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.

I, Daniel S. Baird
Name of the Holding Company Director and Official

Chief Financial Officer and Treasurer
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.

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

03/31/2017
Date of Signature

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

- [x] 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. ____________

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

Capital Funding Bancorp, Inc.
Legal Title of Holding Company

1422 Clarkview Road
(Mailing Address of the Holding Company) Street / P.O. Box

Baltimore	MD	21209
City	State	Zip Code

N/A
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Jason C. Starner	Vice President, Controller
Name	Title

410-769-5826
Area Code / Phone Number / Extension

410-769-5827
Area Code / FAX Number

jstarner@cfgcb.com
E-mail Address

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

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** .... ☐
2. **a letter justifying this request has been provided separately** .... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

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.

N/A

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

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City State Zip Code

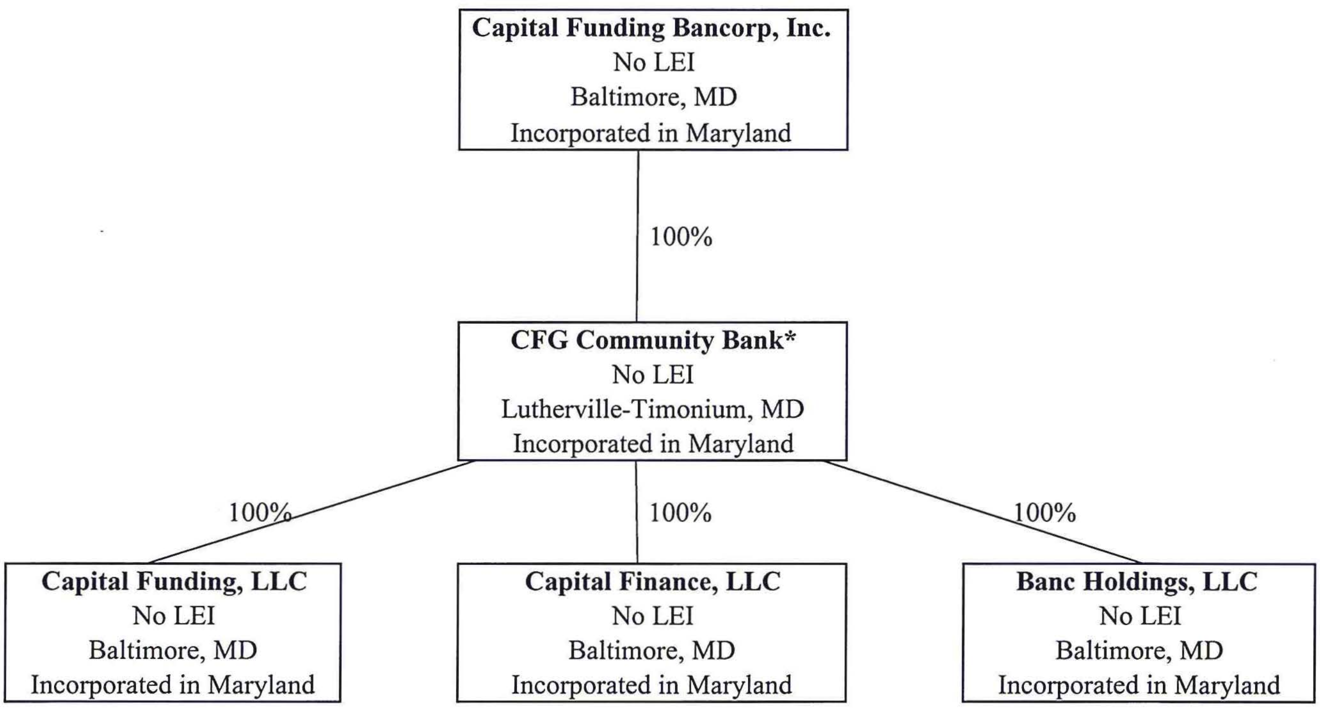
Physical Location (if different from mailing address)

FORM FR Y-6
CAPITAL FUNDING BANCORP, INC.
Baltimore, Maryland
Fiscal Year Ending December 31, 2016

Report Item

1: Annual Report to Shareholders is enclosed.

2a: Organization Chart



* CFG Community Bank is the managing member of Capital Funding, LLC; Capital Finance, LLC, and Banc Holdings, LLC.

2b: Domestic Branch Listing is enclosed.

