NOBLEBANK
& TRUST

April 27, 2018

Dear Shareholder,

We are pleased with the results for 2017; however, we are not satisfied as there continues to be room for improvement. We have taken several steps over the past few months to position us for more profitable growth. We have added mortgage lending personnel in our Birmingham office, as well as an additional commercial lending officer. Given the additions, we have renovated the office, adding offices for both the mortgage lending group as well as the additional lender and credit analyst. We have also added a new lender in Calhoun County and are encouraged by his production thus far.

The Federal Reserve also completed their exam of the Bank; we were very pleased with their findings. A few observations from their report are *"The overall condition of the Bank is satisfactory. Asset quality is strong given the low volume of problem assets and conservative underwriting. The capital position is satisfactory given the low risk profile of the institution. Earnings are sufficient to support operations and adequately augment capital. Liquidity remains strong due to a stable volume of liquid assets and core deposit base."* We will remain focused on safety and soundness of the Bank in everything we do.

Below is a recap of our performance for 2017, as well as our trend line since 2014:

	Actual 12/31/2014	Actual 12/31/2015	Actual 12/31/2016	Actual 12/31/2017
Total Deposits	$152,971,640	$171,276,064	$202,625,803	$202,978,355
Total Loans	$104,551,159	$119,901,121	$128,804,536	$134,212,399
Total Assets	$177,701,440	$197,440,752	$225,525,938	$225,669,455
Net Income	$1,200,557	$957,134	$1,727,649	$1,795,158

While we are working to increase our largest earning asset, loans, we are committed to maintaining very high credit standards. The following numbers reflect this commitment: Past due loans averaged .25% of outstanding loans; charge offs for the year were $50,761 or .003% of outstanding loans (most of the charge offs were actually deposit charge offs); Non-Accrual loans were reduced from $453,842 to $149,064, a 67% decrease; criticized loans were reduced from $3,327,398 (15% of Tier 2 Capital) to $1,613,162 (7% of Tier 2 Capital), a 51% reduction.

Your Board of Directors, officers and employees strive every day to enhance value you for you, as evidenced by the increase in the book value of NobleBank & Trust stock ($14.16 at 12/31/17 vs. $12.86 at 12/31/16). Earnings per share also increased to .32 per share, from .28 per share year over year.

Thank you for your loyalty to NobleBank & Trust! We look forward to working diligently for you in 2018!

Sincerely,

Anthony Humphries

Anthony Humphries
President & CEO

MAIN OFFICE
1509 Quintard Avenue, Anniston, AL 36201
PO Box 998, Anniston, AL 36202

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256-741-1800

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Alexandria - Birmingham - Oxford - Piedmont

NOBLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOBLE BANCSHARES, INC. AND SUBSIDIARY
TABLE OF CONTENTS
DECEMBER 31, 2017 AND 2016

Warren Averett
CPAs AND ADVISORS

415 East10th St
Anniston, AL 36207
256.241.0560
warrenaverett.com

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Noble Bancshares, Inc.

We have audited the accompanying consolidated statements of financial condition of Noble Bancshares, Inc. and Subsidiary (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Noble Bancshares, Inc. and Subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Warren Averett, LLC

Anniston, Alabama
April 13, 2018

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 5,401,186	$ 5,200,076
Interest bearing deposits in banks	9,114,201	16,969,951
Federal funds sold	-	775,000
Total cash and cash equivalents	14,515,387	22,945,027
SECURITIES, AVAILABLE-FOR-SALE	62,809,662	59,980,779
SECURITIES RESTRICTIVE INVESTMENTS	1,350,800	1,325,900
INVESTMENT IN ANNUITIES	1,560,190	1,560,190
LOANS, NET OF ALLOWANCE FOR LOAN LOSSES	131,914,346	126,904,391
LOANS, HELD-FOR-SALE	616,500	307,000
ACCRUED INTEREST RECEIVABLE	922,997	760,820
PREPAID EXPENSES	251,796	293,045
FORECLOSED REAL ESTATE	593,750	584,241
PREMISES AND EQUIPMENT, NET	6,303,396	6,490,440
BANK-OWNED LIFE INSURANCE	4,036,779	3,441,973
DEFERRED TAX	547,598	926,331
INCOME TAXES RECEIVABLE	-	-
OTHER ASSETS	11,455	5,800
TOTAL ASSETS	$ 225,434,656	$ 225,525,937

