

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2016

Month / Day / Year

n/a

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

I, R Bruce White

Name of the Holding Company Director and Official

Chief Executive Officer/Chairman of the Board

Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

Travelers Rest Bancshares, Inc

Legal Title of Holding Company

42 Plaza Drive/ PO Box 1067

(Mailing Address of the Holding Company) Street / P.O. Box

Travelers Rest SC 29690

City State Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Jay C Edwards CFO

Name Title

864-834-9031 x1338

Area Code / Phone Number / Extension

864-834-3417

Area Code / FAX Number

jaye@bankoftravelersrest.com

E-mail Address

www.bankoftravelersrest.com

Address (URL) for the Holding Company's web page

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

Date of Signature

[Signature]
 3/10/2017

For holding companies not registered with the SEC—
 Indicate status of Annual Report to Shareholders:

- is included with the FR Y-6 report
- will be sent under separate cover
- is not prepared

For Federal Reserve Bank Use Only

RSSD ID _____
 C.I. _____

Is confidential treatment requested for any portion of this report submission?	0=No 1=Yes	0
In accordance with the General Instructions for this report (check only one),		
1. a letter justifying this request is being provided along with the report	<input type="checkbox"/>	
2. a letter justifying this request has been provided separately	<input type="checkbox"/>	
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."		

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

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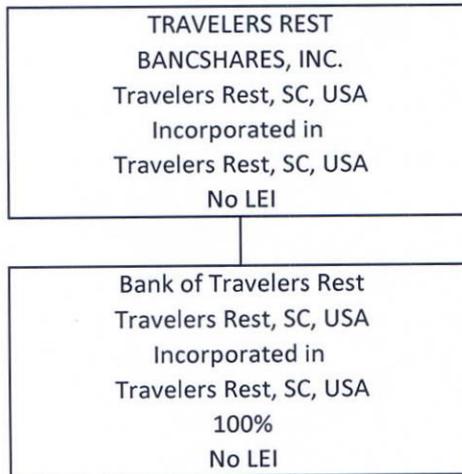
Form FR Y-6

Travelers Rest Bancshares, Inc.
Travelers Rest, SC 29690
Fiscal Year Ending December 31, 2016

Report Item

1: The bank holding company prepares an annual report for its securities holders. A copy is attached to this submission.

2a: Organizational Chart



2b: Domestic Branch Listing - Attached to this submission.

Form FR Y-6

Travelers Rest Bancshares, Inc.
Travelers Rest, SC 29690
Fiscal Year Ending December 31, 2016

Item 3.1: Securities holders

(1)(a) Name & Address				(1)(b) Country of Citizenship	(1)(c) Common Stock Ownership	
Name	City	State	Country		# Shares	% Shares
R. Bruce White	Travelers Rest	SC	USA	USA	172,015	48.43%
Martha S. White	Travelers Rest	SC	USA	USA	14,504	4.08%
Robert L. White	Greenville	SC	USA	USA	6,546	1.84%
John D. White	Travelers Rest	SC	USA	USA	6,560	1.85%
Michael A. White	Travelers Rest	SC	USA	USA	6,011	1.69%
Elizabeth Steifle	Travelers Rest	SC	USA	USA	214	*
					Family Total	57.89%
Robert A. League, Jr.	Greenville	SC	USA	USA	23,344	6.57%
Doris A. League	Greenville	SC	USA	USA	1,219	*
Isabelle Kyte	Travelers Rest	SC	USA	USA	44	*
Abigail Leauge	Travelers Rest	SC	USA	USA	100	*
Joseph D. League, Jr.	Travelers Rest	SC	USA	USA	653	*
Emma League	Travelers Rest	SC	USA	USA	100	*
Ivey League	Travelers Rest	SC	USA	USA	441	*
Meadow League	Travelers Rest	SC	USA	USA	440	*
Maria League	Travelers Rest	SC	USA	USA	108	*
Reagan League	Travelers Rest	SC	USA	USA	100	*
Robert A. League, IV	Travelers Rest	SC	USA	USA	108	*
Sean League	Travelers Rest	SC	USA	USA	100	*
Sonya League	Travelers Rest	SC	USA	USA	13	*
Andrew League	Travelers Rest	SC	USA	USA	80	*
					Family Total	6.57%
William Giles IRA	Simpsonville	SC	USA	USA	1,287	0.36%
Teresa Smith-Giles	Simpsonville	SC	USA	USA	218	0.06%
William Giles	Simpsonville	SC	USA	USA	4,800	1.35%
Eleanor Perry	Columbia	SC	USA	USA	2,893	0.81%
Lucile Williams	Greenville	SC	USA	USA	10,474	2.95%
					Family Total	5.53%

* Less than 1% ownership.

Item 3.2: None

Persons or families able to vote 5% at any point during the year that are not listed above.

Form FR Y-6

Travelers Rest Bancshares, Inc.
Travelers Rest, SC 29690
Fiscal Year Ending December 31, 2016

Report Item 4: Insiders

(1) Name & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiary (Bank of Traveler Rest	(3)(c) Title & Position with other Business(es) (Include name of other business(es))	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiary (Bank of Travelers Rest)	(4)(c) List of names of other companies (Including partnerships) if 25 % or more of voting securities are held (List names of companies and % of voting securities held)
Ray B. Batson Travelers Rest, SC, USA	Consultant	Director	Director	N/A	0.48%	n/a	Sharpshooters Indoor Range 45% Eagle, SC, LLC 50% LTH, LP 60% Batson Developers, II 42% B&H, LLC 33.3% R&R Joint PTR 25%
Julie Godshall Brown Greenville, SC, USA	Consultant	Director	Director	President, Godshall & Godshall Personnel Consultants, Inc.	0.03%	n/a	Godshall & Godshall 100% Blue Waters of SC, LLC 100%
Harry F Cato Columbia, SC, USA	Advisor	Director	Director	Advisor, Nelson Mullins Riley & Scarborough, LLP	0.28%	n/a	Blue Moon Strategies, LLC 100% Cabana Girl, LLC 25% 2018 Covey Lane, LLC 100% 253 Little Oak Drive, LLC 100% 2425 Stono Watch Drive, LLC 100% 470 Tarpon Boulevard, LLC 100% H&K Holding Co., LLC 100% Death Valley Walk, LLC 100%
Benjamin N Cleveland Marietta, SC, USA	Operations Analyst	Director	Director	Senior Operation Analyst, BAE Systems	0.07%	n/a	Cleveland Cottages-15M LLC 50% Cleveland Cottages-19M LLC 50% Cleveland Cottages-21M LLC 50% MHOTW, LLC 50%
Gregory L Coleman Travelers Rest, SC, USA	Automobile Dealer	Director	Director	President, George Coleman Motors, Inc.	0.43%	n/a	George Coleman Ford 58%
Stephan R Farr Travelers Rest, SC, USA	N/A	Director	Director	N/A	1.66%	n/a	None
Richard D Holcombe, Jr. Greenville, SC, USA	Electrical Corportation	Director	Director	President, H&W Electrical Corp.	0.75%	n/a	H&W Electrical Corp 96% Highway 25 Properties 33%
J David League, Jr. Travelers Rest, SC, USA	Food Store	Director	Director	Vice President, Handee Mart Food Stores	0.30%	n/a	Handee Mart Food Stores, Inc 25%
L Lee Plumblee Greenville, SC, USA	Attorney	Director	Director	Attorney, Epps & Plumblee, P.A.	0.10%	n/a	Epps & Plumblee, P.A. 50% New Lawyers Building, LLC 33.3%
Dr. Fred D Pollard Taylors, SC, USA	N/A	Director	Director	N/A	0.10%	n/a	None
R Bruce White Travelers Rest, SC, USA	N/A	Director, President, Chairman	Director, CEO, Chairman	None	48.43%	n/a	T&E Properties, LLC 50% Travelers Rest Prof Park 25% TR Park POA 20%
Thomas R Britt Greenville, SC, USA	N/A	N/A	President	None	0.05%	n/a	None
Jay C Edwards Easley, SC, USA	N/A	Treasurer	Chief Financial Officer	None	0.00%	n/a	None
Edward M. Fewell Greenville, SC, USA	N/A	Vice President	Executive Vice President	None	0.00%	n/a	None

Results: A list of branches for your holding company: TRAVELERS REST BANCSHARES, INC. (2730383) of TRAVELERS REST, SC.
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.

Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.

Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.

Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.

Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.

If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:

To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.