Form FR Y-6
CAPITAL FUNDING BANCORP, INC.
FISCAL YEAR ENDING DECEMBER 31, 2016

Report Item 3: Securities holders
1(a)(b)(c) and (2)(a)(b)(c)

Current securities holders with ownership, control or holdings of 5% of more with power to vote as of fiscal year ending 12-31-2016			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2016		
(1)(a) Name, City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
John W. Dwyer Baltimore, MD USA	USA	69,506 - 99.99% Common Stock	None		

Form FR Y-6
CAPITAL FUNDING BANCORP, INC.
FISCAL YEAR ENDING DECEMBER 31, 2016

Report Item 4: Insiders
(1), (2) (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Share in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentages of voting securities held)
John W. Dwyer Baltimore, MD USA	President & Chief Executive Officer, Capital Funding Group, Inc.	President, Chairman of Board and Director	Chairman of Board and Director, CFG Community Bank	President & Chief Executive Officer, Capital Funding Group, Inc.	99.9899%	None	Capital Funding Group, Inc. and Subsidiaries (100%)
Deborah A. Spangenberg Ellicott City, MD USA	President, Capital Funding, LLC and Capital Finance, LLC	Executive Vice President and Secretary, Director	Vice Chairman and Director, CFG Community Bank	N/A	0.0014%	None	N/A
Daniel S. Baird Sherwood Forest, MD USA	Chief Operating Officer, Capital Funding Group, Inc.	Chief Financial Officer and Treasurer, Director	N/A	N/A	0.0014%	None	N/A

Results: A list of branches for your depository institution: CFG COMMUNITY BANK (ID_RSSD: 2471239).
This depository institution is held by CAPITAL FUNDING BANCORP, INC. (3927078) of BALTIMORE, MD.
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)	2471239	CFG COMMUNITY BANK	11 W. RIDGELY ROAD	LUTHERVILLE	MD	21093	BALTIMORE	UNITED STATES	57053	0	CFG COMMUNITY BANK	2471239	
OK		Full Service	3591433	ANNAPOLIS BRANCH	1419 FOREST DRIVE, SUITE 10	ANNAPOLIS	MD	21403	ANNE ARUNDEL	UNITED STATES	466287	3	CFG COMMUNITY BANK	2471239	
OK		Full Service	3138614	BALTIMORE BRANCH	1615 THAMES STREET	BALTIMORE	MD	21231	BALTIMORE CITY	UNITED STATES	290521	1	CFG COMMUNITY BANK	2471239	

CAPITAL FUNDING BANCORP, INC. AND SUBSIDIARIES

REPORT ON AUDITS OF
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

TABLE OF CONTENTS

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders of
Capital Funding Bancorp, Inc.
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Capital Funding Bancorp, Inc. (the "Company"), which includes the wholly owned subsidiary Capital Funding, LLC, which comprise the consolidated balance sheet as of December 31, 2016 and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for the year 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

DIXON HUGHES GOODMAN LLP

Opinion

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

Prior Period Consolidated Financial Statements

The consolidated financial statements as of December 31, 2015 were audited by Stegman & Company, certain of whose directors joined Dixon Hughes Goodman LLP as of June 1, 2016, and whose report dated March 23, 2016 expressed an unmodified opinion on those statements.

Dixon Hughes Goodman LLP

Baltimore, Maryland
March 30, 2017

CAPITAL FUNDING BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

ASSETS

	2016	2015
Cash and due from banks	$ 9,350,362	$ 9,478,732
Federal Reserve Bank deposit	38,567,565	12,031,344
Federal funds sold and Federal Home Loan Bank deposit	333,775	159,788
Cash and cash equivalents	48,251,702	21,669,864
Securities		
Available for sale (at fair value)	20,694,604	1,530,038
Held to maturity	1,079,275	2,078,076
Total securities	21,773,879	3,608,114
Restricted stock	1,821,250	1,813,350
Loans and leases, less allowance of $8,980,784 and $6,099,115	592,700,740	525,261,284
Foreclosed real estate	-	616,420
Premises and equipment	6,701,838	7,318,169
Accrued interest receivable	2,332,399	1,801,716
Mortgage servicing rights	32,397,224	34,011,606
Goodwill	1,233,238	1,233,238
Other assets	3,937,342	2,673,739
TOTAL ASSETS	$ 711,149,612	$ 600,007,500

LIABILITIES AND STOCKHOLDERS' EQUITY

	2016	2015
Deposits		
Non-interest-bearing	$ 179,142,161	$ 137,161,468
Interest-bearing	438,770,033	381,183,143
Total deposits	617,912,194	518,344,611
Securities sold under repurchase agreements	1,602,282	558,465
Advances from the Federal Home Loan Bank	1,000,000	1,000,000
Other liabilities	8,243,781	2,307,615
Total liabilities	628,758,257	522,210,691
STOCKHOLDERS' EQUITY		
Common stock, par value $1.00 per share; authorized 100,000 shares shares issued and outstanding of 69,513 and 69,511 at December 31, 2016 and 2015, respectively.	69,513	69,511
Additional paid-in capital	41,629,980	41,628,390
Accumulated earnings	40,691,863	36,098,785
Accumulated other comprehensive (loss) income	(1)	123
Total stockholders' equity	82,391,355	77,796,809
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 711,149,612	$ 600,007,500

