TOUCHMARK BANCSHARES, INC. AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2017 and 2016

(with Independent Auditor's Report thereon)

Porter Keadle Moore
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Touchmark Bancshares, Inc. and subsidiary
Alpharetta, Georgia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Touchmark 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.

Porter Keadle Moore, LLC

Atlanta, Georgia
June 21, 2018

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TOUCHMARK BANCSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and due from banks	$ 2,438,577	9,731,640
Federal funds sold	3,742,085	10,750,000
Cash and cash equivalents	6,180,662	20,481,640
Interest-bearing accounts with other banks	1,368,556	2,473,233
Securities available-for-sale	21,526,587	24,691,582
Restricted stock	2,561,400	1,959,750
Loans, net	346,746,535	222,262,760
Premises and equipment, net	1,481,117	1,560,265
Other assets	3,246,250	3,564,735
Total assets	$ 383,111,107	276,993,965
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand	$ 24,634,285	27,678,718
Interest bearing	283,527,387	193,260,824
Total deposits	308,161,672	220,939,542
Federal Home Loan Bank advances	27,500,000	19,750,000
Other liabilities	2,098,279	2,261,368
Total liabilities	337,759,951	242,950,910
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized, none issued	-	-
Common stock, $.01 par value, 50,000,000 shares authorized, 4,468,391 and 3,465,391 issued and outstanding, respectively	44,684	34,654
Additional paid-in capital	46,426,170	36,260,695
Accumulated deficit	(920,643)	(2,055,331)
Accumulated other comprehensive loss	(199,055)	(196,963)
Total stockholders' equity	45,351,156	34,043,055
Total liabilities and stockholders' equity	$ 383,111,107	276,993,965

See accompanying notes to consolidated financial statements

TOUCHMARK BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Earnings

For the Years Ended December 31, 2017 and 2016

	2017	2016
Interest income:		
Loans, including fees	$ 13,813,718	9,613,962
Taxable investment income	560,572	486,323
Non-taxable investment income	34,389	37,411
Federal funds sold	50,873	22,158
Other interest income	104,082	116,107
Total interest income	14,563,634	10,275,961
Interest expense:		
Deposits	2,877,658	1,519,087
Federal Home Loan Bank advances	342,429	277,924
Federal funds purchased	8,422	745
Total interest expense	3,228,509	1,797,756
Net interest income	11,335,125	8,478,205
Provision for loan losses	1,825,000	800,000
Net interest income after provision for loan losses	9,510,125	7,678,205
Noninterest income:		
Service charges on deposit accounts and other fees	44,214	43,212
Gain on sale of securities available-for-sale	-	145,164
Gain on sale of government guaranteed loans	2,202,703	3,074,986
Gain on sale of other real estate	-	21,360
Gain on disposition of land held-for-sale	-	223,762
Other noninterest income	566,843	523,195
Total noninterest income	2,813,760	4,031,679
Noninterest expense:		
Salaries and employee benefits	4,181,330	4,179,425
Occupancy and equipment	333,362	330,029
Write-down of land held for sale	-	8,517
Write-down and other expenses related to other real estate	-	9,074
Referral fees for government guaranteed loans	1,177,803	1,231,773
Other operating expense	2,454,891	2,113,161
Total noninterest expense	8,147,386	7,871,979
Earnings before income taxes	4,176,499	3,837,905
Income tax expense	2,305,570	1,389,000
Net earnings	$ 1,870,929	2,448,905

See accompanying notes to consolidated financial statements.

TOUCHMARK BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2017 and 2016

	2017	2016
Net earnings	$ 1,870,929	2,448,905
Other comprehensive income/(loss):		
Unrealized gains/(losses) on investment securities available-for-sale:		
Holding gains/(losses) arising during the period, net of taxes of $10,459 and $44,446	21,293	(90,238)
Reclassification adjustment for gains included in net earnings, net of taxes of $47,904	-	(97,260)
Total other comprehensive income/(loss)	21,293	(187,498)
Comprehensive income	$ 1,892,222	2,261,407

See accompanying notes to consolidated financial statements.

TOUCHMARK BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2017 and 2016

	Outstanding Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, December 31, 2015	3,465,391	$ 34,654	36,260,695	(3,984,427)	(9,465)	32,301,457
Dividend declared on common shares ($.15 per share)	-	-	-	(519,809)	-	(519,809)
Net earnings	-	-	-	2,448,905	-	2,448,905
Change in unrealized gain/loss on securities available-for-sale	-	-	-	-	(187,498)	(187,498)
Balance, December 31, 2016	3,465,391	34,654	36,260,695	(2,055,331)	(196,963)	34,043,055
Dividend declared on common shares ($.17 per share)	-	-	-	(759,626)	-	(759,626)
Issuance of common stock, net issuance costs of $50,485	1,003,000	10,030	10,019,635	-	-	10,029,665
Stock based compensation expense	-	-	145,840	-	-	145,840
Net earnings	-	-	-	1,870,929	-	1,870,929
Reclassification adjustment for tax rate change	-	-	-	23,385	(23,385)	-
Change in unrealized gain/loss on securities available-for-sale	-	-	-	-	21,293	21,293
Balance, December 31, 2017	4,468,391	$ 44,684	46,426,170	(920,643)	(199,055)	45,351,156

See accompanying notes to consolidated financial statements.