The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - <https://y10online.federalreserve.gov>.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	589523	BANK OF TRAVELERS REST	42 PLAZA DRIVE	TRAVELERS REST	SC	29690	GREENVILLE	UNITED STATES	10568	0	BANK OF TRAVELERS REST	589523	
OK		Full Service	912729	BUNCOMBE ROAD BRANCH	5101 OLD BUNCOMBE RD	GREENVILLE	SC	29617	GREENVILLE	UNITED STATES	237987	3	BANK OF TRAVELERS REST	589523	
OK		Full Service	3719059	EAST WASHINGTON STREET BRANCH	217-B EAST WASHINGTON STREET	GREENVILLE	SC	29601	GREENVILLE	UNITED STATES	469489	7	BANK OF TRAVELERS REST	589523	
OK		Full Service	3285862	NORTH PLEASANTBURG BRANCH	2021 NORTH PLEASANTBURG DR	GREENVILLE	SC	29609	GREENVILLE	UNITED STATES	357191	5	BANK OF TRAVELERS REST	589523	
OK		Full Service	3676572	PELHAM ROAD BRANCH	201 PELHAM ROAD	GREENVILLE	SC	29615	GREENVILLE	UNITED STATES	431391	6	BANK OF TRAVELERS REST	589523	
OK		Full Service	4972534	VERDAE BRANCH	1041 VERDAE BLVD	GREENVILLE	SC	29607	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	1444665	WHITE HORSE ROAD BRANCH	6204 WHITE HORSE ROAD	GREENVILLE	SC	29611	GREENVILLE	UNITED STATES	237988	4	BANK OF TRAVELERS REST	589523	
OK		Full Service	43427	MARIETTA BRANCH	3211 GEER HWY	MARIETTA	SC	29661	GREENVILLE	UNITED STATES	237985	1	BANK OF TRAVELERS REST	589523	
OK		Full Service	3719068	WADE HAMPTON BRANCH	6000 WADE HAMPTON BOULEVARD	TAYLORS	SC	29687	GREENVILLE	UNITED STATES	473402	8	BANK OF TRAVELERS REST	589523	
OK		Full Service	46026	ROE CENTER COURT OFFICE	500 ROE CENTER COURT	TRAVELERS REST	SC	29690	GREENVILLE	UNITED STATES	237986	2	BANK OF TRAVELERS REST	589523	

**Travelers Rest Bancshares, Inc.
and Subsidiary**

Report on Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

**Travelers Rest Bancshares, Inc.
and Subsidiary**

Report on Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

**This Statement has Not Been Reviewed or
Confirmed for Accuracy or Relevance by
The Federal Deposit Insurance Corporation**

Travelers Rest Bancshares, Inc. and Subsidiary

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Independent Auditor's Report

The Board of Directors and Stockholders
Travelers Rest Bancshares, Inc. and Subsidiary
Travelers Rest, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Travelers Rest Bancshares, Inc. and its subsidiary which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

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

Elliott Davis Decosimo, LLC

Greenville, South Carolina
March 1, 2017

Travelers Rest Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and due from banks	\$ 28,755,038	\$ 18,347,954
Federal funds sold	33,554,000	22,893,244
Total cash and cash equivalents	<u>62,309,038</u>	<u>41,241,198</u>
Securities		
Available for sale	151,850,868	143,690,009
Other investments, at cost	2,237,400	2,441,600
Loans, net of allowance for loan losses of \$7,734,768 for 2016 and \$7,199,339 for 2015	385,757,597	358,334,133
Premises and equipment, net	15,300,620	13,570,827
Accrued interest receivable	2,216,656	2,085,984
Bank owned life insurance	12,640,591	12,274,666
Other real estate owned	1,588,312	2,497,006
Other assets	712,878	406,976
Total assets	<u>\$ 634,613,960</u>	<u>\$ 576,542,399</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	\$ 83,449,766	\$ 75,331,271
Interest-bearing	478,337,653	426,712,056
Total deposits	<u>561,787,419</u>	<u>502,043,327</u>
Securities sold under repurchase agreements	2,481,449	5,855,697
Federal Home Loan Bank advances	5,000,000	5,000,000
Other liabilities	5,478,606	5,984,235
Total liabilities	<u>574,747,474</u>	<u>518,883,259</u>
Commitments and contingencies - notes 13 and 14		
Stockholders' equity		
Common stock - par value \$.01 per share; 10,000,000 shares authorized; 355,710 and 355,010 shares issued and outstanding at December 31, 2016 and 2015	3,557	3,550
Capital in excess of par value of stock	26,025,937	25,918,330
Retained earnings	33,975,184	29,142,978
Treasury Stock	(99,800)	-
Accumulated other comprehensive income (loss)	(38,392)	2,594,282
Total stockholders' equity	<u>59,866,486</u>	<u>57,659,140</u>
Total liabilities and stockholders' equity	<u>\$ 634,613,960</u>	<u>\$ 576,542,399</u>

See Notes to Consolidated Financial Statements

Travelers Rest Bancshares, Inc. and Subsidiary**Consolidated Statements of Income****For the years ended December 31, 2016 and 2015**

	2016	2015
Interest income		
Loans and fees on loans	\$ 17,890,774	\$ 16,562,130
Investment securities		
Taxable	1,361,655	1,200,559
Nontaxable	2,257,952	2,260,933
Federal funds sold	183,779	67,812
Total interest income	<u>21,694,160</u>	<u>20,091,434</u>
Interest expense		
Deposits	1,668,107	1,501,450
Federal Home Loan Bank advances	146,518	146,507
Repurchase agreements	6,346	7,420
Total interest expense	<u>1,820,971</u>	<u>1,655,377</u>
Net interest income	19,873,189	18,436,057
Provision for loan losses		
Net interest income after provision for loan losses	<u>825,000</u>	<u>1,144,667</u>
	<u>19,048,189</u>	<u>17,291,390</u>
Noninterest income		
Service charges on deposit accounts	5,306,838	5,005,726
Mortgage loan origination fees	494,558	388,977
Gateway Wealth Strategies income	754,298	739,379
Bank owned life insurance income	423,919	415,042
Other operating income	356,994	334,247
Gain realized on sale of investment securities	-	306,732
Gain on sale of other assets	-	76,642
Total noninterest income	<u>7,336,607</u>	<u>7,266,745</u>
Noninterest expenses		
Salaries and wages	8,315,858	7,907,713
Profit sharing and other employee benefits	2,490,876	2,358,126
Occupancy	1,325,458	1,152,598
Furniture and equipment	901,953	884,273
Data processing	947,750	836,737
FDIC assessment	255,542	292,737
Stationery, supplies and printing	462,383	376,263
Postage	234,086	231,446
Losses on and writedowns of other real estate owned	228,365	40,725
Other real estate owned expenses	90,795	81,750
Other operating expenses	3,816,721	3,340,242
Total noninterest expenses	<u>19,069,787</u>	<u>17,502,610</u>
Net income before provision for income taxes	7,315,009	7,055,525
Provision for state income taxes		
Net income	<u>329,000</u>	<u>282,000</u>
	<u>\$ 6,986,009</u>	<u>\$ 6,773,525</u>
Basic net income per share of common stock	<u>\$ 19.64</u>	<u>\$ 19.14</u>
Diluted net income per share of common stock	<u>\$ 19.53</u>	<u>\$ 19.06</u>
Weighted average number of shares outstanding - basic	<u>355,656</u>	<u>353,825</u>
Weighted average number of shares outstanding - diluted	<u>357,664</u>	<u>355,460</u>

See Notes to Consolidated Financial Statements

Travelers Rest Bancshares, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net income	\$ 6,986,009	\$ 6,773,525
Other comprehensive loss		
Changes in unrealized loss on securities available for sale		
Unrealized holding loss arising during the period, pretax	(2,756,437)	(218,909)
Tax benefit	123,763	9,849
Less reclassification adjustment for gains included in net income	-	(306,732)
Tax expense	-	13,803
	<u>(2,632,674)</u>	<u>(501,989)</u>
Comprehensive income	<u>\$ 4,353,335</u>	<u>\$ 6,271,536</u>

See Notes to Consolidated Financial Statements

Travelers Rest Bancshares, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2016 and 2015

	Common stock		Capital in excess of par value of stock	Treasury Stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Number of shares	Amount					
Balance, December 31, 2014	353,470	\$ 3,535	\$ 25,764,333	\$ -	\$ 24,854,694	\$ 3,096,269	\$ 53,718,831
Net income	-	-	-	-	6,773,525	-	6,773,525
Other comprehensive loss	-	-	-	-	-	(501,987)	(501,987)
Stock-based compensation	-	-	8,990	-	-	-	8,990
Stock options exercised	1,540	15	142,773	-	-	-	142,788
Treasury stock transactions, net	-	-	2,234	-	-	-	2,234
Cash dividend declared (\$2.10 per share)	-	-	-	-	(743,634)	-	(743,634)
Tax pass through dividend declared (\$4.92 per share)	-	-	-	-	(1,741,607)	-	(1,741,607)
Balance, December 31, 2015	355,010	3,550	25,918,330	-	29,142,978	2,594,282	57,659,140
Net income	-	-	-	-	6,986,009	-	6,986,009
Other comprehensive loss	-	-	-	-	-	(2,632,674)	(2,632,674)
Stock-based compensation	-	-	8,990	-	-	-	8,990
Stock options exercised	700	7	89,593	-	-	-	89,600
Treasury stock transactions, net	-	-	9,024	(99,800)	-	-	(90,776)
Cash dividend declared (\$2.20 per share)	-	-	-	-	(780,758)	-	(780,758)
Tax pass through dividend declared (\$3.87 per share)	-	-	-	-	(1,373,045)	-	(1,373,045)
Balance, December 31, 2016	<u>355,710</u>	<u>\$ 3,557</u>	<u>\$ 26,025,937</u>	<u>\$ (99,800)</u>	<u>\$ 33,975,184</u>	<u>\$ (38,392)</u>	<u>\$ 59,866,486</u>