See notes to the consolidated financial statements

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2017 AND 2016

LIABILITIES AND STOCKHOLDERS' EQUITY

	2017	2016
DEPOSITS		
Interest-bearing	$ 167,349,596	$ 169,517,056
Noninterest-bearing	35,579,255	33,108,746
Total deposits	202,928,851	202,625,802
BORROWINGS	1,000,000	2,905,000
FEDERAL FUNDS PURCHASED	-	-
ACCRUED INTEREST PAYABLE	125,738	156,184
DEFERRED COMPENSATION	368,219	279,086
INCOME TAXES PAYABLE	70,263	408,352
OTHER LIABILITIES	191,388	144,065
Total liabilities	204,684,459	206,518,489
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; 5,000,000 shares authorized; 1,478,360 shares issued and 1,464,860 and 1,478,360 shares outstanding for the years ended December 31, 2017 and 2016, respectively	1,478,360	1,478,360
Additional paid-in capital	18,775,843	14,294,676
Accumulated other comprehensive loss	(416,968)	(1,141,197)
Treasury stock, 13,500 and -0- shares at cost at December 31, 2017 and 2016, respectively	(173,175)	-
Retained earnings	1,086,137	4,375,609
Total stockholders' equity	20,750,197	19,007,448
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 225,434,656	$ 225,525,937

See notes to the consolidated financial statements

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
INTEREST INCOME		
Interest and fees on loans	$ 7,225,759	$ 6,668,794
Interest on investment securities	1,573,714	1,427,611
Interest on due from accounts	128,272	118,552
Total interest income	8,927,745	8,214,957
INTEREST EXPENSE		
Interest on money market and checking	410,710	389,403
Interest on savings	3,423	3,211
Interest on certificates of deposit	307,017	362,231
Interest on borrowed funds	12,862	34,441
Total interest expense	734,012	789,286
NET INTEREST INCOME	8,193,733	7,425,671
PROVISION FOR LOAN LOSSES	174,732	363,919
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,019,001	7,061,752

See notes to the consolidated financial statements

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
NONINTEREST INCOME		
Service charges, fees, and commissions	$ 1,920,409	$ 1,701,014
Bank-owned life insurance income	94,806	84,057
Realized gain on sale of securities	29,301	255,089
Miscellaneous noninterest income	13,264	13,718
Total noninterest income	2,057,780	2,053,878
NONINTEREST EXPENSES		
Salaries and employee benefits	4,065,192	3,579,313
Data processing expense	1,272,287	1,030,942
Occupancy expense	673,873	665,771
Professional fees	248,572	302,340
Business development expense	279,939	208,065
Insurance expense	149,886	201,004
Equipment expense	173,689	194,204
Supplies expense	144,138	132,493
Write-downs and losses on foreclosed real estate	37,750	95,272
Deferred compensation expense	97,633	93,022
Communication expense	71,638	64,895
Travel expense	61,869	54,514
Teller outages and other losses	11,536	20,507
Other expenses	211,358	230,496
Total noninterest expenses	7,499,360	6,872,838
INCOME BEFORE INCOME TAXES	2,577,421	2,242,792
INCOME TAX PROVISION	794,382	515,143
NET INCOME	$ 1,783,039	$ 1,727,649

See notes to the consolidated financial statements

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

		2017		2016
NET INCOME	$	1,783,039	$	1,727,649
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) arising during the period		1,126,617		(916,220)
Reclassification adjustments for (gains) included in net income		(29,301)		(255,089)
Net unrealized gain (loss)		1,097,316		(1,171,309)
Income tax related to items of other comprehensive income		(373,087)		(75,570)
Other comprehensive gain (loss)		724,229		(1,246,879)
COMPREHENSIVE INCOME	$	2,507,268	$	480,770

See notes to the consolidated financial statements

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Total
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)
Options/warrants expense	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
Formation of Holding Company	-	4,481,167	-	-	(4,481,167)	-
Purchase of treasury stock	-	-	-	(173,175)	-	(173,175)
Dividends declared and paid	-	-	-	-	(591,344)	(591,344)
Net income	-	-	-	-	1,783,039	1,783,039
Other comprehensive gain	-	-	724,229	-	-	724,229
BALANCE AT DECEMBER 31, 2017	$ 1,478,360	$ 18,775,843	$ (416,968)	$ (173,175)	$ 1,086,137	$ 20,750,197