TOUCHMARK 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 earnings	$	1,870,929	2,448,905
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion		1,145,558	262,604
Provision for loan losses		1,825,000	800,000
Deferred income tax expense		520,214	1,211,011
Gain on sales and write-down of other real estate, net		-	(21,360)
Stock-based compensation expense		145,840	-
Gain on sales of securities available-for-sale		-	(145,164)
Gain on sales of government guaranteed loans		(2,202,703)	(3,074,986)
Net gain on sale and write-down of land held-for-sale		-	(61,931)
Change in:			
Other assets		(212,188)	(788,996)
Other liabilities		(402,906)	1,189,113
Net cash provided by operating activities		2,689,744	1,819,196
Cash flows from investing activities:			
Decrease in interest bearing accounts at other banks		1,104,677	363,370
Proceeds from paydowns, calls and maturities of securities available-for-sale		4,052,349	3,763,155
Proceeds from sales of securities available-for-sale		-	12,114,797
Purchases of securities available-for-sale		(995,537)	(12,369,503)
Proceeds from sale of restricted stock		531,400	212,500
Purchase of restricted stock		(1,133,050)	(203,950)
Proceeds from sale of other real estate		-	546,360
Proceeds from sale of land held-for-sale		-	1,711,931
Purchase of loans		(110,307,900)	-
Increase in loans, net		(14,703,959)	(66,230,522)
Purchases of premises and equipment		(20,688)	(132,117)
Net cash used in investing activities		(121,472,708)	(60,223,979)
Cash flows from financing activities:			
Change in deposits		87,222,130	78,994,926
Sale of common stock		10,080,150	-
Stock issuance costs		(50,485)	-
Payment of dividend on common stock		(519,809)	-
Decrease in federal funds purchased, net		-	(408,000)
Proceeds from Federal Home Loan Bank advances		22,000,000	10,000,000
Repayment of Federal Home Loan Bank advances		(14,250,000)	(12,000,000)
Net cash provided by financing activities		104,481,986	76,586,926
Net change in cash and cash equivalents		(14,300,978)	18,182,143
Cash and cash equivalents at beginning of the year		20,481,640	2,299,497
Cash and cash equivalents at end of the year	$	6,180,662	20,481,640
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$	3,168,787	1,303,621
Taxes	$	1,814,124	116,000
Non-cash investing and financing activities:			
Change in dividends payable	$	239,817	519,809
Change in unrealized gain/loss on securities available-for-sale, net of tax	$	21,293	(187,498)

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of Touchmark Bancshares, Inc. (the “Company”) conform to generally accepted accounting principles and with general practices within the banking industry. The following is a description of the more significant of those policies that the Company follows in preparing and presenting its financial statements.

Reporting Entity and Nature of Operations

The Company is a Georgia corporation and was established on April 3, 2007 for the purpose of organizing and managing Touchmark National Bank (the “Bank”). The Company is a one-bank holding company with respect to its subsidiary, Touchmark National Bank. The Bank was opened with the purpose of serving as a community bank. The Bank's primary service area includes the counties of North Fulton, Gwinnett, DeKalb, Cobb and Forsyth in metropolitan Atlanta, Georgia. On May 10, 2016, the Company was granted approval from the Federal Reserve Bank to become a financial holding company.

The Bank operates from its headquarters in Alpharetta, Georgia and also leases office space nearby for its lending group. The Company’s primary sources of revenue are derived from the Bank’s loans to customers within its geographical area and its investment portfolio. The Company’s earnings are primarily dependent upon its net interest income, which is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities (“interest rate spread”) and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding. The Company’s interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand and deposit flows. The Company, like other community banks, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or re-price more rapidly than interest-earning assets.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, fair market value of securities and financial instruments, the valuation of deferred tax assets, and the disclosure of contingent assets and liabilities.

Management believes the allowance for losses on loans is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions.

Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through June 21, 2018, the date on which the financial statements were available to be issued.

Cash and Cash Equivalents

Cash and cash equivalents include cash, due from banks and federal funds sold. Cash flows from deposits, federal funds purchased and originations and collections of loans are reported net. The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. The required reserve balance at December 31, 2017 and 2016 was $970,000 and $430,000, respectively.

(1) Summary of Significant Accounting Policies, continued

Investment Securities

The Company classifies its securities in one of three categories: trading, available-for-sale, or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held to maturity are classified as available-for-sale. At December 31, 2017 and 2016, all securities were classified as available-for-sale.

Available-for-sale securities are recorded at fair value. Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on securities available-for-sale are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from held to maturity to available-for-sale are recorded as a separate component of stockholders' equity. The unrealized holding gains or losses included in the separate component of stockholders' equity for securities transferred from available-for-sale to held to maturity are maintained and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. A decline in the market value of any security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. The general standards of accounting for other than temporary impairment (OTTI) losses require the recognition of an OTTI loss in earnings only when an entity (1) intends to sell the debt security; (2) more likely than not will be required to sell the security before recovery of its amortized cost basis or (3) does not expect to recover the entire amortized cost basis of the security. Realized gains and losses for securities are included in earnings and are derived using the specific identification method for determining the amortized cost of securities sold as of the trade date.

Periodically, all available-for-sale securities are evaluated for other-than-temporary impairment (OTTI) in accordance with U.S. generally accepted accounting principles, which specifies requirements for recognizing OTTI on debt securities, presentation of OTTI losses, and modifies and expands disclosure about OTTI for debt securities.