See Notes to Consolidated Financial Statements

Travelers Rest Bancshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating activities		
Net income	\$ 6,986,009	\$ 6,773,525
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	911,855	742,694
Securities amortization and accretion, net	1,392,837	1,192,293
Provision for loan losses	825,000	1,144,667
Loss on and write down of other real estate owned	228,366	40,725
Gain realized on sale of investment securities	-	(306,732)
Gain on sale of land	-	(76,642)
Stock-based compensation expense	8,990	8,990
Increase in accrued interest receivable	(130,672)	(106,149)
(Increase) decrease in other assets	(305,902)	24,171
Increase in cash surrender value of life insurance	(365,925)	(363,610)
Increase in other liabilities	(997,689)	(133,898)
Net cash provided by operating activities	<u>8,552,869</u>	<u>8,940,034</u>
Investing activities		
Proceeds from the maturity or call of investment securities available for sale	10,885,000	9,395,000
Purchase of investment securities available for sale	(31,263,370)	(43,180,264)
Proceeds from the sale of investment securities available for sale	-	18,024,999
Principal repayments on mortgage-backed securities available for sale	7,899,046	6,122,696
Purchase of bank owned life insurance	-	(400,000)
Purchase of Federal Home Loan Bank stock	(42,800)	(22,600)
Purchase of certificates of deposit	(249,000)	-
Maturity of certificates of deposit	496,000	744,000
Net increase in loans	(28,248,464)	(33,513,410)
Proceeds from sales of other real estate owned	680,328	1,083,348
Proceeds from sale of land	-	594,215
Purchases of premises and equipment	(2,641,648)	(3,810,695)
Net cash used for investing activities	<u>(42,484,908)</u>	<u>(44,962,711)</u>
Financing activities		
Cash dividends paid	(390,027)	(353,122)
Tax pass through cash dividends paid	(978,762)	(1,084,840)
Proceeds from exercise of stock options	89,600	142,788
Treasury stock transactions, net	(90,776)	2,234
Net increase in deposits	59,744,092	39,326,480
Net increase (decrease) in securities sold under repurchase agreements	(3,374,248)	2,928,762
Net cash provided by financing activities	<u>54,999,879</u>	<u>40,962,302</u>
Net increase in cash and cash equivalents	21,067,840	4,939,625
Cash and cash equivalents, beginning of year	<u>41,241,198</u>	<u>36,301,573</u>
Cash and cash equivalents, end of year	<u>\$ 62,309,038</u>	<u>\$ 41,241,198</u>
Cash paid (received) for		
Interest	<u>\$ 1,812,492</u>	<u>\$ 1,635,034</u>
State Income taxes	<u>\$ 321,588</u>	<u>\$ 292,808</u>
Noncash investing and financing activities		
Loans transferred to other real estate owned	<u>\$ -</u>	<u>\$ 2,075,258</u>
Accrued cash dividend declared	<u>\$ 390,731</u>	<u>\$ 390,512</u>
Accrued tax pass through dividend declared	<u>\$ 394,283</u>	<u>\$ 656,767</u>
Change in unrealized gain (loss) on investment securities	<u>\$ (2,756,727)</u>	<u>\$ (525,640)</u>

See Notes to Consolidated Financial Statements

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 1. Summary of Significant Accounting Policies and Activities

Principles of consolidation and nature of operations:

The consolidated financial statements include the accounts of Travelers Rest Bancshares, Inc. and Subsidiary (the "Company"), which includes its wholly-owned subsidiary, the Bank of Travelers Rest (the "Bank") and the Bank's wholly-owned subsidiary, Gateway Wealth Strategies, Inc. ("Gateway"). The Company is subject to regulatory oversight by the Federal Reserve Board. The Bank operates under a state bank charter and provides full banking services to its customers. The Bank is subject to regulation from both the South Carolina State Board of Financial Institutions and the Federal Deposit Insurance Corporation. Gateway provides investment counseling and brokerage services and is subject to the oversight of the South Carolina State Board of Financial Institutions.

Basis of presentation:

The Company operates as one business segment. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies conform to accounting principles generally accepted in the United States of America and to general practices in the industry.

The Bank derives its income primarily from interest on loans and investment securities. To a lesser extent, income is earned from service charges on deposit accounts, non-deposit sales, and fees received in connection with servicing loans. The Bank's major expenses are salaries and benefits, the interest it pays on deposits and borrowings, and general operating expenses.

The Company conducts its business through the Bank, which is subject to the laws of the State of South Carolina and federal regulations governing the financial services industry. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Bank holding companies are subject to regulation and supervision by the Board of Governors of the Federal Reserve System.

Estimates:

The preparation of consolidated 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 as of the dates of the consolidated balance sheets and the consolidated statements of income for the periods covered. The Company's most significant estimates relate to the allowance for loan losses and determining the fair value of other real estate owned. Actual results could differ from those estimates.

Cash and cash equivalents:

For the purposes of reporting cash flows, the Company considers cash and cash equivalents to be those items included in cash and due from banks and federal funds sold. Generally, cash and cash equivalents are considered to have maturities of three months or less.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Securities:

Accounting standards for securities require that the Company classify debt securities upon purchase as available for sale, held to maturity, or trading. Investments classified as available for sale are carried at fair value. Unrealized holding gains or losses are reported as a component of stockholders' equity (accumulated other comprehensive income or loss) net of deferred state income taxes. Securities classified as held to maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts into interest income using a method which approximates a level yield of interest over the estimated remaining life. To qualify as held to maturity, the Company must have the ability and intent to hold the securities to maturity. Trading securities are carried at market value. Gains or losses on disposition of securities are based on the difference between the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. The Company had no held to maturity or trading securities at December 31, 2016 and 2015.

Other investments include the Bank's investment in the Federal Home Loan Bank of Atlanta ("FHLB") in which, as a member institution, the Bank is required to own stock. The stock is generally pledged against any borrowings from the FHLB. No ready market exists for the stock and it has no quoted market value. However, redemption of the stock historically has been at par value. Additionally, the Bank invests in time deposits at other financial institutions.

Loans, interest and fee income on loans:

Loans are stated at the principal balance outstanding. Unearned discounts, unamortized loan fees and the allowance for loan losses are deducted from total loans in the balance sheets. Interest income is recognized over the term of the loan based on the principal amount outstanding. Fees on real estate loans are taken into income to the extent they represent the direct cost of initiating a loan.

Loans are generally placed on nonaccrual status when principal or interest becomes ninety days past due, or when, in the opinion of management, the collection of additional interest is questionable and payment in full is not anticipated. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. If collectability is in doubt, cash receipts on nonaccrual loans are not recorded as interest income, but are used to reduce principal. Thereafter, no interest is taken into income unless received in cash or until such time as the borrower demonstrates the ability to pay principal and interest. Non-performing assets include real estate acquired through foreclosure or deed taken in lieu of foreclosure and loans on nonaccrual status.

Allowance for loan losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Allowance for loan losses, continued:

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered to be impaired when, based on current information and events, it is probable that the Company 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. 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 length of 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.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, a concession to the borrower is granted that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring. The restructuring of a loan may include the transfer from the borrower to the Company of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan, a modification of the loan terms, or a combination of the above.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Other real estate owned:

Other real estate owned initially is recorded at the lower of cost or estimated fair value. Subsequent to the date of acquisition, it is carried at the lower of cost or fair value less estimated costs to sell. Fair values of real estate owned are reviewed regularly and writedowns are recorded when it is determined that the carrying value of real estate exceeds the fair value less estimated costs to sell. Costs relating to the development and improvement of such property are capitalized, whereas those costs relating to holding the property are charged to expense. At December 31, 2016 and 2015, real estate owned by the Company totaled \$1,588,312 and \$2,497,006, respectively.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Premises and equipment:

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed over the estimated useful lives of the assets using primarily the straight-line method. Additions to premises and equipment and major replacements or improvements are capitalized at cost. Maintenance, repairs and minor replacements are expensed when incurred. Gains and losses on routine dispositions are reflected in current operations.

Bank owned life insurance:

Bank owned life insurance policies represent the cash value of policies on certain officers of the Bank.

Income taxes:

The Company, with the consent of its stockholders, elected to become an S Corporation for federal income tax purposes under the Internal Revenue Code. Under an S Corporation election, the income of the Company is taxed at the shareholder level rather than at the corporate level with certain exceptions. The State of South Carolina does not recognize S Corporation status for banks. Accordingly, the Bank will continue to accrue and pay South Carolina income taxes.

The Company is no longer subject to examination by federal and state taxing authorities for years prior to 2013.

Advertising expense:

Advertising, promotional and other business development costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent and are included in other operating expenses. For the years ended December 31, 2016 and 2015, advertising expense was \$421,107 and \$340,474, respectively.