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

CAPITAL FUNDING BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
INTEREST INCOME		
Loans and leases, including fees	$ 37,089,443	$ 31,134,834
Balances due from depository institutions	99,985	101,807
Investment securities	491,649	2,372,593
Total interest income	37,681,077	33,609,234
INTEREST EXPENSE		
Deposits	2,936,283	2,700,339
Advances from the Federal Home Loan Bank	142,523	60,820
Securities sold under repurchase agreements	242	234
Total interest expense	3,079,048	2,761,393
NET INTEREST INCOME	34,602,029	30,847,841
PROVISION FOR LOAN AND LEASE LOSSES	7,113,522	1,884,233
Net interest income after provision for loan losses	27,488,507	28,963,608
NON-INTEREST INCOME		
Mortgage servicing	4,042,118	3,762,352
Mortgage origination	5,546,793	12,362,965
Service charges on deposit accounts	587,581	502,108
Litigation settlement proceeds	1,913,946	-
Lease equipment revenue	660,527	660,512
Net loss on interest rate swap	-	(208,474)
Gain on sale of securities	12,350	140,488
Total non-interest income	12,763,315	17,219,951
NON-INTEREST EXPENSES		
Salaries and employee benefits	16,317,332	16,781,979
Premises and equipment expenses	2,543,930	2,470,642
Valuation of mortgage servicing rights	1,614,382	5,600,303
Marketing and advertising	1,028,175	632,147
Legal and accounting fees	653,728	765,558
FDIC insurance and regulatory assessments	658,000	953,000
Foreclosed asset expense and impairment	498,355	201,410
Franchise taxes	371,322	256,853
Consulting fees	279,150	263,881
Loan expenses	165,529	150,881
Other	2,628,166	2,884,401
Total non-interest expenses	26,758,069	30,961,055
NET INCOME	13,493,753	15,222,504
OTHER COMPREHENSIVE LOSS		
Unrealized holding loss during the period	(124)	(153)
COMPREHENSIVE INCOME	13,493,629	15,222,351

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

CAPITAL FUNDING BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common stock	Additional paid-in capital	Accumulated earnings	Accumulated other comprehensive income (loss)	Total
December 31, 2014	$ 69,513	$ 41,630,454	$ 30,959,644	$ 276	$ 72,659,887
Net income	-	-	15,222,504	-	15,222,504
Unrealized loss on investment securities available for sale				(153)	(153)
Redemption of common stock	(2)	(2,064)			(2,066)
Dividends paid	-	-	(10,083,363)	-	(10,083,363)
December 31, 2015	69,511	41,628,390	36,098,785	123	77,796,809
Net income	-	-	13,493,753	-	13,493,753
Unrealized loss on investment securities available for sale	-	-	-	(124)	(124)
Issuance of common stock	2	1,590			1,592
Dividends paid	-	-	(8,900,675)	-	(8,900,675)
December 31, 2016	$ 69,513	$ 41,629,980	$ 40,691,863	$ (1)	$ 82,391,355

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

CAPITAL FUNDING BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,493,753	$ 15,222,504
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation and amortization	1,008,840	1,025,535
Provision for loan and lease losses	7,113,522	1,884,233
Amortization of purchase accounting adjustments, net	8,918	9,341
Valuation of mortgage servicing rights	1,614,382	5,600,303
Gain on sale of securities	(12,350)	(140,488)
Net loss (gain) on sale of equipment	2,192	(991)
Net loss on sale of foreclosed real estate	52,603	20,640
Net Changes in:		
Accrued interest receivable	(530,683)	199,331
Other assets	(1,425,051)	853,397
Other liabilities	5,936,166	(2,779,507)
Net cash provided by operating activities	27,262,292	21,894,298
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(74,561,896)	(55,017,085)
Purchase of premises and equipment	(399,431)	(1,110,948)
Purchase of FHLB stock	(26,825,400)	(21,228,600)
Proceeds from sale of foreclosed real estate	563,817	345,659
Proceeds from sale of premises and equipment	166,178	72,944
Proceeds from sale of FHLB stock	26,817,500	21,129,500
Purchase of securities	(171,441,911)	(631,010,858)
Proceeds from sales and maturities of securities	153,288,372	647,321,237
Net cash used in investing activities	(92,392,771)	(39,498,151)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	99,567,583	3,666,169
Net increase (decrease) in securities sold under repurchase agreements	1,043,817	(502,610)
Cash paid for dividends	(8,900,675)	(10,083,363)
Issuance (redemption) of common stock	1,592	(2,066)
Net cash provided by (used in) financing activities	91,712,317	(6,921,870)
Net increase (decrease) in cash and cash equivalents	26,581,838	(24,525,723)
Cash and cash equivalents at beginning of year	21,669,864	46,195,587
Cash and cash equivalents at end of year	$ 48,251,702	$ 21,669,864