A debt security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss) or if the fair value of the security is less than the security's amortized cost basis and the investor intends, or more likely than not will be required, to sell the security before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of the credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income. Otherwise, the entire difference between fair value and amortized cost basis is charged to earnings.

Restricted Stock

Restricted stock consists of Federal Reserve Bank and Federal Home Loan Bank of Atlanta (FHLB) stock which represents an equity interest in these entities and is recorded at cost. These stocks do not have a readily determinable fair value because ownership is restricted and lacks a market.

Management has evaluated its holdings in FHLB and Federal Reserve Bank stock and determined par value is ultimately recoverable and therefore determined that FHLB and Federal Reserve Bank stock was not other-than-temporarily impaired. In addition, the Bank has ample liquidity and does not require redemption of its restricted stock holdings in the foreseeable future.

(1) Summary of Significant Accounting Policies, continued

Loans

Loans receivable are loans which management has the intent and ability to hold for the foreseeable future or until maturity or pay-off. Loans receivable are reported at their outstanding principal, adjusted for any charge-offs, the allowance for loan losses, deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. The Company also purchases loans. The related purchase price premium or discount is amortized or accreted to earnings as a yield adjustment over the estimated life of the loans.

Interest on loans is credited to income on a daily basis based upon the principal amount outstanding. Loan origination costs are recognized as an expense at the time the loan is originated. Loan origination fees up to the origination cost amount are recognized in earnings at the time the loan is originated. Loan origination fees in excess of origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Interest income is subsequently recognized only to the extent cash payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame.

Loan delinquencies are determined by comparing contractual requirements to the timing of payments received from the borrower. The policies and procedures related to nonaccrual and delinquent loans are applied to all outstanding loans.

Allowance for Loan Losses

The allowance for loan losses is increased by provision charges to income and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes the collection of the principal is unlikely. The allowance for loan losses is maintained at a level believed adequate by management to absorb estimated probable inherent loan losses and estimated losses relating to specifically identified loans. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on impaired loans.

While management uses available information to recognize losses on loans, future additions to the allowance 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 Company's allowance for losses on loans. Such agencies may require the Company to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The allowance for loan losses may consist of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the collateral value less selling costs, present value of expected cash flows, or the observable market price of the impaired loan is lower than the carrying value of the loan.

(1) Summary of Significant Accounting Policies, continued
Allowance for Loan Losses, continued

A loan is considered impaired when, based on current information and events, it is probable the Company will be unable to collect the scheduled payments of principal and 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. 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. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses or charged-off if determined to be uncollectible. By the time a loan becomes probable for foreclosure it has been charged down to fair value, less estimated costs to sell.

General allowances are established for non-impaired loans. These loans are assigned a loan category, and the allocated allowance for loan losses is determined based upon the loss percentage factors that correspond to each loan category.

Loss percentage factors are based on historical loss experience adjusted for qualitative factors. The qualitative factors consider among other things, credit concentrations, recent levels and trends in delinquencies and nonaccrual loans, and growth in the loan portfolio. The occurrence of certain events could result in changes to the loss factors. Accordingly, these loss factors are reviewed periodically and modified as necessary.

The general reserves are determined based on consideration of historic loss data, the various risk characteristics of each loan segment, and whether the loans are within or outside the Company's general market area. Risk characteristics relevant to each portfolio segment are as follows:

Construction, development and land loans — Loans in this segment primarily include real estate development loans for which payment is derived from sale of the property as well as construction projects in which the property will ultimately be used by the borrower. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Real estate - mortgage — Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates, will have an effect on the credit quality in the segment. The Company generally does not originate loans with a loan-to-value ratio greater than 85% and does not grant subprime loans.

Commercial real estate — Loans in this segment are owner occupied business properties and non-owner occupied business income-producing properties. The underlying cash flows generated by the properties and the businesses occupying the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates and decreased owner cash flows, which in turn, will have an effect on the credit quality in this segment. Management monitors the cash flows of these borrowers.

Commercial and industrial loans — Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Other loans – Loans in the segment are made to individuals and are generally secured by personal property and/or personal guaranties. Repayment is expected from the cash flows of the individual which is affected by the overall economy with specific regards to the unemployment rate.

(1) Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

Unallocated allowances relate to inherent losses that are not otherwise evaluated in the specific and general allowances. The qualitative factors associated with unallocated allowances are subjective and require a high degree of management judgment. These factors include the inherent imprecision in mathematical models and credit quality statistics, recent economic uncertainty, losses incurred from recent events, lagging or incomplete data and the significant factors affecting the real estate market.

Significant Group Concentrations of Credit Risk

A substantial portion of the Company's loan portfolio is to customers in Gwinnett, DeKalb, Fulton, and Forsyth counties and surrounding areas in Georgia. The ultimate collectability of a substantial portion of the portfolio is therefore susceptible to changes in the economic and market condition in and around this area.

The nature of the Company's business requires that it maintain amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts, and management works to mitigate risk associated with its correspondent institutions. Amounts due from banks are typically maintained in demand deposit accounts which are insured up to $250,000.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - 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 Company 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.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, computed principally on the straight- line method over the estimated useful lives of the assets.

Maintenance and repairs that do not extend the useful life of the premises and equipment are charged to expense. The useful lives of premises and equipment are as follows:

Building	40 years
Furniture, fixtures and equipment	3-9 years

Other Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less selling costs at the date of foreclosure establishing a new cost basis. Any write down to fair value at the time of foreclosure is charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding other real estate and subsequent adjustment to the value are expensed.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws and considers any uncertain tax positions.