Reclassifications:

Certain prior year amounts have been reclassified to conform with the current presentation. These reclassifications had no effect on the previously reported results of operations or stockholders' equity.

Net income per share:

Basic net income per share of common stock is computed using the weighted average number of common shares outstanding (355,656 in 2016 and 353,825 in 2015). The treasury stock method is used to compute the dilutive effect of stock options on the weighted average number of common shares outstanding (357,664 in 2016 and 355,460 in 2015).

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Treasury stock transactions:

During 2016, the Company purchased 1,640 shares of the Company's stock at prices ranging from \$175.80 to \$199.60. Of those shares, 1,140 were sold at prices ranging from \$175.80 to \$199.60 with \$9,024 gain flowing through capital in excess of par value of stock. As of December 31, 2016, there were 500 shares in treasury stock. As of December 31, 2015, there were no shares in treasury stock.

Recently issued accounting standards:

The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of ASU 2014-09, *Revenue from Contracts with Customers*. This topic was amended again in March 2016 to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for annual periods beginning after December 15, 2018 and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2019, and interim periods with fiscal years beginning after December 15, 2020. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In March 2016, the FASB amended several topics of the Accounting Standards Codification to make the guidance in all private company accounting alternatives effective immediately by removing their effective dates. The amendments also include transition provisions that provide that private companies are able to forgo a preferability assessment the first time they elect the private company accounting alternatives. The amendments were effective immediately. The Company does not expect these amendments to have a material effect on its financial statements.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Recently issued accounting standards, continued:

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for annual periods beginning after December 15, 2020, and interim periods within annual reporting periods beginning after December 15, 2021. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Risks and uncertainties:

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying securities, loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies (regulatory risk). These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Subsequent events:

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the date. Management has reviewed events occurring through March 1, 2017, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

Note 2. Restrictions on Cash and Due from Banks

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. These required reserves were met through vault cash and deposits at the Federal Reserve and correspondent banks. The total of those reserve balances at December 31, 2016 and 2015 was approximately \$10,523,000 and \$8,204,000, respectively.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 3. Securities

The amortized cost, gross unrealized gains and losses and fair values of securities available for sale are summarized as follows:

	December 31, 2016			
	Amortized cost	Unrealized holding		Fair value
		Gains	Losses	
Available for sale				
Government-sponsored enterprises	\$ 3,000,000	\$ 890	\$ 19,442	\$ 2,981,448
Mortgage backed securities	41,861,180	103,119	514,320	41,449,979
Municipal bonds	98,415,581	1,422,764	937,897	98,900,448
Corporate bonds	<u>8,614,308</u>	<u>29,998</u>	<u>125,313</u>	<u>8,518,993</u>
	<u>\$ 151,891,069</u>	<u>\$ 1,556,771</u>	<u>\$ 1,596,972</u>	<u>\$ 151,850,868</u>
	December 31, 2015			
	Amortized cost	Unrealized holding		Fair value
		Gains	Losses	
Available for sale				
Government-sponsored enterprises	\$ 1,000,000	\$ -	\$ 8,195	\$ 991,805
Mortgage backed securities	40,335,019	219,522	239,043	40,315,498
Municipal bonds	94,047,223	2,903,338	118,302	96,832,259
Corporate bonds	<u>5,591,241</u>	<u>1,865</u>	<u>42,659</u>	<u>5,550,447</u>
	<u>\$ 140,973,483</u>	<u>\$ 3,124,725</u>	<u>\$ 408,199</u>	<u>\$ 143,690,009</u>

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016 and 2015.

	At December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government-sponsored enterprises	\$ 1,980,558	\$ 19,442	\$ -	\$ -	\$ 1,980,558	\$ 19,442
Mortgage-backed securities	29,248,654	441,766	6,054,117	72,554	35,302,771	514,320
Municipal bonds	46,337,827	910,801	403,989	27,096	46,741,816	937,897
Corporate bonds	<u>3,958,511</u>	<u>61,211</u>	<u>2,530,484</u>	<u>64,102</u>	<u>6,488,995</u>	<u>125,313</u>
Total	<u>\$81,525,550</u>	<u>\$ 1,433,220</u>	<u>\$ 8,988,590</u>	<u>\$ 163,752</u>	<u>\$90,514,140</u>	<u>\$ 1,596,972</u>

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 3. Securities, Continued

	At December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government-sponsored enterprises	\$ -	\$ -	\$ 991,805	\$ 8,195	\$ 991,805	\$ 8,195
Mortgage-backed securities	22,905,525	202,341	2,463,720	36,702	25,369,245	239,043
Municipal bonds	13,719,624	77,497	3,272,617	40,805	16,992,241	118,302
Corporate bonds	<u>583,336</u>	<u>10,401</u>	<u>1,967,742</u>	<u>32,258</u>	<u>2,551,078</u>	<u>42,659</u>
Total	<u>\$37,208,485</u>	<u>\$ 290,239</u>	<u>\$ 8,695,884</u>	<u>\$ 117,960</u>	<u>\$45,904,369</u>	<u>\$ 408,199</u>

At December 31, 2016, the Bank had ten investments in an unrealized loss position for twelve consecutive months or more. The Company does not believe that any unrealized losses indicate impairment that is considered other-than-temporary. The Company does not intend to sell these securities currently in a loss position and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost.

There were no sales of securities during 2016. The Bank recorded \$6,403 of prepayment fees on investment securities. During 2015 the Bank had proceeds of \$18,024,999 and recorded a gain of \$306,732 on the sale of investment securities.

The amortized cost and fair value of securities available for sale, by contractual maturity, follow:

	December 31, 2016	
	Amortized cost	Fair value
Government-sponsored enterprises		
Maturing after five but within ten years	\$ 3,000,000	\$ 2,981,448
	<u>3,000,000</u>	<u>2,981,448</u>
Mortgage backed securities		
Maturing after one but within five years	1,375,141	1,372,749
Maturing after five but within ten years	7,425,366	7,419,999
Maturing after ten years	<u>33,060,673</u>	<u>32,657,231</u>
	<u>41,861,180</u>	<u>41,449,979</u>
Municipal bonds		
Maturing after one but within five years	21,916,943	21,908,651
Maturing after five but within ten years	32,949,639	33,314,120
Maturing after ten years	<u>43,548,999</u>	<u>43,677,677</u>
	<u>98,415,581</u>	<u>98,900,448</u>
Corporate bonds		
Maturing after one but within five years	6,019,721	5,982,187
Maturing after five but within ten years	<u>2,594,587</u>	<u>2,536,806</u>
	<u>8,614,308</u>	<u>8,518,993</u>
Total	<u>\$ 151,891,069</u>	<u>\$ 151,850,868</u>

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 3. Securities, Continued

Expected maturities of these securities may differ from contractual maturities because issuers may have the right to call or repay obligations with or without prepayment penalties. Investment securities with an aggregate par value of approximately \$20,075,000 and \$20,453,000 at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Other investments, at cost:

The Bank, as a member institution, is required to own stock in the FHLB. This investment is carried at cost and generally is pledged against any borrowings from the FHLB (see Note 8). No ready market exists for the stock; it has no quoted market value, any requested redemptions may be subject to limitations regarding timing and amounts. The Bank evaluates this security for impairment based on the probability of ultimate recoverability of the recorded amount of the investment. No impairment has been recognized based on this evaluation.

The Company's other investments are summarized below as of December 31:

	<u>2016</u>	<u>2015</u>
FHLB stock	\$ 748,400	\$ 705,600
Certificates of deposit at other financial institutions	<u>1,489,000</u>	<u>1,736,000</u>
Total	<u>\$ 2,237,400</u>	<u>\$ 2,441,600</u>

Note 4. Loans and Allowance for Loan Losses

Following is a summary of loans by major classification as of December 31:

	<u>2016</u>	<u>2015</u>
Real estate - mortgage	\$ 283,427,566	\$ 267,444,044
Real estate - construction	26,755,364	18,257,579
Commercial and industrial	43,341,872	36,448,539
Installment loans to individuals	27,320,107	30,124,506
All other loans	<u>12,647,456</u>	<u>13,258,804</u>
Loans, gross	393,492,365	365,533,472
Allowance for loan losses	<u>(7,734,768)</u>	<u>(7,199,339)</u>
Loans, net	<u>\$ 385,757,597</u>	<u>\$ 358,334,133</u>

Fixed rate loans totaled \$285,297,173 and \$265,687,020, at December 31, 2016 and 2015, respectively. Variable rate loans totaled \$108,195,192 and \$99,846,452, at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, respectively, approximately \$104,970,000 and \$95,272,000 of mortgage loans were pledged as collateral to secure current and future borrowings from the FHLB.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 4. Loans and Allowance for Loan Losses, Continued

Credit quality:

As part of the loan review process, loans are given individual credit grades, representing the risk the Company believes is associated with the loan balance. Credit grades are assigned based on factors that impact the collectability of the loan, the strength of the borrower, the type of collateral, and loan performance. Commercial loans are individually graded at origination and credit grades are reviewed on a regular basis in accordance with our loan policy. Consumer loans are designated a “pass” credit rating unless factors within the loan warrant a specific classification grade.