See notes to the consolidated financial statements

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,783,039	$ 1,727,649
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in deferred tax	5,646	(31,628)
Change in income tax receivable	-	152,524
Provision for loan losses	174,732	363,919
Net amortization of securities	534,163	437,013
Depreciation of premises and equipment	337,648	380,485
Write-down of foreclosed real estate	22,409	102,400
(Gain) loss on sale of foreclosed real estate	15,341	(7,128)
Realized gain on sale of securities, net	(29,301)	(255,089)
Change in accrued interest receivable	(162,177)	(65,561)
Change in prepaid expenses	41,249	48,431
Change in other assets	(5,655)	2,188
Change in accrued interest payable	(30,446)	76,181
Change in deferred compensation	89,133	84,521
Change in income tax payable	(338,089)	408,352
Change in other liabilities	47,323	61,683
Net cash provided by operating activities	2,485,015	3,485,940
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Purchases	(12,740,206)	(45,161,183)
Sales	6,052,076	26,291,319
Maturities, paydowns, and calls	4,451,701	12,732,328
Purchases of securities restrictive investments	(24,900)	(23,200)
Proceeds from sales of other investment securities	-	94,300
Purchases of annuities	-	-
Net change in annuities value	-	-
Net change in loans receivable	(5,370,309)	(9,005,448)
Net change in loans held-for-sale	(309,500)	(105,000)
Proceeds from the sale of foreclosed real estate	138,363	576,334
Capitalized improvements of foreclosed real estate	-	(380,912)
Purchases of premises and equipment	(150,604)	(39,782)
Change in bank owned life insurance	(594,806)	(84,057)
Net cash used in investing activities	(8,548,185)	(15,105,301)

See notes to the consolidated financial statements

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 303,049	$ 31,349,738
Exercise of stock warrant	-	173,350
Allocation from granting of warrants/options	-	-
Treasury Stock	(173,175)	-
Net change in notes payable	(1,905,000)	(2,515,000)
Net change in federal funds purchased	-	(1,450,000)
Cash dividends	(591,344)	(584,410)
Net cash provided by (used in) financing activities	(2,366,470)	26,973,678
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,429,640)	15,354,317
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	22,945,027	7,590,710
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,515,387	$ 22,945,027
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 764,458	$ 713,105
NONCASH DISCLOSURES		
Loans transferred to other real estate owned	$ 185,622	$ 77,091
Proceeds from sales of foreclosed real estate financed through loans	$ -	$ 12,856
Net change in unrealized gain (loss) on securities available-for-sale, net of taxes	$ 724,229	$ (1,246,879)

See notes to the consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Noble Bancshares, Inc. (the company), an Alabama corporation, formed on June 1, 2017, operates in the domestic commercial banking industry. The Company’s subsidiary, 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. On June 27, 2013, the Bank was permitted to change its charter from a national bank to a state bank. It is now regulated by the State of Alabama and/or the Federal Reserve.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany balances and transactions have been eliminated. Unless otherwise indicated herein, the financial results of the Company refer to the Company and the Bank on a consolidated basis.

During June 2017, a holding company was created named Noble Bancshares, Inc. The transaction was affected by the exchanging of the holding company shares for the outstanding shares of Noble Bank and Trust. As the transaction was an exchange and the entities are under common control, the transaction is accounted for similar to the pooling-of-interests method. As comparative financial statements are presented, the prior years have been retrospectively adjusted to furnish comparative information.

Major Services and Principal Markets

The Company’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 consolidated financial statements in conformity with generally accepted accounting principles (GAAP) 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 consolidated 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 Company 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 Company maintains cash and cash equivalents in various correspondent or other bank accounts. The amounts by which cash and cash equivalents exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage at December 31, 2017 and 2016, were approximately $5,921,594 and $14,425,981, respectively. Management monitors these bank accounts and does not expect to incur any losses from such accounts. In addition, federal funds sold are not insured or guaranteed by other parties.

The Bank is required by regulatory authorities to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits (approximately $779,000 and $386,000 at December 31, 2017 and 2016, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 Company 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2017 and 2016.

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 of 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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”.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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".

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".

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 $ 616,500 and $ 307,000 in loans held-for-sale as of December 31, 2017 and 2016, respectively.

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Bank-Owned Life Insurance
The Company 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 amounts. 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.

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.

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 $33,524 and $22,774 for the years ended December 31, 2017 and 2016, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 and holding company filed separate federal income and State of Alabama excise tax returns for 2017. Beginning in 2018, the Bank and holding company will file a consolidated federal income tax return but will continue to file separate State of Alabama excise tax returns. 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 and 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 consolidated 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 $9,300,000, all of which is available and unused.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Bank also has a line of credit with the Federal Home Loan Bank of Atlanta (FHLB) of up to approximately \$56,235,750, of which \$55,235,750 is available and \$54,485,750 is unused as of December 31, 2017. 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).