A valuation allowance for deferred tax assets is required when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realization of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income (in the near-term based on current projections), and tax planning strategies.

(1) Summary of Significant Accounting Policies, continued

Income Taxes, continued

The Company recognizes accrued interest associated with uncertain tax positions as part of interest expense and penalties associated with uncertain tax positions as part of other expenses. As of December 31, 2017 and 2016, there were no accrued interest and penalties associated with uncertain tax positions.

The operating results of the Company and its subsidiary are included in consolidated income tax returns.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. The Company has recorded an additional expense related to a pending claim as of December 31, 2017. The Company had recorded a liability as of December 31, 2016 that was subsequently resolved in 2017 related to a separate claim. The pending and resolved claims are described more fully in Note 10.

Comprehensive Income

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

Stock Based Compensation

The Company maintains a share-based employee compensation plan for grants of equity based compensation to key personnel. The Company accounts for such share-based payment based on the fair value of such as of the date of grant. Upon issuance of share based payment awards, compensation cost is recognized in the consolidated financial statements of the Company for all share-based payments granted, based on the grant date fair value over the requisite service period of the awards. The stock based compensation plan is described more fully in Note 12.

(2) Securities Available-for-Sale

Investment securities available-for-sale at December 31, 2017 and 2016 are as follows:

December 31, 2017:		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored enterprises	$	1,133,153	581	21,723	1,112,011
State and municipal securities		2,082,609	10,333	3,131	2,089,811
Mortgage-backed securities		18,573,048	7,231	255,514	18,324,765
Total	$	21,788,810	18,145	280,368	21,526,587
December 31, 2016:					
U.S. Government sponsored enterprises	$	1,388,126	-	32,498	1,355,628
State and municipal securities		2,627,496	6,770	9,070	2,625,196
Mortgage-backed securities		20,969,935	24,025	283,202	20,710,758
Total	$	24,985,557	30,795	324,770	24,691,582

(2) Securities Available-for-Sale, continued

The following table outlines the unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016.

	2017		2016	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Unrealized loss for less than 12 months:				
U.S. Government sponsored enterprises	$ -	-	1,355,628	32,498
State and municipal securities	1,033,510	3,131	2,115,556	9,070
Mortgage backed securities	7,322,384	38,462	14,151,601	283,202
Less than 12 months	8,355,894	41,593	17,622,785	324,770
Unrealized loss for greater than 12 months:				
U.S. Government sponsored enterprises	762,946	21,723	-	-
State and municipal securities	-	-	-	-
Mortgage backed securities	9,840,536	217,052	-	-
Total more than 12 months	10,603,482	238,775	-	-
Total	$ 18,959,376	280,368	17,622,785	324,770

At December 31, 2017, securities in an unrealized loss position for greater than twelve months consist of one security sponsored by a U.S. Government enterprise and 13 mortgage-backed securities. At December 31, 2016, there were no investment securities in an unrealized loss position for greater than twelve months. At December 31, 2017, securities in an unrealized loss position for less than twelve months consist of one state and municipal security and 14 mortgage-backed securities. At December 31, 2016, securities in an unrealized loss position for less than twelve months consist of two securities sponsored by U.S. Government enterprises, three state and municipal securities, and 16 mortgage-backed securities.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
U.S Government sponsored enterprises & state and municipal securities:		
One to five years	$ 1,486,237	1,488,109
Five to ten years	596,372	601,702
Over ten years	1,133,153	1,112,011
Mortgage-backed securities	18,573,048	18,324,765
	$ 21,788,810	21,526,587

The Company had no sales of investment securities during 2017. Gross gains and losses on sales of securities for 2016 were $157,621 and $12,457, respectively.

Securities with a carrying value of $1,441,143 and $1,826,614 at December 31, 2017 and 2016, respectively, were pledged to secure certain deposits.

(3) Loans and Allowance for Loan Losses

Major classifications of loans at December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Construction, development and land	$ 32,811,635	22,345,484
Real estate – mortgage	16,090,352	17,341,540
Commercial real estate	250,945,601	164,163,833
Commercial and industrial	50,231,985	19,476,536
Other	2,701,730	2,940,186
	352,781,303	226,267,579
Less: Allowance for loan losses	5,030,037	3,183,730
Unearned deferred fees	1,004,731	821,089
Loans, net	$ 346,746,535	222,262,760

The loan classifications above include unamortized net premiums on purchased loans totaling $11,869,576 and $63,203 as of December 31, 2017 and 2016, respectively.

The Bank grants loans and extensions of credit to individuals and a variety of businesses operating primarily in the north-metro Atlanta area. Although the Bank has a diversified loan portfolio, a substantial portion of the portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2017 and 2016:

December 31, 2017:	Construction, Development and Land	Real Estate - Mortgage	Commercial Real Estate	Commercial and Industrial	Other	Unallocated	Total
Allowance for loan losses:							
Balance at beginning of the period	$ 141,653	73,131	2,576,628	173,693	9,620	209,005	3,183,730
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	20,047	-	1,260	-	-	21,307
Provision for loan losses	(2,640)	(34,423)	1,502,163	(60,227)	(67)	420,194	1,825,000
Ending balance	$ 139,013	58,755	4,078,791	114,726	9,553	629,199	5,030,037
Ending balance individually evaluated for impairment	$ -	-	1,578,695	-	-	-	1,578,695
Ending balance collectively evaluated for impairment	139,013	58,755	2,500,096	114,726	9,553	629,199	3,451,342
	$ 139,013	58,755	4,078,791	114,726	9,553	629,199	5,030,037
Loans:							
Individually evaluated for impairment	$ -	-	3,157,390	-	-	-	3,157,390
Collectively evaluated for impairment	32,811,635	16,090,352	247,788,211	50,231,985	2,701,730	-	349,623,913
	$ 32,811,635	16,090,352	250,945,601	50,231,985	2,701,730	-	352,781,303