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

CAPITAL FUNDING BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Transfer from loans to foreclosed real estate	$ -	$ 585,000
Cash paid for interest	$ 2,774,177	$ 2,526,769
Cash paid for taxes	$ 371,322	$ 256,853

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Principles of Consolidation

The consolidated financial statements include the accounts of Capital Funding Bancorp, Inc. (the "Company") and its wholly-owned subsidiary CFG Community Bank (the "Bank"). The Bank has three wholly-owned subsidiaries which are Banc Holdings LLC, Capital Funding, LLC, and Capital Finance, LLC. All significant intercompany transactions eliminated. The investment in subsidiaries is recorded on the Company's books (Parent Only) on the basis of its equity in the net assets of the subsidiary.

Business

CFG Community Bank is a commercial bank and chartered in the state of Maryland. The Bank primarily operates its lending and administrative functions from its corporate headquarters in Baltimore, Maryland and has a lending office in Annapolis, Maryland. The Bank has three branch offices located in Annapolis, Maryland, Lutherville, Maryland and the Fells Point area in the City of Baltimore, Maryland. Banc Holding, LLC is the Bank's wholly-owned entity for holding real estate acquired through foreclosure.

Capital Funding, LLC is a wholly-owned subsidiary of the Bank with its office in Baltimore, Maryland. Capital Funding, LLC was formed on April 7, 2009, as part of the plan of merger with AmericasBank Corp, Inc. Capital Funding, LLC became an approved mortgagee by the Department of Housing and Urban Development ("HUD") and an approved Government National Mortgage Association ("GNMA") securities issuer during 2009. Capital Funding, LLC specializes in originating bridge loans to skilled nursing and assisted living facilities before they are permanently financed through the HUD 232 program, as well as direct placement of first mortgages through HUD. As HUD loans are originated, they are insured by the Federal Housing Administration ("FHA") and sold to investors as GNMA project securities, with the servicing of such securities retained by Capital Funding, LLC.

Capital Finance, LLC is a wholly-owned subsidiary of the Bank with its office in Baltimore, Maryland. Capital Finance, LLC was formed on October 4, 2005, and was operated by Capital Funding Group, Inc., an affiliate company, until June 18, 2009 when it was contributed to the Company. Capital Finance, LLC focuses on originating accounts receivable ("A/R") loans to skilled nursing facilitiy operators located throughout the United States who borrow funds to finance their receivables from Medicare and Medicaid. Advances are made based on client-submitted certifications of available Medicaid/Medicare receivables and the loans originated are secured by this A/R.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate and the valuation of mortgage servicing rights.

Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date of the independent auditors' report, the date the consolidated financial statements were available to be issued.

On February 23, 2017, the Company completed a private placement of $35 million in subordinated notes. The subordinated notes have a 7.50% fixed-to-floating rate with a term of 10 years. The Company contributed approximately $30 million of the proceeds received in this transaction down to the Bank which qualifies as Tier I capital. This capital infusion will further augment the Bank's strong capital position, help address consent order and regulatory citings regarding healthcare concentration and liqudity issues, as well as allow the Bank to execute on its strategic initiatives.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Investment Securities

Investment securities are classified at the time of purchase as securities held to maturity or securities available for sale based on management's ability and intent. Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities. Amortization rates for mortgage-backed securities are periodically adjusted to reflect changes in the prepayment speeds of the underlying mortgages. Interest and dividends on investment securities are recorded in interest income when earned. The cost of securities for purposes of computing realized and unrealized gains and losses is based on the specific identification method. Realized gains and losses on the sale of investment securities and declines in fair value judged to be other than temporary are recorded on a net basis in non-interest income.

Held-to-maturity – Investment securities that management has the intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts.

Available-for-sale – Investment securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, need for liquidity, and changes in the availability of and the yield of alternative investments, are classified as available-for-sale. These securities are carried at fair value. Unrealized gains and losses, net of tax, are excluded from earnings and reported as accumulated other comprehensive income/(loss) ("AOCI"), a separate component of stockholders' equity, until the gains and losses are realized.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are recognized by write-downs of the individual securities to their fair value. The Company evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, the Company assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as realized losses through earnings. Alternatively, if the criteria regarding intent or requirement to sell are not met, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Restricted Stock

Restricted stock is stock from the Federal Home Loan Bank ("FHLB") of Atlanta, the Federal Reserve Bank, Atlantic Central Banker's Bank, and Maryland Financial Bank, which are restricted as to their marketability. Because no ready market exists for these investments and they have no quoted market value, the Bank's investment in these stocks are carried at cost.