The following table summarizes management’s internal credit risk grades, by portfolio class, as of December 31, 2016. The homogeneous pool of consumer loans are not assigned internal credit risk grades.

	<u>Real estate - mortgage</u>	<u>Real estate - construction</u>	<u>Commercial and industrial</u>	<u>Installment loans to individuals</u>	<u>All other loans</u>	<u>Total</u>
Excellent (grade 1)	\$ 28,654	\$ -	\$ 2,219,755	\$ -	\$ 1,650,000	\$ 3,898,409
Above average (grade 2)	39,572,185	8,197,067	11,318,777	357,913	10,430,392	69,876,334
Average (grade 3)	74,872,154	6,318,085	13,412,863	266,161	492,792	95,362,055
Below average (grade 4)	62,273,505	1,509,130	12,627,618	66,701	-	76,476,954
Minimally adequate (grade 5)	18,707,841	547,621	2,397,560	56,097	-	21,709,119
Watch list (grade 6)	5,109,347	49,403	-	-	-	5,158,750
Substandard (grade 7)	<u>5,805,954</u>	<u>472,863</u>	<u>545,637</u>	<u>175,197</u>	<u>74,272</u>	<u>7,073,923</u>
	206,369,640	17,094,169	42,522,210	922,069	12,647,456	279,555,544
Consumer loans	<u>77,057,926</u>	<u>9,661,195</u>	<u>819,662</u>	<u>26,398,038</u>	-	<u>113,936,821</u>
Total	<u>\$ 283,427,566</u>	<u>\$ 26,755,364</u>	<u>\$ 43,341,872</u>	<u>\$ 27,320,107</u>	<u>\$ 12,647,456</u>	<u>\$ 393,492,365</u>

The following table summarizes management’s internal credit risk grades, by portfolio class, as of December 31, 2015. The homogeneous pool of consumer loans are not assigned internal credit risk grades.

	<u>Real estate - mortgage</u>	<u>Real estate - construction</u>	<u>Commercial and industrial</u>	<u>Installment loans to individuals</u>	<u>All other loans</u>	<u>Total</u>
Excellent (grade 1)	\$ 30,278	\$ -	\$ 1,650,345	\$ -	\$ -	\$ 1,680,623
Above average (grade 2)	41,189,118	2,324,013	12,649,816	410,105	1,728,523	58,301,575
Average (grade 3)	82,287,318	3,171,034	13,518,093	339,453	10,092,569	109,408,467
Below average (grade 4)	48,321,431	2,343,894	5,673,700	23,148	927,441	57,289,614
Minimally adequate (grade 5)	20,728,331	816,275	1,640,753	111,205	224,241	23,520,805
Watch list (grade 6)	594,737	-	24,929	61,275	-	680,941
Substandard (grade 7)	<u>5,661,187</u>	<u>566,621</u>	<u>454,199</u>	<u>100,021</u>	<u>81,551</u>	<u>6,863,579</u>
	198,812,400	9,221,837	35,611,835	1,045,207	13,054,325	257,745,604
Consumer loans	<u>68,631,644</u>	<u>9,035,742</u>	<u>836,704</u>	<u>29,079,299</u>	<u>204,479</u>	<u>107,787,868</u>
Total	<u>\$ 267,444,044</u>	<u>\$ 18,257,579</u>	<u>\$ 36,448,539</u>	<u>\$ 30,124,506</u>	<u>\$ 13,258,804</u>	<u>\$ 365,533,472</u>

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 4. Loans and Allowance for Loan Losses, Continued

Credit quality, continued:

At December 31, 2016 and 2015, approximately 97% and 98%, respectively, of the loan portfolio had a credit grade of 5 or better. For loans to qualify for this range of grades, they must be performing relatively close to expectations, with no significant departures from the intended source and timing of repayment. Loans totaling approximately \$5,159,000 and \$681,000 were classified as watch list loans at December 31, 2016 and 2015, respectively. This classification is utilized for loans with an elevated credit risk to borrowers with an adequate credit history and financial strength but who are experiencing declining trends (e.g., financial, economic, or industry specific). Loans are designated as such in order to be monitored more closely than other credits in the loan portfolio. At December 31, 2016 and 2015, substandard loans totaled approximately \$7,074,000 and \$6,864,000, respectively. This classification is utilized when loans are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged; have well-defined weaknesses that jeopardize the liquidation of the loan; and there is a distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

The following table summarizes delinquencies and nonaccruals, by portfolio class, as of December 31, 2016.

	<u>Real Estate - Mortgage</u>	<u>Real Estate - Construction</u>	<u>Commercial and Industrial</u>	<u>Installment Loans to Individuals</u>	<u>All Other Loans</u>	<u>Total</u>
30-59 days past due	\$ 542,429	\$ 7,759	\$ 428,249	\$ 24,435	\$ -	\$ 1,002,872
60-89 days past due	1,326,924	-	-	15,239	-	1,342,163
90 days, still accruing	-	-	-	-	-	-
Nonaccrual	<u>1,302,104</u>	<u>50,293</u>	<u>332,084</u>	<u>104,971</u>	<u>-</u>	<u>1,789,452</u>
Total past due and nonaccrual	3,171,457	58,052	760,333	144,645	-	4,134,487
Current	<u>280,256,109</u>	<u>26,697,312</u>	<u>42,581,539</u>	<u>27,175,462</u>	<u>12,647,456</u>	<u>389,357,878</u>
Total	<u>\$283,427,566</u>	<u>\$ 26,755,364</u>	<u>\$ 43,341,872</u>	<u>\$ 27,320,107</u>	<u>\$ 12,647,456</u>	<u>\$393,492,365</u>

The following table summarizes delinquencies and nonaccruals, by portfolio class, as of December 31, 2015.

	<u>Real Estate - Mortgage</u>	<u>Real Estate - Construction</u>	<u>Commercial and Industrial</u>	<u>Installment Loans to Individuals</u>	<u>All Other Loans</u>	<u>Total</u>
30-59 days past due	\$ 1,439,804	\$ 332,345	\$ 103,191	\$ 93,929	\$ 81,551	\$ 2,050,820
60-89 days past due	576,651	4,258	-	31,481	-	612,390
90 days, still accruing	-	-	-	-	-	-
Nonaccrual	<u>1,261,389</u>	<u>195,640</u>	<u>151,736</u>	<u>75,052</u>	<u>-</u>	<u>1,683,817</u>
Total past due and nonaccrual	3,277,844	532,243	254,927	200,462	81,551	4,347,027
Current	<u>264,166,200</u>	<u>17,725,336</u>	<u>36,193,612</u>	<u>29,924,044</u>	<u>13,177,253</u>	<u>361,186,445</u>
Total	<u>\$267,444,044</u>	<u>\$ 18,257,579</u>	<u>\$ 36,448,539</u>	<u>\$ 30,124,506</u>	<u>\$ 13,258,804</u>	<u>\$365,533,472</u>

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 4. Loans and Allowance for Loan Losses, Continued

Credit quality, continued:

The following table summarizes information relative to impaired loans, by portfolio class, at December 31, 2016. The recorded investment in impaired loans is the unpaid principal balance net of loan principal charged off.

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Real estate - mortgage	\$ 8,161,281	\$ 8,253,587	\$ -	\$ 8,207,434	\$ 307,810
Real estate - construction	472,864	955,265	-	714,065	70,642
Commercial and industrial	534,291	547,648	-	540,970	8,177
Installment loans to individuals	253,156	259,485	-	256,321	13,265
With related allowance recorded:					
Real estate - mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate - construction	-	-	-	-	-
Total:					
Real estate - mortgage	\$ 8,161,281	\$ 8,253,587	\$ -	\$ 8,207,434	\$ 307,810
Real estate - construction	472,864	955,265	-	714,065	70,642
Commercial and industrial	534,291	547,648	-	540,970	8,177
Installment loans to individuals	<u>253,156</u>	<u>259,485</u>	<u>-</u>	<u>256,321</u>	<u>13,265</u>
	<u>\$ 9,421,592</u>	<u>\$ 10,015,985</u>	<u>\$ -</u>	<u>\$ 9,718,790</u>	<u>\$ 399,894</u>

The following table summarizes information relative to impaired loans, by portfolio class, at December 31, 2015. The recorded investment in impaired loans is the unpaid principal balance net of loan principal charged off.