(3) Loans and Allowance for Loan Losses, continued

December 31, 2016:		Construction, Development and Land	Real Estate - Mortgage	Commercial Real Estate	Commercial and Industrial	Other	Unallocated	Total
Allowance for loan losses:								
Balance at beginning of the period	$	259,949	156,266	1,713,035	9,181	18,685	218,056	2,375,172
Charge-offs		-	-	-	-	-	-	-
Recoveries		-	-	1,000	137	7,421	-	8,558
Provision for loan losses		(118,296)	(83,135)	862,593	164,375	(16,486)	(9,051)	800,000
Ending balance	$	141,653	73,131	2,576,628	173,693	9,620	209,005	3,183,730
Ending balance individually evaluated for impairment	$	-	-	-	-	-	-	-
Ending balance collectively evaluated for impairment		141,653	73,131	2,576,628	173,693	9,620	209,005	3,183,730
	$	141,653	73,131	2,576,628	173,693	9,620	209,005	3,183,730
Loans:								
Individually evaluated for impairment	$	-	-	-	-	-	-	-
Collectively evaluated for impairment		22,345,484	17,341,540	164,163,833	19,476,536	2,940,186	-	226,267,579
	$	22,345,484	17,341,540	164,163,833	19,476,536	2,940,186	-	226,267,579

The following table presents the aging of the recorded investment in past due loans and non-accrual loan balances as of December 31, 2017 by class of loans:

December 31, 2017:		30–59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total	Non-Accrual
Construction, Development and Land	$	-	-	-	-	32,811,635	32,811,635	-
Real Estate – Mortgage		-	-	-	-	16,090,352	16,090,352	-
Commercial Real Estate		5,970,150	547,750	-	6,517,900	244,427,701	250,945,601	3,157,390
Commercial and Industrial		-	-	-	-	50,231,985	50,231,985	-
Other		-	-	-	-	2,701,730	2,701,730	-
Total	$	5,970,150	547,750	-	6,517,900	346,263,403	352,781,303	3,157,390

There were no past due loans greater than 30 days or nonaccrual loans at December 31, 2016.

As of December 31, 2017, the Company had an unpaid principal balance and recorded investment in impaired loans of $3,157,390. The average recorded investment of these loans was $4,820,696. There was no interest income recognized on these loans since deemed impaired. There were no impaired loans at December 31, 2016.

During 2017 and 2016, the Bank did not modify any loans that would be considered troubled debt restructurings. At December 31, 2017 and 2016, the Bank did not have any outstanding recorded investment of troubled debt restructurings.

The Company utilizes a nine grade internal loan rating system for its loan portfolio as follows:

- Loans rated 1-4 (Pass) - Loans in these categories have low to average risk.
- Loans rated 5 (Internal Watch List) - These assets raise some concern due to either prior financial or collateral problems, or recent developing conditions, and thus warrant closer monitoring and review than “pass” assets.
- Loans rated 6 (Special Mention) - These assets constitute an undue and unwarranted credit risk but not to the point of justifying a substandard classification.
- Loans rated 7 (Substandard) - A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

(3) Loans and Allowance for Loan Losses, continued

- Loans rated 8 (Doubtful) - An asset classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loans rated 9 (Loss) - Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

As of December 31, 2017 and 2016, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2017:	Pass	Internal Watch List	Special Mention	Substandard	Doubtful/ Loss	Total
Construction, Development and Land	$ 32,811,635	-	-	-	-	32,811,635
Real Estate – Mortgage	16,090,352	-	-	-	-	16,090,352
Commercial Real Estate	241,384,260	5,191,656	880,554	331,741	3,157,390	250,945,601
Commercial and Industrial	50,089,845	-	142,140	-	-	50,231,985
Other	2,701,730	-	-	-	-	2,701,730
	$ 343,077,822	5,191,656	1,022,694	331,741	3,157,390	352,781,303

December 31, 2016:	Pass	Internal Watch List	Special Mention	Substandard	Doubtful/ Loss	Total
Construction, Development and Land	$ 18,478,596	3,866,888	-	-	-	22,345,484
Real Estate – Mortgage	17,341,540	-	-	-	-	17,341,540
Commercial Real Estate	162,535,042	-	903,724	725,067	-	164,163,833
Commercial and Industrial	15,838,973	30,441	3,607,122	-	-	19,476,536
Other	2,940,186	-	-	-	-	2,940,186
	$ 217,134,337	3,897,329	4,510,846	725,067	-	226,267,579

The Company purchases loans and amortizes the premium over the estimated life of the portfolio on a level yield basis as a yield adjustment. During 2017, the Company purchased loans for a total purchase price of $110,307,900. The loans had a carrying value of $97,614,957. There were no loan purchases during 2016. The outstanding balances of purchased loans as of December 31, 2017 and 2016 was $105,078,314 and $9,537,371, respectively. These loans are included in the loan disclosures above.