Derivative Instruments

Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives not designated as hedges do not meet the hedge accounting requirements under U.S. GAAP. As part of the asset/liability management strategy, the Company uses interest rate swaps to hedge variability in future cash flows caused by changes in interest rates. Interest rate swaps are recorded on the Consolidated Balance Sheets as either an asset or liability at estimated fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income or loss and subsequently reclassified into earnings in the period during which the hedged forecasted transactions affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company formally documents its risk management objectives, strategy, and the relationship between the hedging instrument and the hedged items. The Company evaluates the effectiveness of the hedge relationship, both at inception of the hedge and on an ongoing basis, by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. Changes in fair value of derivatives not designated in hedging relationships are recorded directly in earnings. The Company had no derivative instruments as of December 31, 2015 nor for any period during 2016.

Loans and Leases

Loans and leases are stated at face value, adjusted for deferred origination costs, deferred origination fees, and the allowance for loan and lease losses. The Bank makes loans to customers located nationally.

Interest on loans and leases is accrued based on the principal amounts outstanding. Origination fees and costs are deferred and recognized as an adjustment of the related yield using an approximate interest method. The accrual of interest is discontinued when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Past due status is based on the contractual terms of the loan or lease.

Loans are considered impaired when, based on current information management considers it unlikely that the collection of principal and interest payments will be made according to contractual terms. Generally, loans and leases are not reviewed for impairment until the accrual of interest has been discontinued. If collection of principal is evaluated as doubtful, all payments are applied to principal.

The Bank accounts for loans in accordance with ASC Topic 310, "Receivables," when due to a deterioration in a borrower's financial position, the Bank grants concessions that would not otherwise be considered. Interest income is recognized on these loans using the accrual method of accounting, provided they are performing in accordance with their restructured terms and are considered collectible.

Commercial Lending

The Bank originates commercial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes which include short-term loans, lines of credit to finance machinery and equipment purchases, inventory and accounts receivable. Generally the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and may be renewed annually.

Commercial loans are generally secured with short-term assets. However, in many cases additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum values have been established by the Bank and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, collateral appraisals, collateral brokers price opinions ("BPO's"), etc.

In underwriting commercial loans, an analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of conditions affecting the borrower is performed. Analysis of the borrower's past, present, and future cash flows is also an important aspect of the Bank's analysis.

Commercial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

Commercial Real Estate Lending

The Bank engages in commercial real estate lending in its primary market area and surrounding areas. The Bank's commercial real estate loan portfolio is secured primarily by commercial retail space, office buildings and hotels. Generally, commercial real estate loans have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the property, and are typically secured by personal guarantees of the borrowers.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

Commercial Real Estate Construction Lending

The Bank engages in commercial real estate construction lending in its primary market area and surrounding areas. The Bank's commercial real estate construction lending consists of commercial and residential site development loans as well as commercial building construction and residential housing construction loans.

The Bank's commercial real estate construction loans are generally secured with the subject property. Terms of construction loans depend on the specifics of the project, such as: estimated absorption rates, estimated time to complete etc.

In underwriting commercial real estate construction loans, the Bank performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the project using feasibility studies, market data, etc. Appraisals on properties securing commercial real estate loans originated by the Bank are performed by independent appraisers.

Commercial real estate construction loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

Residential Lending

The residential real estate category contains permanent mortgage loans principally to consumers secured by residential real estate. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios, and collateral values. Loans may be either conforming or non-conforming.

Consumer Lending

The Bank offer primarily secured consumer loans, including home equity lines of credit and home equity loans. Home equity lines of credit are secured by the borrower's primary residence with a maximum loan-to-value of 90% and a maximum term of 20 years.

In underwriting home equity lines of credit, a thorough analysis of the borrower's willingness and financial ability to repay the loan as agreed is performed. The ability to repay is determined by the borrower's employment history, current financial condition, and credit background. The analysis is based primarily on the customer's ability to repay and secondarily on the collateral or security.

Home equity lines of credit generally present a lower level of risk than other types of consumer loans because they are secured by the borrower's primary residence.

Capital Leases

Capital leases are carried at the aggregate of lease payments receivable plus the estimated residual value of leased property, less unearned income.