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Real estate - mortgage	\$ 5,101,565	\$ 5,226,096	\$ -	\$ 5,163,831	\$ 216,979
Real estate - construction	516,026	1,669,072	-	1,092,549	77,046
Commercial and industrial	454,199	475,149	-	464,674	14,177
Installment loans to individuals	208,837	269,087	-	238,962	7,972
With related allowance recorded:					
Real estate - mortgage	\$ 764,777	\$ 764,777	\$ 11,778	\$ 764,777	\$ 37,532
Real estate - construction	164,420	164,420	1,907	164,420	8,445
Total:					
Real estate - mortgage	\$ 5,866,342	\$ 5,990,873	\$ 11,778	\$ 5,928,608	\$ 254,511
Real estate - construction	680,446	1,833,492	1,907	1,256,969	85,491
Commercial and industrial	454,199	475,149	-	464,674	14,177
Installment loans to individuals	<u>208,837</u>	<u>269,087</u>	<u>-</u>	<u>238,962</u>	<u>7,972</u>
	<u>\$ 7,209,824</u>	<u>\$ 8,568,601</u>	<u>\$ 13,685</u>	<u>\$ 7,889,213</u>	<u>\$ 362,151</u>

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 4. Loans and Allowance for Loan Losses, Continued

Provision and allowance for loan losses:

The following table summarizes activity related to our allowance for loan losses for the year ended December 31, 2016 by portfolio segment.

	<u>Real Estate - Mortgage</u>	<u>Real Estate - Construction</u>	<u>Commercial and Industrial</u>	<u>Installment Loans to Individuals</u>	<u>All Other Loans</u>	<u>Total</u>
Allowance for loan losses:						
Balance, beginning of year	\$ 4,824,452	\$ 681,879	\$ 848,075	\$ 692,144	\$ 152,789	\$ 7,199,339
Provision for loan losses	360,134	25,881	54,581	34,404	350,000	825,000
Loan charge-offs	(57,153)	-	(50,564)	(240,738)	(435,214)	(783,669)
Loan recoveries	<u>14,306</u>	<u>353,031</u>	<u>438</u>	<u>66,448</u>	<u>59,875</u>	<u>494,098</u>
Balance, end of year	<u>\$ 5,141,739</u>	<u>\$ 1,060,791</u>	<u>\$ 852,530</u>	<u>\$ 552,258</u>	<u>\$ 127,450</u>	<u>\$ 7,734,768</u>
Allowance for loan losses:						
Individually reviewed for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively reviewed for impairment	<u>5,141,739</u>	<u>1,060,791</u>	<u>852,530</u>	<u>552,258</u>	<u>127,450</u>	<u>7,734,768</u>
Total allowance for loan losses	<u>\$ 5,141,739</u>	<u>\$ 1,060,791</u>	<u>\$ 852,530</u>	<u>\$ 552,258</u>	<u>\$ 127,450</u>	<u>\$ 7,734,768</u>
Gross loans, end of period:						
Individually reviewed for impairment	\$ 8,161,281	\$ 472,864	\$ 534,291	\$ 253,156	\$ -	\$ 9,421,592
Collectively reviewed for impairment	<u>275,266,285</u>	<u>26,282,500</u>	<u>42,807,581</u>	<u>27,066,951</u>	<u>12,647,456</u>	<u>384,070,773</u>
Total loans	<u>\$ 283,427,566</u>	<u>\$ 26,755,364</u>	<u>\$ 43,341,872</u>	<u>\$ 27,320,107</u>	<u>\$ 12,647,456</u>	<u>\$ 393,492,365</u>

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 4. Loans and Allowance for Loan Losses, Continued

Provision and allowance for loan losses, continued:

The following table summarizes activity related to our allowance for loan losses for the year ended December 31, 2015 by portfolio segment.

	<u>Real Estate - Mortgage</u>	<u>Real Estate - Construction</u>	<u>Commercial and Industrial</u>	<u>Installment Loans to Individuals</u>	<u>All Other Loans</u>	<u>Total</u>
Allowance for loan losses:						
Balance, beginning of year	\$ 4,084,389	\$ 689,707	\$ 865,992	\$ 894,192	\$ 133,364	\$ 6,667,644
Provision for loan losses	588,670	40,187	80,227	66,307	369,276	1,144,667
Loan charge-offs	(150,116)	(89,561)	(107,351)	(366,776)	(416,086)	(1,129,890)
Loan recoveries	<u>301,509</u>	<u>41,546</u>	<u>9,207</u>	<u>98,421</u>	<u>66,235</u>	<u>516,918</u>
Balance, end of year	<u>\$ 4,824,452</u>	<u>\$ 681,879</u>	<u>\$ 848,075</u>	<u>\$ 692,144</u>	<u>\$ 152,789</u>	<u>\$ 7,199,339</u>
Allowance for loan losses:						
Individually reviewed for impairment	\$ 11,778	\$ 1,907	\$ -	\$ -	\$ -	\$ 13,685
Collectively reviewed for impairment	<u>4,812,674</u>	<u>679,972</u>	<u>848,075</u>	<u>692,144</u>	<u>152,789</u>	<u>7,185,654</u>
Total allowance for loan losses	<u>\$ 4,824,452</u>	<u>\$ 681,879</u>	<u>\$ 848,075</u>	<u>\$ 691,964</u>	<u>\$ 152,789</u>	<u>\$ 7,199,339</u>
Gross loans, end of period:						
Individually reviewed for impairment	\$ 5,866,342	\$ 680,446	\$ 454,199	\$ 208,837	\$ -	\$ 7,209,824
Collectively reviewed for impairment	<u>261,577,702</u>	<u>17,577,133</u>	<u>35,994,340</u>	<u>29,915,669</u>	<u>13,258,804</u>	<u>358,323,648</u>
Total loans	<u>\$ 267,444,044</u>	<u>\$ 18,257,579</u>	<u>\$ 36,448,539</u>	<u>\$ 30,124,506</u>	<u>\$ 13,258,804</u>	<u>\$ 365,533,472</u>

Nonaccrual loans at December 31, 2016 and 2015 were approximately \$1,789,000 and \$1,684,000, respectively. Foregone interest income was approximately \$91,500 and \$103,000 on these loans for 2016 and 2015, respectively. There were no loans with payments past due ninety days or more and accruing interest at December 31, 2016 and 2015.

Troubled debt restructurings:

Troubled debt restructurings are loans which have been restructured from their original contractual terms and include concessions that would not otherwise have been granted outside of the financial difficulty of the borrower. Concessions can relate to the contractual interest rate, maturity date, or payment structure of the note. As part of our workout plan for individual loan relationships, we may restructure loan terms to assist borrowers facing challenges in the current economic environment. The purpose of a troubled debt restructuring is to facilitate ultimate repayment of the loan.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 4. Loans and Allowance for Loan Losses, Continued

Troubled debt restructurings, continued:

At December 31, 2016 and 2015, the principal balance of troubled debt restructurings totaled \$5,344,252 and \$3,104,976, respectively. All troubled debt restructurings were considered classified and impaired. Of these loans, approximately \$577,000 were on nonaccrual status at December 31, 2016 and \$431,000 were on nonaccrual status at December 31, 2015. The remaining loans are on accrual and are currently performing in accordance with the new terms.

For the year ended December 31, 2016, the Company modified two loans that were considered to be troubled debt restructurings. Terms were modified for one of these loans and the Bank entered into a forbearance agreement with the other one of these loans. The total pre-modification outstanding recorded investment for these two loans was \$3,646,938 and the total post-modification outstanding recorded investment was \$3,640,202. The allowance for loan losses associated with these loans, on the basis of a current evaluation was \$0 at December 31, 2016. As of December 31, 2016, no loan that had previously been restructured prior to December 31, 2015, was in default. One loan restructured in the twelve months prior to December 31, 2016 went into default during the period.

For the year ended December 31, 2015, the Company modified three loans that were considered to be troubled debt restructurings. Terms were modified for two of these loans and the Bank entered into a forbearance agreement with the other one of these loans. The total pre-modification outstanding recorded investment for these two loans was \$2,279,684 and the total post-modification outstanding recorded investment was \$2,272,199. The allowance for loan losses associated with these loans, on the basis of a current evaluation was \$0 at December 31, 2015. As of December 31, 2015, one loan that had previously been restricted prior to December 31, 2014, was in default. No loans restructured in the twelve months prior to December 31, 2015 went into default during the period.

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings by placing the loan on nonaccrual status.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 5. Premises and Equipment

The following is a summary of premises and equipment at cost as of December 31:

	<u>Estimated useful lives</u>	<u>2016</u>	<u>2015</u>
Land		\$ 5,423,174	\$ 5,422,574
Buildings and improvements	10 - 40 years	13,464,512	10,435,499
Leasehold improvements	15 - 20 years	56,989	56,989
Furniture, fixtures and equipment	3 - 20 years	5,454,995	4,620,192
Automobiles	5 years	44,735	44,735
Software	3 - 5 years	953,678	847,491
Construction in process		<u>355,259</u>	<u>1,684,215</u>
		25,753,342	23,111,695
Accumulated depreciation		<u>(10,452,722)</u>	<u>(9,540,868)</u>
		<u>\$ 15,300,620</u>	<u>\$ 13,570,827</u>

Depreciation of premises and equipment charged to occupancy and furniture and equipment expenses was \$911,855 and \$742,694 in 2016 and 2015, respectively.