(4) Premises and Equipment

Premises and equipment at December 31, 2017 and 2016, are summarized as follows:

	2017	2016
Land	$ 400,000	400,000
Building	1,154,606	1,154,606
Furniture, fixtures and equipment	217,804	215,755
	1,772,410	1,770,361
Less: Accumulated depreciation	291,293	210,096
	$ 1,481,117	1,560,265

Depreciation expense was approximately $81,000 and $83,000 for the years ended December 31, 2017 and 2016, respectively.

(5) Deposits

The aggregate amount of time deposit accounts with a minimum denomination of $250,000 was approximately $50,578,000 and $27,977,000 at December 31, 2017 and 2016, respectively.

At December 31, 2017, the scheduled maturities of time deposits were as follows:

2018	$ 122,759,116
2019	54,680,381
2020	5,556,184
2021	89,257
2022	56,073
	$ 183,141,011

Time deposits listed above includes approximately $33,143,000 and $18,453,000 in brokered certificates of deposit at December 31, 2017 and 2016, respectively.

(6) Federal Funds Purchased

As of December 31, 2017 and 2016, the Company has lines of credit with correspondent banks for overnight borrowings of $35,500,000 and $35,000,000, respectively. The Company had no borrowings outstanding on these lines at December 31, 2017 and 2016, respectively.

(7) Federal Home Loan Bank Advances

At December 31, 2017 and 2016, the Company had advances of $27,500,000 and $19,750,000, respectively, outstanding from the FHLB.

The following advances, which required monthly or quarterly interest payments, were outstanding at December 31, 2017:

Advance Date	Advance	Interest Rate	Maturity	Rate Type
12/21/2017	$ 5,000,000	1.55%	04/20/2018	Fixed
12/20/2017	5,000,000	1.50%	03/20/2018	Fixed
11/28/2017	2,000,000	1.43%	02/28/2018	Fixed
09/13/2017	10,000,000	1.59%	09/13/2018	Daily Rate Credit
09/04/2008	3,000,000	3.60%	09/04/2018	Convertible
09/08/2008	2,500,000	3.25%	09/10/2018	Convertible
	$ 27,500,000			

The following advances, which required monthly or quarterly interest payments, were outstanding at December 31, 2016:

Advance Date	Advance	Interest Rate	Maturity	Rate Type
12/19/2016	$ 5,000,000	0.69%	03/20/2017	Fixed
11/25/2016	5,000,000	0.59%	01/25/2017	Fixed
08/25/2015	2,000,000	0.68%	02/27/2017	Fixed
08/25/2015	2,000,000	0.86%	08/25/2017	Fixed
03/19/2012	250,000	1.05%	03/20/2017	Principle Reducing Credit
09/08/2008	2,500,000	3.25%	09/10/2018	Convertible
09/04/2008	3,000,000	3.60%	09/04/2018	Convertible
	$ 19,750,000			

(7) Federal Home Loan Bank Advances, continued

The aggregate of the advances is collateralized by the Company's FHLB stock, the Company's deposits with the FHLB, certain securities and a blanket floating lien on a portion of the Company's loan portfolio, portions of which can be used to cover any defaults on repayments of advances. The total amount of loans pledged as of December 31, 2017 and 2016 was approximately $54,449,000 and $73,360,000, respectively.

(8) Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Reform") was signed into law and impacts individuals, pass through entities and corporations. The Company is impacted by the corporation changes. The corporate tax rate remains unchanged for the year ended December 31, 2017, with the new corporate tax rate falling from a maximum 35% rate to 21% beginning in 2018. Current income tax expense is based on a tax rate of 34%; however, GAAP requires the deferred tax components to be recorded at the rate in which the differences are expected to reverse which impacts tax expense for the year ended December 31, 2017. Based on the new corporate tax rate of 21% for 2018 and forward, the deferred tax assets and liabilities were revalued at the new rate and the adjustment was recorded directly to earnings in the current year, including any impact associated with the deferred tax component of unrealized gains or losses on available-for-sale securities.

The Company recorded a reclassification entry of approximately $23,000 between accumulated other comprehensive loss and accumulated deficit in order to correct the stranded amount associated with the true up of the net deferred asset on available-for-sale securities. The reclassification entry is disclosed within the Statements of Changes in Stockholders' Equity.

The components of income tax expense for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
Current	$ 1,785,356	177,989
Deferred	259,279	(247,545)
Change in valuation allowance	(203,185)	203,185
Utilization of operating loss carryforward	-	1,255,371
Rate reduction adjustment	464,120	-
	$ 2,305,570	1,389,000

The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to earnings before income taxes. A reconciliation of the differences is as follows:

	2017	2016
Tax provision at federal statutory rate	$ 1,420,010	1,304,888
State income tax	95,048	95,704
Other	(16,563)	(214,777)
Change in valuation allowance	(203,185)	203,185
Write down of deferred tax asset related to stock warrants	546,140	-
Rate reduction adjustment	464,120	-
	$ 2,305,570	1,389,000

(8) Income Taxes, continued

The following summarizes the components of the net deferred tax asset, which is included in other assets at December 31, 2017 and 2016.