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 consolidated financial statements of the Bank other than the additional disclosures included in Note 16.

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

Reclassifications
Certain reclassifications have been made to the 2016 consolidated financial statements included herein to conform to the 2017 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 Accounting Standards Update (ASU) 2014-09 and in August 2015 issued ASU 2015-14, *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 consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In June 2016, the FASB issued ASU 2016-13*, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU cover two areas: assets measured at amortized cost and available-for-sale debt securities. For assets measured at amortized cost, the amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. For available-for-sale debt securities, credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. Available-for-sale accounting recognizes that value may be realized either through collection of contractual cash flows or through sale of the security. Therefore, the amendments limit the amount of the allowance for credit losses to the amount by which fair value is below amortized cost, because the classification as available-for- sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value. For non-public entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. All entities may adopt the amendments in this ASU earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Bank is reviewing the impact that the adoption of this ASU may have on its consolidated 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, 2017				
Debt securities:				
U.S. government-sponsored enterprises (GSEs)*	$ 5,024,364	$ -	$ 252,161	$ 4,772,203
State and municipal	45,614,160	260,482	553,839	45,320,803
Mortgage-backed securities:				
U.S. Government-sponsered enterprises (GSE)* residential	12,802,907	-	86,251	12,716,656
Total securities available-for-sale	$ 63,441,431	$ 260,482	$ 892,251	$ 62,809,662

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

2. SECURITIES – CONTINUED

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2016				
Debt securities:				
U.S. government-sponsered				
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

* 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, 2017 and 2016.

Investment securities with a carrying amount of $15,157,690 and $15,424,472 were pledged to secure various public funds under the SAFE Program at December 31, 2017 and 2016, respectively.

The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2017, were as follows:

	Amortized Cost	Fair Value
Within one year	$ 201,947	$ 203,302
Over one year through five years	9,075,128	9,005,978
Over five years through ten years	18,631,430	18,453,214
Over ten years	35,532,926	35,147,168
	$ 63,441,431	$ 62,809,662

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.

2. SECURITIES – CONTINUED

For the years ended December 31, 2017 and 2016, proceeds from sales, maturities, and calls of securities available-for-sale amounted to $8,178,929 and $36,427,570; gross realized gains were $35,070 and $309,182 and gross realized losses were $5,769 and $54,093, respectively.

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, 2017 and 2016.

	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, 2017						
Debt securities:						
U.S. GSEs	$ 975,835	$ 24,165	$ 3,796,368	$ 227,996	$ 4,772,203	$ 252,161
State and municipal	10,520,291	115,525	16,186,181	438,314	26,706,472	553,839
Mortgage-backed securities:						
GSE residential	11,131,573	55,487	1,585,083	30,764	12,716,656	86,251
	$ 22,627,699	$ 195,177	$ 21,567,632	$ 697,074	$ 44,195,331	$ 892,251

	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. GSEs	$ 4,742,239	$ 287,720	$ -	$ -	$ 4,742,239	$ 287,720
State and municipal	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

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, 2017. The unrealized losses on these investments were caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 5.02%. 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, 2017, because the decline in market value is attributable to the current interest rate 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 72 state and municipal securities with unrealized losses at December 31, 2017. The unrealized losses on these investments were caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 2.03%. 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, 2017, because the decline in market value is attributable to the current interest rate 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 11 mortgage-backed security with unrealized losses at December 31, 2017. The unrealized losses on these investments were caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 0.67%. 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, 2017, because the decline in market value is attributable to the current interest rate 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, 2017 and 2016.

Securities, Restrictive Investment
The aggregate carrying value of the Bank's cost-method investments totaled $1,350,800 and $1,325,900 at December 31, 2017 and 2016, 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, 2017, 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:

	2017	2016
First National Bankers Bank	$ 536,000	$ 536,000
Federal Home Loan Bank	341,600	316,700
Federal Reserve Bank	473,200	473,200
	$ 1,350,800	$ 1,325,900

3. LOANS

The composition of loans by primary loan classification and by performing and impaired loan status at December 31, 2017 and 2016, is as follows:

	December 31, 2017		
	Performing Loans	Impaired Loans	Total
Commercial, financial, and agricultural	$ 31,236,576	$ -	$ 31,236,576
Real estate – construction, land, and other land	9,996,953	376,317	10,373,270
Real estate – mortgage	86,651,750	617,464	87,269,214
Consumer	4,654,567	62,272	4,716,839
Subtotal	132,539,846	1,056,053	133,595,899
Allowance for loan losses	(1,561,802)	(119,751)	(1,681,553)
Net loans	$ 130,978,044	$ 936,302	$ 131,914,346