Note 6. Deposits and Securities Sold Under Repurchase Agreements

The amounts and scheduled maturities of deposits are as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Time deposits maturing		
Within one year	\$ 97,357,055	\$ 89,501,648
After one but within two years	38,096,230	44,945,124
After two but within four years	22,430,808	27,708,962
Thereafter	<u>5,117,171</u>	<u>4,427,518</u>
	163,001,264	166,583,252
Transaction and savings accounts	<u>398,786,155</u>	<u>335,460,075</u>
	<u>\$ 561,787,419</u>	<u>\$ 502,043,327</u>

At December 31, 2016 and 2015, time deposits of \$100,000 or more totaled \$91,859,665 and \$94,583,369, respectively. Interest expense on these deposits was \$659,278 in 2016 and \$619,648 in 2015. Time deposits greater than \$250,000, as of December 31, 2016 and 2015, totaled \$31,740,227 and \$32,644,562, respectively.

The Bank enters into sales of securities under agreements to repurchase. These obligations to repurchase securities sold are reflected as liabilities in the consolidated balance sheets. The dollar amount of securities underlying the agreements remains in the asset accounts. The securities underlying the agreements are book entry securities maintained by a safekeeping agent. The agreements mature daily. Securities sold under agreements to repurchase averaged \$3,157,737 and \$4,920,709 during 2016 and 2015 with an average interest rate of .15% and .15%, respectively. At December 31, 2016 and 2015, the Bank sold repurchase agreements to their customers in the amounts of \$2,481,449 and \$5,855,697, respectively.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 7. Other Real Estate Owned

The following summarized the activity in other real estate owned for the year ended December 31:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 2,497,006	\$ 1,545,821
Additions	-	2,075,258
Net write downs	(241,945)	(36,050)
Sales	(680,328)	(1,083,348)
Loss on sale	13,579	(4,675)
Balance, end of year	<u>\$ 1,588,312</u>	<u>\$ 2,497,006</u>

Note 8. Borrowed Funds

The following table presents information regarding the Company's outstanding borrowings at December 31, 2016 and 2015:

<u>Description – 2016 and 2015</u>	<u>Due date</u>	<u>Amount</u>	<u>Interest rate</u>
FHLB Term Note	9/26/2018	\$ 5,000,000	2.89% fixed

The FHLB borrowings are collateralized by certain mortgage loans (see Note 4) and by FHLB stock with a carrying value of \$748,400 and \$705,600 at December 31, 2016 and 2015, respectively.

Note 9. Unused Lines of Credit

The Bank had unused short-term lines of credit totaling \$18,000,000 at December 31, 2016 to purchase Federal Funds from correspondent banks. These lines of credit are available on a one to 15-day basis for general banking purposes. The Bank also has the ability to borrow an additional \$70,755,000 or up to 12% of total assets from the FHLB as of December 31, 2016. The lenders have reserved the right to withdraw the lines at their option.

Note 10. Income Taxes

As the stockholders of the Company elected to become an S Corporation, income of the Company is taxed at the stockholder level with certain limitations. Also, the State of South Carolina does not recognize S Corporation status for a commercial bank. The Bank will continue to accrue and pay South Carolina income taxes.

The Bank had a deferred tax asset in the amount of \$1,809 and a deferred tax liability in the amount of \$122,244 related to securities held as available for sale at December 31, 2016 and 2015, respectively. Such amounts are included in other assets or liabilities on the balance sheet.

Note 11. Employee Benefit Plans

The Bank maintains a profit sharing plan that covers all employees over eighteen years of age who have completed one year of employment. Upon ongoing approval of the Board of Directors, the Bank matches employee contributions equal to 100% of participant contributions up to 5% of compensation. Contributions charged to operations under the plan were \$326,632 and \$308,667 for the years ended December 31, 2016 and 2015, respectively.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 11. Employee Benefit Plans, Continued

Supplemental benefits are provided to certain key officers under a deferred compensation plan. This plan is not qualified under the Internal Revenue Code. The plan is unfunded. However, certain benefits under the plan are informally and indirectly funded by insurance policies on the lives of the covered employees.

Note 12. Stock Option Plan

The Company has a stock option compensation plan through which the Board of Directors may grant stock options to officers and employees to purchase common stock of the Company at prices not less than 100% of the stock's fair market value on the grant date. The outstanding options have a vesting period of five to ten years from the date of grant and expire five to ten years from the grant date. The Company issues new shares of common stock when options are exercised.

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option-pricing model as follows: the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company's dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company's stock (subject to adjustment if historical volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures, and cancellations.

There were no options granted in 2016 or 2015. A summary of the status of the plan and changes during the year are presented below:

	<u>2016</u>		<u>2015</u>	
	<u>Shares</u>	<u>Weighted- average exercise price</u>	<u>Shares</u>	<u>Weighted- average exercise price</u>
Outstanding at beginning of year	5,600	\$ 115.50	7,140	\$ 110.42
Granted	-	-	-	-
Exercised	700	128.00	1,540	92.72
Expired	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of year	<u>4,900</u>	113.71	<u>5,600</u>	115.50
Options exercisable at year-end	<u>4,620</u>	112.85	<u>5,040</u>	114.11
Shares available for grant	<u>1,077</u>		<u>1,077</u>	

At December 31, 2016, the weighted average remaining contractual life on options outstanding and exercisable was 2.3 years.

The plan is administered by the Board of Directors. The plan provides that if the shares of common stock are subdivided or combined into a greater or smaller number of shares or if the Company issues any shares of common stock as a stock dividend on its outstanding common stock, the number of shares of common stock deliverable upon the exercise of options will be increased or decreased proportionately, and appropriate adjustments will be made in the purchase price per share to reflect such subdivision, combination or stock dividend.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 12. Stock Option Plan, Continued

Intrinsic value is calculated for shares outstanding and exercisable by taking the closing price of the Company's common stock as of June 30, 2016, the date of the most recent third party valuation, and subtracting the exercise price of each option grant. When the result is a positive number, the difference is multiplied by the number of options outstanding for each such grant. At December 31, 2016 and 2015, the aggregate intrinsic value of shares outstanding and exercisable was \$420,840 and \$337,680, respectively.

Note 13. 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. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument 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 they do for on-balance sheet instruments. A summary of the Bank's commitments is as follows at December 31:

	<u>2016</u>	<u>2015</u>
Commitments to extend credit	<u>\$ 111,492,116</u>	<u>\$ 97,380,976</u>
Standby letters of credit	<u>\$ 1,702,280</u>	<u>\$ 2,308,021</u>

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. In certain cases, the Bank reserves the right to withdraw or limit the available line. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties. The Company has not recorded a liability for the current carrying amount of the obligation to perform as a guarantor, and no contingent liability was considered necessary, as such amounts were not considered material.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary. The Company has not recorded a liability for the current carrying amount of the obligation to perform as a guarantor, and no contingent liability was considered necessary, as such amounts were not considered material.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 14. Commitments and Contingencies

Contingencies:

The Company and the Bank have, from time to time, various lawsuits and claims arising from the conduct of their business. Such items, in the opinion of management, are not expected to have any material adverse effect on the Company's consolidated financial position or results of operations.

Lease commitments:

The Bank is obligated under non-cancellable operating leases that expire in 2026 and 2028 (See Note 15). Future minimum rental payments due under these leases are as follows:

2017	\$	153,123
2018		164,042
2019		164,042
2020		164,042
Thereafter		<u>1,014,416</u>
Total minimum payments required	\$	<u>1,659,665</u>

Lease payments charged to operations were \$141,819 and \$125,292 for the years ended December 31, 2016 and 2015, respectively. The leases provide that the Bank pay property taxes, insurance and maintenance costs and includes a renewal option with adjustments in the rental amount for each option period.

Concentrations of credit risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in the upstate region of South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or in a relatively small number of borrowers. Management defines an industry concentration as any loans to an industry which in aggregate equals or exceeds 25% of capital. At December 31, 2016, management identified two industries which meet this definition; loans to churches are approximately 27% of capital and loans to hotels are approximately 30% of capital.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries, and geographic regions, management monitors exposure to credit risk that could arise from potential concentrations of lending products and practices, such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e., balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Management has determined that there is no concentration of credit risk associated with its lending policies or practices.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 14. Commitments and Contingencies, Continued

Concentrations of credit risk, continued:

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations, general obligation municipal securities, and mortgage-backed securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Note 15. Transactions with Related Parties

Directors and executive officers of the Company and the Bank are customers of, and have transactions with, the Bank in the ordinary course of business. Included in such transactions are outstanding loans and commitments, all of which were made on comparable terms, including interest rate and collateral, as those prevailing at the time for other customers of the Bank, and did not involve more than normal risk of collectability or present other unfavorable features. The aggregate dollar amount of these loans was \$3,820,172 and \$3,858,693 at December 31, 2016 and 2015, respectively. During 2016 and 2015, \$435,000 and \$20,000 of new loans were made and payments totaled \$473,521 and \$566,358, respectively. Deposits by directors, executive officers, and their related interests totaled \$7,288,341 and \$4,896,949 as of December 31, 2016 and 2015, respectively.