	2017	2016
Deferred income tax assets:		
Pre-opening expense	$ 118,279	210,944
Allowance for loan losses	875,093	611,360
Capital loss carryforwards	-	203,185
Stock-based compensation	39,527	549,686
Deferred loan fees	31,056	46,282
Securities available-for-sale	63,168	97,012
Premises and equipment	36,471	82,151
State income tax credits	15,781	168,273
Other	11,803	17,589
Gross deferred income tax assets	1,191,178	1,986,482
Less valuation allowance	-	(203,185)
Net deferred income tax asset	1,191,178	1,783,297
Deferred income tax liability consisting of government guaranteed loans servicing asset	191,481	252,927
Net deferred income tax asset	$ 999,697	1,530,370

(9) Related Party Transactions

The Bank conducts transactions with its directors and officers, including companies in which they have beneficial interest, in the normal course of business. It is the policy of the Bank that loan transactions with directors and officers be made on substantially the same terms as those prevailing at the time for comparable loans to other persons. There was no related party loan activity for 2017.

Deposits from related parties totaled approximately $17,505,000 and $14,550,000 at December 31, 2017 and 2016, respectively.

(10) Commitments and Contingencies

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. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual 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.

The Bank generally requires collateral or other security to support financial instruments with off-balance sheet risk.

	Approximate Contractual Amount (in thousands)	
	2017	2016
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 24,785	27,457
Standby letters of credit	$ 242	139

(10) Commitments and Contingencies, continued

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 of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit, or personal property.

Standby 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 extending loan facilities to customers.

The Company entered in a lease agreement to lease an office location in Alpharetta, Georgia for a term of fifty-four months, with the lease commencing in February 2015 and ending in July 2019. This lease contains a rental holiday for the first three months for one suite and the first seven months for another suite.

The minimum lease payments not including common area cost allocation under these leases are as follows:

Year ending December 31,	Minimum Lease Payments
2018	$ 75,646
2019	45,381

Total rental expense was $66,784 for the years ended December 31, 2017 and 2016.

There is pending litigation against the Company as of December 31, 2017. The litigation relates to two loans which are claimed to have been fraudulently executed by an individual who was not authorized to do so by the borrowing company. As of December 31, 2017, the Company has moved these loans to an impaired loan classification and established a specific reserve. The Company established approximately $1,579,000 of specific reserve related to its estimate for potential losses regarding this matter as of December 31, 2017.

There was one pending claim against the Company as of December 31, 2016. The claim related to a dispute regarding the rightful ownership of collateral seized in foreclosure by the Bank and subsequently sold. As of December 31, 2016, the Company accrued $50,000 as its estimate for potential losses related to this matter. The claim reached settlement in 2017, which resulted in the Company paying $178,000 to settle the claim.

(11) Employee Benefits

The Company has a 401(k) plan covering all employees. There was approximately $5,000 and $4,000 in expenses related to this plan charged to operations for 2017 and 2016, respectively.

(12) Stock-based Compensation

Stock Options

During 2008, the Company adopted an Employee Incentive Stock Plan (the "Stock Plan"). The Stock Plan offers stock awards to key employees to encourage continued employment by facilitating their purchase of an equity interest in the Company. These awards are granted at the discretion of the Board of Directors at an exercise price determined by the Board at the grant date. Options awarded under the Stock Plan have a term of ten years from the date of grant and vest ratably over three years, unless otherwise stated in the award agreement. A total of 191,000 shares have been reserved under the Stock Plan.

The Company has 191,000 outstanding options to purchase common stock which were issued to directors and employees of the Company. Upon issuance of options, compensation cost is recognized over the vesting period in the consolidated financial statements of the Company for all share-based payments granted, based on the grant date fair value estimated.

(12) Stock-based Compensation, continued

Stock Options, continued

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility for the period has been determined by the expected volatility of similar entities. The expected term of options granted represents the period of time that the options granted are expected to be outstanding. Expected dividends are based on dividend trends of the Company's stock at grant. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Option related compensation cost recorded during the year ended December 31, 2017 was approximately $146,000. There was no compensation cost recorded in 2016 as all previously issued options had fully vested. At December 31, 2017, there was approximately $380,000 of total unrecognized compensation cost related to options outstanding. The cost is expected to be recognized over a weighted average period of approximately 2.17 years.

Assumptions used in calculating the fair value of options granted during 2017 were as follows:

	2017
Dividend yield	0.56%
Volatility	30.00%
Risk-free interest rate	2.46%
Term	9 years

A summary of activity for all stock options for the years ended December 31, 2017 and 2016 is presented below:

	Shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Term (Years)
Outstanding, December 31, 2015	36,418	$ 8.59	4.70
Outstanding, December 31, 2016	36,418	8.59	3.73
Granted during the year	154,582	8.85	9.17
Outstanding, December 31, 2017	191,000	8.80	7.94
Exercisable at December 31, 2017	79,357	$ 8.73	6.21

Warrants

Type I (Director) warrants were awarded in recognition of certain directors' contributions to the initial capitalization of the Company. The Company awarded 30,000 Type I warrants due to the majority of warrants issued being Type II. These warrants vested over three years.

Type II (Organizer) warrants were awarded in recognition of the financial risk undertaken by organizers in contributing seed capital and guaranteeing certain liabilities of the Company to fund organizational expenses. Warrants were issued based on the amount of funds each organizer placed at risk, which included seed capital contributed and each organizer's pro-rata share of an organizational line of credit and land loan guaranteed. The Company awarded 430,000 Type II warrants, which vested immediately upon issuance. Additionally, 12,500 immediately vesting warrants were issued to the organizational consultant during the first quarter of 2008. During the year ended December 31, 2010, 10,000 stock warrants were forfeited, and during the year ended December 31, 2014, 10,000 stock warrants were forfeited

(12) Stock-based Compensation, continued
Warrants, continued

Type I and Type II warrants have an expiration term of 10 years from the anniversary date. The purchase price of each additional share under the warrant agreement is $10 per share. Each warrant agreement has an anti-dilution clause whereby if the Company subdivides its outstanding shares of common stock into a greater number of shares, or declares and pays a stock dividend, the purchase price of each share shall be proportionately reduced, and the Company shall proportionately increase the number of shares of common stock.