	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

3. LOANS – CONTINUED

The changes in the allowance for loan losses for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Balance at beginning of year	$ 1,593,144	$ 1,372,026
Loans charged off	(127,951)	(207,121)
Recoveries on loans previously charged off	41,628	64,320
Net charge-offs	(86,323)	(142,801)
Provision charged to operating expenses	174,732	363,919
Balance at end of year	$ 1,681,553	$ 1,593,144

The allocation and changes in the allowance for loan losses, by loan classification, as of and for the years ended December 31, 2017 and 2016, are as follows:

	December 31, 2017					
	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, and Other Land	Real Estate – Mortgage	Consumer	Unallocated	Total
Balance at beginning of year	$ 282,157	$ 109,051	$ 1,121,404	$ 63,850	$ 16,682	$ 1,593,144
Charge-offs	-	-	(40,700)	(87,251)	-	(127,951)
Recoveries	141	-	600	40,887	-	41,628
Net charge-offs	141	-	(40,100)	(46,364)	-	(86,323)
Provision	39,431	(6,470)	124,678	33,934	(16,841)	174,732
Ending balance	$ 321,729	$ 102,581	$ 1,205,982	$ 51,420	$ (159)	$ 1,681,553

3. LOANS – CONTINUED

	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

The following table outlines the amount of each loan classification based on internally assigned risk ratings as of December 31, 2017 and 2016:

	December 31, 2017				
	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, and Other Land	Real Estate – Mortgage	Consumer	Total
Grade:					
Pass*	$ 30,674,360	$ 9,996,953	$ 85,851,856	$ 4,654,567	$ 131,177,736
Pass – impaired	-	376,317	378,922	49,762	805,001
Substandard	562,216	-	799,894	-	1,362,110
Substandard – impaired	-	-	238,542	12,510	251,052
Total	$ 31,236,576	$ 10,373,270	$ 87,269,214	$ 4,716,839	$ 133,595,899

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

3. LOANS – CONTINUED

	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.

The following table details the recorded investments, unpaid principal balance, and the related allowance of impaired loans as of December 31, 2017 and 2016, and the average recorded investment of impaired loans for the years ended December 31, 2017 and 2016:

	At December 31, 2017			For the Year Ended December 31, 2017
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired Loans with no recorded allowance:				
Real estate – construction, land development, and other land	$ -	$ -	$ -	$ 202,848
Real estate – mortgage	59,404	58,921	-	29,702
Consumer	12,818	12,510	-	6,409
Total	72,222	71,431	-	238,959
Imparied loans with a recorded allowance:				
Real estate – construction, land development, and other land	383,816	376,317	13,734	191,908
Real estate – mortgage	563,999	558,543	102,252	622,969
Consumer	51,473	49,762	3,765	54,409
Total	999,288	984,622	119,751	869,286
Total impaired loans	$ 1,071,510	$ 1,056,053	$ 119,751	$ 1,108,245

3. LOANS – CONTINUED

	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
Total	405,695	400,443	-	610,024
Imparied loans with a recorded allowance:				
Commercial, financial, and agricultural	-	-	-	30,128
Real estate – construction, land development, and other land	-	-	-	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

For the years ended December 31, 2017 and 2016, the interest income recognized on impaired loans was immaterial.

Past due balances and loans on nonaccrual status at December 31, 2017 and 2016, by loan classification, are as follows:

	December 31, 2017					
	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	$ 39,663	$ -	$ 39,663	$ -	$ 31,196,913	$ 31,236,576
Real estate – construction, land development, and other land	225,000	-	225,000	-	10,148,270	10,373,270
Real estate – mortgage	-	-	-	136,555	87,132,659	87,269,214
Consumer	55,052	-	55,052	12,509	4,649,278	4,716,839
Total	$ 319,715	$ -	$ 319,715	$ 149,064	$ 133,127,120	$ 133,595,899

3. LOANS – CONTINUED

	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, 2017 and 2016, 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, 2017. 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.

The following table details the number of TDRs by loan classification as of December 31, 2017 and 2016:

	December 31, 2017		
	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Real estate – construction, land development and other land	1	$ 745,188	$ 376,317
Real estate – mortgage	3	516,839	480,909
Consumer	1	83,535	49,762
Total	5	$ 1,345,562	$ 906,988

3. LOANS – CONTINUED

	December 31, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification 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

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.