The Bank leases a branch office from an officer and major shareholder. Lease expense charged to operations was \$72,792 for the years ended December 31, 2016 and 2015.

Note 16. Restriction of Dividends

The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from the Bank. Federal and state banking regulations restrict the amount of dividends that can be paid. Dividends are payable only from the retained earnings of the Bank and may be limited to the amount of current year earnings without prior regulatory approval. The Bank's retained earnings were approximately \$37,229,000 and \$32,988,000 at December 31, 2016 and 2015, respectively.

Note 17. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Total, common equity Tier 1, and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2016, that the Bank met all capital adequacy requirements to which it was subject.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 17. Regulatory Matters, Continued

As of December 31, 2016 and December 31, 2015, the most recent notification from the Federal Deposit Insurance Corporation 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 total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios and minimum regulatory amounts and ratios are presented as follows:

	<u>Actual</u>		<u>For capital adequacy purposes</u>		<u>To be well capitalized under prompt corrective action provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Minimum</u>		<u>Minimum</u>	
			<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollar amounts in thousands)						
As of December 31, 2016:						
Total Capital (to risk-weighted assets)	\$ 64,849	15.60%	\$ 33,257	8.00%	\$ 41,571	10.00%
Tier I Capital (to risk-weighted assets)	59,621	14.34	16,628	4.00	24,943	6.00
Common Equity Tier 1 Capital (to risk weighted assets)	59,621	14.34	18,707	4.50	27,021	6.50
Tier I Capital (to average assets)	59,621	9.45	25,231	4.00	31,538	5.00
	<u>Actual</u>		<u>For capital adequacy purposes</u>		<u>To be well capitalized under prompt corrective action provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Minimum</u>		<u>Minimum</u>	
			<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollar amounts in thousands)						
As of December 31, 2015:						
Total Capital (to risk-weighted assets)	\$ 59,640	15.42%	\$ 30,936	8.00%	\$ 38,671	10.00%
Tier I Capital (to risk-weighted assets)	54,777	14.17	15,468	4.00	23,202	6.00
Common Equity Tier 1 Capital (to risk weighted assets)	54,777	14.17	17,402	4.50	25,136	6.50
Tier I Capital (to average assets)	54,777	9.62	22,777	4.00	28,472	5.00

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 18. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial statements. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments:

Cash and due from banks - The carrying amounts of cash and due from banks (cash on hand, due from banks and interest bearing deposits with other banks) approximate their fair value.

Federal funds sold - The carrying amounts of federal funds sold approximate their fair value.

Investment securities available for sale - The fair values of securities available for sale are the carrying amount which is the quoted market price. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities.

Other investments - Other investments consists of FHLB stock and certificates of deposit in other financial institutions. The carrying value of FHLB stock, which has no quoted market value, approximates fair value based on the redemption provisions. The certificates of deposit are carried at amortized cost, which approximates fair value.

Loans - For certain categories of loans, such as variable rate loans which are repriced frequently and have no significant change in credit risk, fair values are based on the carrying amounts. 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 the borrowers with similar credit ratings and for the same remaining maturities.

Bank owned life insurance - The carrying amount is cash surrender value adjusted for any surrender expense and is a reasonable estimate of fair value.

Deposits - The fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities.

Securities sold under repurchase agreements - The carrying amounts of securities sold under repurchase agreements maturing within ninety days approximate their fair values.

Federal Home Loan Bank advances - The fair value of the Federal Home Loan Bank advances is an estimate using discounted cash flow analyses based on the current incremental borrowing rates for similar types of borrowing arrangements.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 18. Fair Value of Financial Instruments, Continued

The carrying values and estimated fair values of the Company's financial instruments are as follows:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and due from banks	\$ 28,755,038	\$ 28,755,038	\$ 18,347,954	\$ 18,347,954
Federal funds sold	33,554,000	33,554,000	22,893,244	22,893,244
Securities available for sale	151,850,868	151,850,868	143,690,009	143,690,009
Other investments	2,237,400	2,237,400	2,441,600	2,441,600
Loans, net	385,757,597	387,516,011	358,334,133	356,579,847
Bank owned life insurance	12,640,591	12,640,591	12,274,666	12,274,666
Financial liabilities:				
Deposits	561,787,419	465,431,782	502,043,327	446,495,023
Securities sold under repurchase agreements	2,481,449	2,481,449	5,855,697	5,855,697
FHLB advances	5,000,000	5,103,777	5,000,000	5,174,923

Generally accepted accounting principles require disclosures that establish a framework for measuring fair value, and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to the standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 18. Fair Value of Financial Instruments, Continued

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

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, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities.

Impaired loans

Once a loan is identified as individually impaired, management measures the fair value of impaired loans using one of several methods, including the collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2016 substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2.

Other real estate owned

Other real estate owned ("OREO") is adjusted to fair value upon transfer of the loans to OREO. Subsequently, OREO is 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 of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2.

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 18. Fair Value of Financial Instruments, Continued

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	<u>Fair value measurements at December 31, 2016</u>			
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Securities available for sale	\$ -	\$ 151,850,868	\$ -	\$ 151,850,868

	<u>Fair value measurements at December 31, 2015</u>			
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Securities available for sale	\$ -	\$ 143,690,009	\$ -	\$ 143,690,009

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level as of December 31, 2016 and 2015 for which measurement of fair value has been nonrecurring.

	<u>Fair value at December 31, 2016</u>			
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Impaired loans	\$ -	\$ 9,421,592	\$ -	\$ 9,421,592
Other real estate owned	-	1,588,312	-	1,588,312

	<u>Fair value at December 31, 2015</u>			
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Impaired loans	\$ -	\$ 7,196,139	\$ -	\$ 7,196,139
Other real estate owned	-	2,497,006	-	2,497,006

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 19. Parent Company Information

The following is condensed financial information of Travelers Rest Bancshares, Inc. (parent company only):

Condensed Balance Sheets

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 284,187	\$ 288,916
Due from subsidiary	785,014	1,047,279
Investment in subsidiary	<u>59,582,299</u>	<u>57,370,225</u>
	<u>\$ 60,651,500</u>	<u>\$ 58,706,420</u>
Liabilities and Stockholders' Equity		
Accrued tax pass through and cash dividend declared	\$ 785,014	\$ 1,047,280
Stockholders' equity	<u>59,866,486</u>	<u>57,659,140</u>
	<u>\$ 60,651,500</u>	<u>\$ 58,706,420</u>

Condensed Statements of Income

	<u>For the years ended</u>	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2016</u>	<u>2015</u>
Income		
Dividends from subsidiary	\$ 2,153,803	\$ 2,485,241
Gain on sale of land	-	76,642
Equity in undistributed net income of subsidiary	4,835,760	4,216,706
Expense		
Other operating expense	<u>3,554</u>	<u>5,064</u>
Net income	<u>\$ 6,986,009</u>	<u>\$ 6,773,525</u>

Travelers Rest Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 19. Parent Company Information, Continued

Condensed Statements of Cash Flows

	For the years ended	
	December 31,	
	2016	2015
<i>Operating activities</i>		
Net income	\$ 6,986,009	\$ 6,773,525
Adjustments to reconcile net income to net cash provided by operating activities		
Decrease (Increase) in due from subsidiary	262,266	(262,577)
Increase in dividends from subsidiary	(1,047,279)	(784,703)
Gain on sale of land	-	(76,642)
Equity in undistributed net income of subsidiaries	<u>(4,835,760)</u>	<u>(4,810,923)</u>
Net cash provided by operating activities	<u>1,365,236</u>	<u>838,680</u>
<i>Investing activities</i>		
Proceeds from disposition	<u>-</u>	<u>594,215</u>
Net cash provided by investing activities	<u>-</u>	<u>594,215</u>
<i>Financing activities</i>		
Stock transactions, net	(90,776)	2,234
Proceeds from exercise of stock options	89,600	142,789
Cash dividends	(390,027)	(353,121)
Tax pass through cash dividend	<u>(978,762)</u>	<u>(1,084,840)</u>
Net cash used for financing activities	<u>(1,369,965)</u>	<u>(1,292,938)</u>
Net increase (decrease) in cash	(4,729)	139,957
<i>Cash, beginning of year</i>	<u>288,916</u>	<u>148,959</u>
<i>Cash, end of year</i>	<u>\$ 284,187</u>	<u>\$ 288,916</u>



March 2, 2017

Mr. Bruce White, President
The Bank of Travelers Rest
Post Office Box 1067
Travelers Rest, South Carolina 29690-1067

Dear Bruce:

We are pleased to enclose one hundred sixty-five copies of our audit reports for Travelers Rest Bancshares, Inc. and Subsidiary as of and for the years ended December 31, 2016 and 2015. Five of the reports contain suggested language for any public requests of financial information on the Bank as required by the FDIC.

As always, we enjoy working with you and your staff. Please call if you have any questions.

Sincerely,

ELLIOTT DECOSIMO DAVIS, LLC

A handwritten signature in black ink, appearing to read "Chad W. Reingardt", is written in a cursive style.

Chad W. Reingardt
Shareholder

Enclosures