Healthcare Concentration

The Bank has a significant concentration in its loan portfolio to commercial borrowers in the healthcare industry, primarily, loans to nursing homes and assisted living facilities. This concentration relates to bridge loans and mortgage servicing assets originated within Capital Funding, LLC as well as accounts receivable-based loans originated at Capital Finance, LLC. The Bank continuously monitors its concentration levels in its healthcare loan portfolio, and considers this concentration in its calculation of the Allowance for Loan and Lease Losses.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses ("allowance") consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance represents an amount that, in the judgment of management, will be adequate to absorb probable losses on outstanding loans and leases that may become uncollectible. The allowance represents an estimate made based upon two principles of accounting: (1) ASC Topic 450 "Contingencies", that requires losses to be accrued when their occurrence is probable and estimable, and (2) ASC Topic 310, "Receivable," that requires losses be accrued when it is probable that the lender will not collect all principal and interest due under the original terms of the loan. The adequacy of the allowance is determined through careful evaluation of the loan portfolio. This determination is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans based on historical loss experience and condition of the current economic environment and other qualitative factors that may be subject to change. Loans and leases deemed uncollectible are charged against the allowance and recoveries of previously charged-off amounts are credited to it. The level of the allowance is adjusted through the provision for loan losses that is recorded as a current period expense. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheets.

The methodology for assessing the appropriateness of the allowance includes a specific allowance, a formula allowance and a non-specific allowance. The specific allowance is for risk rated credits on an individual basis. The formula allowance reflects historical losses by credit category. The non-specific allowance captures losses whose impact on the portfolio have occurred but have yet to be recognized in either the specific allowance or the formula allowance. The factors used in determining the non-specific allowance include trends in delinquencies, trends in volumes and terms of loans, the size of loans relative to the allowance, concentration of credits, the quality of the risk identification system and credit administration and local and national economic trends. These factors are applied to each segment of the loan portfolio and consider the characteristics contained thereof. If circumstances differ materially from the assumptions used in determining the allowance, future adjustments to the allowance may be necessary and results of operations could be affected. Because events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases to the allowance will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above.

A loan is determined to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of insignificant delay in payment if the Bank expects to collect all amounts due, including past-due interest. The Bank generally considers a period of insignificant delay in payment to include delinquency up to and including 90 days. Impairment is measured through a comparison of the loan's carrying amount to the present value of its expected future cash flows discounted at the loan's effective interest rate, or at the loans' observable market price or the fair value of the collateral less estimated selling costs if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are evaluated collectively for impairment. Accordingly, the Bank does not separately identify individual residential first and second mortgage loans and consumer installment loans for impairment disclosure, unless such loans are the subject of a restructuring agreement.

Credit quality risk ratings include regulatory classification of special mention, substandard, doubtful, and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weakness may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as doubtful have all the weaknesses inherent in loans classified substandard with the added characteristics that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

Impaired loans are therefore generally comprised of commercial mortgage, real estate development, and certain restructured residential loans. In addition, impaired loans are generally loans which management has placed in non-accrual status. Loans are placed in non-accrual status on the earlier of the date that management determines that the collection of principal and/or interest is in doubt or the date that principal or interest is 90 days or more past due. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Bank's policy for recognizing interest revenue on impaired loans does not differ from its overall policy for interest recognition.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan and lease losses is adequate.

Foreclosed Real Estate

Real estate acquired through foreclosure is recorded at fair market value less estimated selling costs on the date acquired. Fair value is determined utilizing third party appraisals, broker price opinions or other similar methods. Losses incurred at the time of acquisition of the property are charged to the allowance for loan and lease losses. Subsequent reductions in the estimated value of the property are included in other operating expenses. Costs relating to holding such property are charged against income in the current period, while costs relating to improving such real estate are capitalized until a salable condition is reached.

Premises and Equipment

Premises and equipment, including leasehold improvements, are recorded at cost, less accumulated depreciation and amortization. Operating leased assets are included in premises and equipment at cost less accumulated depreciation. Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the of the respective assets. Operating leased assets are amortized using the straight-line method over the estimated useful life of the asset. Repairs and maintenance are charged to expense as incurred, while improvements which extend the estimated useful life of the asset are capitalized and depreciated over the remaining life of the asset.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets. ASC Topic 860, Transfers and Servicing, allows the recognition of mortgage servicing rights (MSRs) as an asset only when the economic benefits exceed "adequate compensation" for performing the servicing. Adequate compensation is defined as the amount of benefits of servicing that would fairly compensate a substitute servicer should one be required, which includes the profit that would be demanded in the marketplace. Economic benefits include the contractually specified servicing fee as well as other sources of cash flow such as float, late fees, and other ancillary income related to the servicing of the mortgage loans. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. Estimated fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are measured at fair value at each reporting date with changes in fair value reported in non-interest expenses.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and recorded as non-interest income when earned.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Off Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial lines of credit, letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Advertising Costs

The Company expenses advertising costs as they are incurred.

Goodwill and Intangible Assets

Goodwill represents the cost in excess of the fair value of net assets acquired in transactions accounted for as acquisitions. ASC Topic 350, *Intangibles*, requires that goodwill no longer be amortized over an estimated useful life, but rather be tested at least annually for impairment.

Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The implied fair value of goodwill is the amount determined by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit to which goodwill has been allocated from the estimated fair value of the reporting unit. If the recorded value of goodwill exceeds its implied value, an impairment charge is recorded for the excess.

The carrying amount of goodwill was $1,233,238 at December 31, 2016 and 2015, respectively.

Intangible assets other than goodwill, which are determined to have finite lives, continue to be amortized using the straight-line method over periods ranging from five to fifteen years.

Computer software is recorded at cost and amortized over three to five years using the straight-line method.

Income Taxes

Under current provisions of the Internal Revenue Code and applicable state laws, the Company and its subsidiaries are not subject to income taxes as they have elected S-Corporation status. The results of operations are includable in the income tax returns of their respective stockholders or members. No provision for income tax expense has been included in the financial statements, however, the Company is subject to certain non-resident state income taxes and state franchise taxes which are included in non-interest expenses.

The Company does not have any uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits.

Comprehensive Income

Comprehensive income includes net income and the unrealized gain or loss on investment securities available for sale.

New Regulatory Capital Rules

On July 2, 2013, the Board of Governors of the Federal Reserve System ("Federal Reserve") approved an interim final rule (the "Final Rule") that revises the risk-based and leverage capital requirements for U.S. banking organizations. The Final Rule was published in the Federal Register on October 11, 2013 and implements the regulatory capital reforms recommended by the Basel Committee on Banking Supervision from December 2010, commonly referred to as "Basel III," as well as additional capital reforms required by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). The Final Rule implements among other things (i) a revised definition of regulatory capital, (ii) a new common equity tier 1 ("CET1") minimum capital requirement, (iii) a higher minimum tier 1 capital requirement and an additional CET1 capital conservation buffer, and (iv) new deductions from capital for investments in unconsolidated financial institutions, mortgage servicing assets ("MSA") and deferred tax assets ("DTA") that exceed specified thresholds. The Final Rule incorporates these new requirements into the U.S. bank regulatory agencies prompt corrective action framework. In addition, the Final Rule establishes limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of CET1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. Further, the Final Rule amends the methodologies for determining risk-weighted assets for all banking organizations.

Increased Capital and Capital Buffer Requirements. The Final Rule introduces a new ratio of CET1 capital to risk-weighted assets. CET1, a component of total Tier 1 capital, consists of common stock and related surplus, retained earnings, accumulated other comprehensive income ("AOCI") and qualifying minority interests. In addition, the Final Rule also requires the Company to maintain an additional CET1 capital conservation buffer of 2.5%, upon full implementation, which is designed to absorb losses during periods of economic stress. When fully implemented the capital conservation buffer will effectively add 2.5% to each of the minimum capital ratios. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when the Final Rule is fully phased in as of January 1, 2019, the Company will be required to maintain (i) a minimum CET1 to risk-weighted assets ratio of at least 4.5%, plus the 2.5% capital conservation buffer, resulting in a required minimum CET1 ratio of at least 7%, (ii) a minimum ratio of total Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum Tier 1 capital ratio of 8.5%, (iii) a minimum ratio of total Tier 1 plus Tier 2 capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum total capital ratio of 10.5%, and (iv) a required minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average on-balance sheet (non-risk adjusted) assets. The phase-in of the capital conversation buffer will begin on January 1, 2016 with a first year requirement of 0.625% of additional CET1, and be progressively increased over a four-year period, increasing by that same percentage amount on each subsequent January 1 until it reaches the fully-phased in 2.5% CET1 requirement on January 1, 2019.

Capital Definitions. The Final Rule revises the definition of capital with an emphasis on the inclusion of CET1 capital and establishes strict eligibility criteria for regulatory capital instruments. Deductions from, and adjustments to, capital are generally stricter than under the current capital rules, including with respect to goodwill and other intangibles, MSAs, DTAs, and non-significant investments in the capital of unconsolidated financial institutions. The new definitions of regulatory capital and capital ratios are incorporated into the agencies' prompt corrective action (PCA) framework. In addition, the Final Rule amends the regulatory agencies' current capital rules to improve the methodology for calculating risk-weighted assets to increase risk sensitivity.

Regulatory Capital Treatment of AOCI. Accumulated Other Comprehensive Income ("AOCI") generally includes the net accumulated unrealized gains and losses on certain assets and liabilities, such as investment securities classified as available-for-sale, that have not been included in net income, yet are included within equity capital under U.S. generally accepted accounting principles. Under the regulatory agencies' current risk-based capital rules, most components of AOCI are not reflected in a banking organization's regulatory capital. The Final Rule permits a non-advanced approaches banking organization such as the Company to make a one-time election to "opt out" of including most elements of AOCI in regulatory capital and instead effectively use the existing treatment under the risk-based capital rules. The AOCI opt-out election must be made in a bank's first call report or a company's first FR Y-9 series report that is filed after the banking organization becomes subject to the Final Rule, after January 1, 2015. The Company has chosen the AOCI opt-out election in its regulatory reporting.