The fair value of each warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility for the period has been determined by the expected volatility of similar entities. The expected term of warrants granted is based on the period of time that the warrants granted are expected to be outstanding. Expected dividends are based on dividend trends of the Company's stock price at grant. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

As of December 31, 2017, all warrants were expired. At December 31, 2016, there were 452,000 stock warrants outstanding and fully vested. There were no warrants granted or exercised for the years ended December 31, 2017 or 2016. At December 31, 2017 and 2016, there was no stock-based compensation expense or unrecognized compensation cost related to warrants. At December 31, 2017 and 2016, there was no aggregate intrinsic value of warrants outstanding and exercisable.

(13) Stockholders' Equity

On September 1, 2017, the Company initiated a private offering to accredited investors of up to 35,000,000 shares of its common stock at a price of $10.05 per share. During 2017, the Company issued a total of 1,003,000 shares of common stock for total proceeds of $10,029,665, net of offering costs of $50,485 related to this offering. The offering expired on January 31, 2018.

(14) Regulatory Matters

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

In July 2013, the Federal bank regulatory agencies issued a final rule that revised their risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. The rule established a new common equity.

Tier 1 minimum capital requirement, increased the minimum capital ratios and assigned a higher risk weight to certain assets based on the risk associated with these assets. The final rule includes a transition period that implements the new regulations over a five year period. These changes were phased in beginning in January 2015. Management continues to evaluate this final rule and its potential impact on the Bank. Preliminary assessments indicate that the Bank will continue to exceed all regulatory capital requirements under the phased in requirements of the new rule.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total common equity Tier 1, total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2017 and 2016, that the Bank meets all capital adequacy requirements to which it is subject.

(14) Regulatory Matters, continued

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

The Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are also presented below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
December 31, 2017:						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 43,642	17.91%	$ 10,964	4.50%	$ 15,837	6.50%
Total Capital to Risk-Weighted Assets	$ 46,714	19.17%	$ 19,492	8.00%	$ 24,365	10.00%
Tier I Capital to Risk-Weighted Assets	$ 43,642	17.91%	$ 14,619	6.00%	$ 19,492	8.00%
Tier I Capital to Average Assets	$ 43,642	11.48%	$ 15,204	4.00%	$ 19,004	5.00%
December 31, 2016:						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 30,590	12.75%	$ 10,800	4.50%	$ 15,601	6.50%
Total Capital to Risk-Weighted Assets	$ 33,599	14.00%	$ 19,201	8.00%	$ 24,001	10.00%
Tier I Capital to Risk-Weighted Assets	$ 30,590	12.75%	$ 14,401	6.00%	$ 19,201	8.00%
Tier I Capital to Average Assets	$ 30,590	12.43%	$ 9,846	4.00%	$ 12,308	5.00%

(15) Limitation on Distributions

Dividends paid by the Bank are the primary source of funds available to the Company. Banking regulations limit the amount of dividends that may be paid to the Company without prior approval of the regulatory authorities. These restrictions are based on the level of regulatory classified assets, the prior years' net earnings, and the ratio of equity capital to total assets. The Company declared a dividend of $759,626 on November 15, 2017 for shareholders of record as of December 31, 2017. The dividend was paid on January 31, 2018.

(16) Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments to certain assets. Investment securities available-for-sale are recorded at fair value on a recurring basis.

Fair Value Hierarchy

The Company groups assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

(16) Fair Value Measurements, continued

Following is a description of valuation methodologies used for assets which are recorded at fair value:

Investment Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allocation is established within the allowance for loan losses. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans in which an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is utilized or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other Real Estate

Other real estate properties are adjusted to fair value less estimated selling costs upon transfer of the loans to other real estate. Subsequently, other real estate assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value is based on an observable market price, the Company records the other real estate as nonrecurring Level 2. When the fair value is based on an appraised value, or when an appraised value is not available, the Company records the other real estate asset as nonrecurring Level 3. There were no other real estate properties as of December 31, 2017 and 2016.

(16) Fair Value Measurements and Disclosures, continued

Assets Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2017 and 2016.

December 31, 2017:	Level 1	Level 2	Level 3	Total
U.S. government sponsored enterprises	$ -	1,112,011	-	1,112,011
State and municipal securities	-	2,089,811	-	2,089,811
Mortgage-backed securities	-	18,324,765	-	18,324,765
	$ -	21,526,587	-	21,526,587
December 31, 2016:				
U.S. government sponsored enterprises	$ -	1,355,628	-	1,355,628
Mortgage-backed securities	-	2,625,196	-	2,625,196
Corporate securities	-	20,710,758	-	20,710,758
	$ -	24,691,582	-	24,691,582

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis as of December 31, 2017 are included in the table below. There were no assets measured at fair value on a nonrecurring basis as of December 31, 2016.

December 31, 2017:	Level 1	Level 2	Level 3	Total
Impaired loans, net	$ -	1,578,695	-	1,578,695