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

	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, 2017.

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 $56,235,750. At December 31, 2017 and 2016, the outstanding balance of the line of credit was $1,000,000 and $2,905,000, respectively. See Note 6.

3. LOANS – CONTINUED

Certain directors, executive officers, and principal stockholders, including their immediate families and associates, were loan customers of the Bank during 2017 and 2016. A summary of activity and amounts outstanding as of December 31 is as follows:

	2017	2016
Balance at beginning of year	$ 826,744	$ 509,700
New loans or advances	3,271,831	536,844
Principal repayments	(2,191,154)	(219,800)
Balance at end of year	$ 1,907,421	$ 826,744

4. PREMISES AND EQUIPMENT

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

	2017	2016
Building and improvements	$ 5,940,098	$ 5,929,708
Equipment	1,143,233	1,235,435
Furniture and fixtures	573,795	566,317
Computer software	155,991	121,825
Leasehold improvements	120,644	84,085
	7,933,761	7,937,370
Less accumulated depreciation	3,105,744	2,895,307
	4,828,017	5,042,063
Land	1,448,377	1,448,377
Construction in progress	27,002	-
Premises and equipment, net	$ 6,303,396	$ 6,490,440

The provision for depreciation charged to occupancy and equipment expense was $337,648 and $380,485 for the years ended December 31, 2017 and 2016, respectively.

5. DEPOSITS

The aggregate amount of deposits from executive officers, directors, and principal stockholders was $19,714,219 and $16,579,094 at December 31, 2017 and 2016, respectively.

5. DEPOSITS – CONTINUED

The Bank had $10,902,793 and $11,990,694 of time deposits outstanding greater than the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 at December 31, 2017 and 2016.

Demand deposit overdrafts reclassified as loan balances amounted to $103,951 and $82,188 at December 31, 2017 and 2016, respectively.

The maturity schedule for all time deposits as of December 31, 2017, over the next five years and in the aggregate is as follows:

Years Ending December 31,	
2018	$ 26,040,391
2019	1,604,899
2020	485,325
2021	663,691
2022	862,187
	$ 29,656,493

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 $1,000,000 and $2,905,000 as of December 31, 2017 and 2016, respectively. These advances are collateralized by eligible real estate mortgage loans, which had a value of approximately $4,223,400 and $5,165,770 for the years ended December 31, 2017 and 2016, respectively. Borrowings at December 31 consist of the following:

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

6. BORROWINGS – CONTINUED

	2017	2016
FHLB advance dated May 4, 2015, with interest payable quarterly at .81%, matured March 6, 2017, and secured by one to four family residential, multi-family, and commercial real estate mortgage loans, and securities.	$ -	$ 230,000
FHLB advance dated May 4, 2015, with interest payable quarterly at 0.78%, matured February 6, 2017, and secured by one to four family residential, multi-family, and commercial real estate mortgage loans and securities.	-	380,000
FHLB advance dated May 4, 2015, with interest payable quarterly at 0.75%, matured January 4, 2017, and secured by one to four family residential, multi-family, and commercial real estate mortgage loans, and securities.	-	295,000
	$ 1,000,000	$ 2,905,000

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, 2017 and 2016, and the agreement expires on October 21, 2018.

The maturity schedule for all borrowings as of December 31, 2017, is as follows:

Years Ending December 31,	
2018	$ 1,000,000

7. OPERATING LEASES

Land

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

7. OPERATING LEASES – CONTINUED

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. The lease requires the Bank to pay maintenance, insurance, and property taxes.

Lease expense totaled $143,588 and $143,862 during 2017 and 2016, respectively.

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

Year Ending December 31,	
2018	$ 138,402
2019	136,673
2020	139,216
2021	106,953
Thereafter	55,939
	$ 577,183

8. INCOME TAX PROVISION

The tax expense will have the amount recorded in deferred tax expense/benefit for the effect of the change in the tax rate for the deferred items. Note that the current tax expense amount will be at the rate for the year or 34% (federal) and the state tax rate ,since for current tax expense the 21% is not effective until January 1, 2018.

For the rate reconciliation, note that the tax expense on income computed at the statutory federal tax rate will be 34% and then the items for the increase (decrease) in taxes to arrive at the income tax expense, which will equal the current year effective tax rate. Note that one of the reconciling items will be the effect of the corporate tax rate change for deferred tax items due to the Tax Cuts and Jobs Act of 2017 or something similar for descriptive purposes.

