following December 31, 2016, are as follows:

Years Ending December 31,	
2017	$ -
2018	-
2019	-
2020	-
2021	-
2022-2026	275,000
	$ 275,000

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash Equivalents and Short-Term Investments – For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities – For securities held-to-maturity, fair values are based on quoted market prices or dealer quotes. For other investments, fair value is estimated to be approximately the carrying amount.

Loans – For certain homogeneous categories of loans, such as some residential mortgage, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Accrued Interest Receivable and Payable – The carrying amount of accrued interest receivable and payable approximates its fair value.

Deposits – The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowings – The fair value of borrowings, including federal funds purchased, is estimated to be approximately the same as the carrying value.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

Commitments to Extend Credit, Standby Letters of Credit, and Financial Guarantees Written – The fair value of commitments, letters of credit, and financial guarantees is estimated to be approximately the fees charged for these arrangements.

The estimated fair values of the Bank's financial instruments as of December 31, 2016 and 2015, are as follows:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 22,945,027	$ 22,945,027	$ 7,590,710	$ 7,590,710
Securities available-for-sale	59,980,779	59,980,779	55,914,377	55,914,377
Restrictive equity securities	1,325,900	1,325,900	1,397,000	1,397,000
Investments in annuities	1,560,190	1,560,190	1,560,190	1,560,190
Loans, net	126,904,391	126,224,175	118,327,097	118,246,142
Accrued interest receivable	760,820	760,820	695,259	695,259
Financial liabilities:				
Deposits	202,625,802	165,598,739	171,276,064	142,567,566
Borrowings	2,905,000	2,900,779	5,420,000	5,399,065
Accrued interest payable	156,183	156,183	80,003	80,003
Unrecognized financial instruments:				
Commitments to extend credit	23,763,000	23,763	25,253,000	25,253
Standby letters of credit	373,000	373	288,000	288

The Bank's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB ASC Topic 820. See Note 1.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

Items Measured at Fair Value on a Recurring Basis

The following fair value hierarchy table presents information about the Bank's assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015:

December 31, 2016

		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Debt Securities:				
U.S. government-sponsored enterprises (GSEs)	$ 4,742,239	$ -	$ 4,742,239	$ -
State and municipal	41,279,559	-	41,279,559	-
Mortgage-backed securities:				
GSE residential	13,958,981	-	13,958,981	-
Total assets at fair value	$ 59,980,779	$ -	$ 59,980,779	$ -

December 31, 2015

		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Debt Securities:				
U.S. government-sponsored enterprises (GSEs)	$ 10,923,646	$ -	$ 10,923,646	$ -
State and municipal	29,589,559	-	29,589,559	-
Mortgage-backed securities:				
GSE residential	15,401,172	-	15,401,172	-
Total assets at fair value	$ 55,914,377	$ -	$ 55,914,377	$ -

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The valuation techniques used to measure fair value for the items in the table above are as follows:

Securities available-for-sale – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, fair values are estimated using pricing models and discounted cash flows that consider standard input factors, such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the securities are classified in Level 3.

Items Measured at Fair Value on a Nonrecurring Basis

The following fair value hierarchy table presents information about the Bank's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015:

December 31, 2016

		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans	$ 1,135,841	$ -	$ -	$ 1,135,841
Other real estate owned	584,241	-	-	584,241
Total assets at fair value	$ 1,720,082	$ -	$ -	$ 1,720,082

December 31, 2015

		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans	$ 1,310,715	$ -	$ -	$ 1,310,715
Other real estate owned	810,700	-	-	810,700
Total assets at fair value	$ 2,121,415	$ -	$ -	$ 2,121,415

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The valuation techniques used to measure fair value for the items in the table above are as follows:

Impaired Loans – Nonrecurring fair value adjustments to loans reflect full or partial write-downs that are based on the loan's observable market price or current appraised value of the collateral in accordance with FASB ASC Section 310-10-35, *Receivables, Subsequent Measurement, Loan Impairment*. Loans subjected to nonrecurring fair value adjustments based on the current appraised value of the collateral may be classified as Level 2 or Level 3 depending on the type of asset and the inputs to the valuation. When appraisals are used to determine impairment, and these appraisals require significant adjustments to market-based valuation inputs or apply an income approach based on unobservable cash flows to measure fair value, the related loans subjected to nonrecurring fair value adjustments are typically classified as Level 3 due to the fact that Level 3 inputs are significant to the fair value measurement.

Foreclosed Real Estate – Nonrecurring fair value adjustments to foreclosed real estate reflect full or partial write-downs that are based on the real estate's observable market price or current appraised value of the collateral.