For the deferred tax items, note that the amounts for 2017 will be taxed at the tax rate per the enactment date, due to the Tax Cuts and Jobs Act of 2017, or 21% for federal and 6.5% for state.

8. INCOME TAX PROVISION – CONTINUED

The components of income tax expense for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Current:		
Federal	$ 662,685	$ 516,792
State	164,892	29,979
	827,577	546,771
Deferred:		
Federal	(33,195)	(31,628)
	$ 794,382	$ 515,143

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:

	2017	2016
Federal statutory income tax at 34%	$ 606,233	$ 762,550
Tax-exempt interest	(300,016)	(243,340)
State income tax, net of federal benefit	108,829	-
Other temporary or permanent differences	379,336	(4,067)
	$ 794,382	$ 515,143

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:

	2017	2016
Differences in accounting for loan losses, less valuation allowance	$ 282,501	$ 276,452
Differences in depreciation methods	(92,964)	(183,131)
Differences in unrealized gains and losses on investments	214,802	587,889
Differences in stock options and warrants	1,983	145,037
Difference in deferred compensation	27,505	97,780
Other differences	113,771	2,304
	$ 547,598	$ 926,331
Deferred tax assets	$ 640,562	$ 1,109,462
Deferred tax liabilities	(92,964)	(183,131)
	$ 547,598	$ 926,331

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 consolidated 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 – CONTINUED

Unless noted otherwise, the Bank does not require collateral or other security to support financial instruments with credit risk. The approximate outstanding notional amount of off-balance sheet risks at December 31, 2017 and 2016, is as follows:

	2017	2016
Unused lines of credit	$ 33,867,000	$ 23,763,000
Standby letters of credit	335,000	373,000
	$ 34,202,000	$ 24,136,000

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 Company and 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 consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its subsidiary 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. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require the Company and 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, 2017 and 2016, that the Bank met all the capital adequacy requirements to which it was 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; and short- and medium-term quantitative liquidity ratios, and establishes criteria that instruments must meet in order to be considered regulatory capital.

11. REGULATORY CAPITAL – CONTINUED

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, 2017						
Total risk-based capital						
Consolidated	$ 19,484	11.691%	$ 15,416	9.250%	N/A	N/A
Bank	23,034	13.821%	15,416	9.250%	16,666	10.000%
Common equity Tier 1						
Consolidated	21,166	12.700%	9,583	5.750%	N/A	N/A
Bank	21,352	12.811%	9,583	5.750%	10,833	6.500%
Tier 1 risk-based capital						
Consolidated	21,166	12.700%	12,083	7.250%	N/A	N/A
Bank	21,352	12.811%	12,083	7.250%	13,333	8.000%
Tier 1 leverage						
Consolidated	21,166	9.441%	8,967	4.000%	N/A	N/A
Bank	21,352	9.524%	8,967	4.000%	11,209	5.000%
As of December 31, 2016						
Total risk-based capital						
Consolidated	$ 21,742	14.040%	$ 13,356	8.625%	N/A	N/A
Bank	21,742	14.040%	13,356	8.625%	15,486	10.00%
Common equity Tier 1						
Consolidated	20,149	13.011%	7,936	5.125%	N/A	N/A
Bank	20,149	13.011%	7,936	5.125%	10,066	6.50%
Tier 1 risk-based capital						
Consolidated	20,149	13.011%	10,259	6.625%	N/A	N/A
Bank	20,149	13.011%	10,259	6.625%	12,389	8.00%
Tier 1 leverage						
Consolidated	20,149	8.905%	9,051	4.000%	N/A	N/A
Bank	20,149	8.905%	9,051	4.000%	11,314	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, 2018, the Bank can declare dividends, without regulatory approval, of approximately $2,657,000 plus an additional amount equal to its net profits for 2018. 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-based 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- for the years ended December 31, 2017 and 2016, respectively.

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 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.

13. STOCK BASED COMPENSATION – CONTINUED

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

	Number of Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2016	2,000	$ 30,000
Granted	-	-
Exercised	-	-
Forfeited	500	7,500
Options outstanding at December 31, 2017	1,500	$ 22,500
Options exercisable at December 31, 2017	1,500	$ 22,500
Remaining contractual life		1 year

14. EMPLOYEE BENEFIT PLAN

On November 1, 2005, the Bank adopted the Noble Bank and Trust 401k Profit Sharing Plan (401(k)) to provide eligible participants with retirement benefits. This 401(k) is a safe harbor 401(k) plan and 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, 2017 and 2016, were $121,100 and $112,496, 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, 2018, is $85,450.

The measurement date for the agreement is December 31 of each year. A weighted average assumed discount rate of 5.50% was used in calculating the accumulated benefit obligation. The agreement 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 agreement 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 agreement’s accumulated benefit obligation amounted to $368,219 and $279,086 at December 31, 2017 and 2016, respectively. The benefit obligation expense for the years ended December 31, 2017 and 2016, was $97,633 and $93,022, respectively.

15. POSTRETIREMENT BENEFITS – CONTINUED

Expected benefit payments for the deferred compensation plan for the 10-year period following December 31, 2017, are as follows:

Years Ending December 31,	
2018	$ -
2019	-
2020	-
2021	-
2022	35,000
2023-2027	300,000
	$ 335,000

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.

Loans held-for-sale – For these short-term investments, the carrying amount is a reasonable estimate of fair value.

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.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

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

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, 2017 and 2016, are as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 14,515,387	$ 14,515,387	$ 22,945,027	$ 22,945,027
Securities available-for-sale	62,809,662	62,809,662	59,980,779	59,980,779
Restrictive equity securities	1,350,800	1,350,800	1,325,900	1,325,900
Investments in annuities	1,560,190	1,560,190	1,560,190	1,560,190
Loans, net	131,914,346	131,082,403	126,904,391	126,224,175
Loans held-for-sale	616,500	616,500	307,000	307,000
Accrued interest receivable	922,997	922,997	760,820	760,820
Financial liabilities:				
Deposits	202,928,851	187,806,233	202,625,802	165,598,739
Borrowings	1,000,000	998,823	2,905,000	2,900,779
Accrued interest payable	125,738	125,738	156,183	156,183
Unrecognized financial instruments:				
Commitments to extend credit	33,867,000	33,867	23,763,000	23,763
Standby letters of credit	335,000	335	373,000	373

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, 2017 and 2016:

	December 31, 2017			
		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. GSEs	$ 4,772,203	$ -	$ 4,772,203	$ -
State and municipal	45,320,803	-	45,320,803	-
Mortgage-backed securities:				
GSE residential	12,716,656	-	12,716,656	-
Total assets at fair value	$ 62,809,662	$ -	$ 62,809,662	$ -

	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. 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	$ -

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, 2017 and 2016:

	December 31, 2017			
		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	$ 936,302	$ -	$ -	$ 936,302
Other real estate owned	593,750	-	-	593,750
Total assets	$ 1,530,052	$ -	$ -	$ 1,530,052

	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	$ 1,024,697	$ -	$ -	$ 1,024,697
Other real estate owned	584,241	-	-	584,241
Total assets	$ 1,608,938	$ -	$ -	$ 1,608,938

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.

17. CONDENSED PARENT COMPANY INFORMATION

Statements of Financial Condition at December 31:

	2017	2016
ASSETS		
CASH AND DUE FROM BANKS – eliminated upon consolidation	$ 49,506	$ -
INVESTMENT IN SUBSIDIARY (equity method) – eliminated upon consolidation	20,935,492	19,007,448
TOTAL ASSETS	$ 20,984,998	$ 19,007,448
LIABILITIES AND SHAREHOLDERS' EQUITY		
DUE TO SUBSIDIARY – eliminated upon consolidation	$ 234,801	$ -
Total liabilities	234,801	-
Total shareholders' equity	20,750,197	19,007,448
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 20,984,998	$ 19,007,448

17. CONDENSED PARENT COMPANY INFORMATION – CONTINUED

Statements of Income for the Years Ended December 31:

	2017	2016
INCOME		
Dividends	$ -	$ -
Total income	-	-
EXPENSES		
Legal Expense	11,842	-
License, Taxes, & Fees	104	-
Misc Expenses	172	-
Total expenses	12,118	-
LOSS BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY	(12,118)	-
INCOME TAX BENEFIT	-	-
LOSS BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY	(12,118)	-
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY	1,107,701	1,143,239
NET INCOME	$ 1,095,583	$ 1,143,239

17. CONDENSED PARENT COMPANY INFORMATION – CONTINUED

Statements of Cash Flows for the Years Ended December 31:

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 1,095,583	$ 1,143,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(1,107,701)	(1,143,239)
Net cash used by operating activities	(12,118)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from subsidiary payable	234,799	-
Treasury stock purchased	(173,175)	-
Net cash provided by financing activities	61,624	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	49,506	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 49,506	$ -