Non-qualifying Capital Instruments. The Final Rule requires that certain non-qualifying capital instruments, including cumulative preferred stock and Trust Preferred Securities ("TRuPs"), be excluded from Tier 1 capital. In general, banking organizations that are not advanced approaches banks, must begin to phase out TRuPs from Tier 1 capital by January 1, 2015, and be fully phased out from Tier 1 capital by January 1, 2016. However, TRuPs may continue to be included in Tier 2 capital until the instruments are redeemed or mature. In addition, the Final Rule permanently grandfathers non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010 for inclusion in the Tier 1 capital of banking organizations with total consolidated assets less than $15 billion as of December 31, 2009.

Additional Deductions from Capital. Banking organizations will continue to be required to deduct goodwill and certain other intangible assets, from CET1 capital. Under the Final Rule, MSAs and DTAs, among others, are subject to stricter limitations than those applicable under the current general capital rules. DTAs and MSAs would be required to be deducted to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. The amount of these items in excess of the 10 and 15 percent thresholds are to be deducted from CET1 capital. Amounts of DTAs and MSAs that are not deducted due to the threshold limits must be assigned to the 250 percent risk weight, beginning in 2018.

Changes in Risk-Weightings. The Final Rule prescribes a Standardized Approach for risk weightings that expand the risk-weighting categories from the four major risk-weighting categories under the current regulatory capital rules (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures. In a number of cases, the Standardized Approach will result in higher risk weights for a variety of asset categories. Specific changes to the risk-weightings of assets include, among other things: (i) applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans, (ii) assigning a 150% risk weight to exposures that are 90 days past due (other than qualifying residential mortgage exposures, which remain at an assigned risk-weighting of 100%), and (iii) establishing a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, in contrast to the 0% risk-weighting under the current rules.

These new capital rules become effective in stages for smaller, less complex banking organizations beginning on January 1, 2015 with the transition period for the capital conservation buffers on January 1, 2016 and phase in through 2019. Requirements to maintain higher levels of capital and or to maintain higher levels of liquid assets may adversely impact the Company's net income and return on equity, restrict the ability to pay dividends and require the raising of additional capital.

Based on our review of the Basel III Capital Rules, we have determined that, once fully phased in, the Final Rule will significantly reduce the allowable amount of the fair value of MSRs included in Tier 1 capital. The Company expects to remain well capitalized at the time the Basel III Rules are fully phased in.

2. CONSENT ORDER

CFG Community Bank entered into a Consent Order with the Federal Reserve Bank of Richmond (the "Reserve Bank") and the Commissioner on October 31, 2011. The Consent Order requires improvements to the operations of the Bank including, but not limited to, maintaining adequate capital and liquidity, improving management oversight, improving credit risk management, improving internal controls, compliance with banking laws and improving analysis of the adequacy of the allowance for loan losses. The Bank is prohibited from paying cash dividends without prior approval from the regulators. As of December 31, 2016, the Bank has complied with the majority of requirements noted in the order.

3. CASH AND CASH EQUIVALENTS

The Bank carries a balance with the Federal Reserve Bank for operating and liquidity purposes. The average balance outstanding was $17,478,393 and $36,896,147 for 2016 and 2015, respectively.

The Bank normally carries balances with other banks that can exceed the federally insured limit. There were outstanding average balances that exceeded this limit by $5,636,080 and $5,206,516 for 2016 and 2015, respectively. Banks are required to carry non-interest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

4. INVESTMENT SECURITIES

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	December 31, 2016			
Available for sale:	Amortized cost	Unrealized gains	Unrealized losses	Fair Value
U.S. Treasury securities	$ 1,699,703	$ -	$ (9)	$ 1,699,694
Industrial revenue bonds	10,000	6	-	10,006
GNMA Participation certificates	18,984,904	-	-	18,984,904
	$ 20,694,607	$ 6	$ (9)	$ 20,694,604

Available for sale:	December 31, 2015 Amortized cost	Unrealized gains	Unrealized losses	Fair Value
U.S. Treasury securities	$ 1,499,915	$ 9	$ -	$ 1,499,924
Industrial revenue bonds	30,000	114	-	30,114
	$ 1,529,915	$ 123	$ -	$ 1,530,038

At December 31, 2016, securities held to maturity, consisting of U.S. Government agency notes, had a carrying value of $1,079,275, unrealized losses of $24,909, and a fair value of $1,054,366. At December 31, 2015, securities held to maturity, consisting of U.S. Government agency notes, had a carrying value of $2,078,076, unrealized losses of $43,610, and a fair value of $2,034,466. There were no sales of held to maturity securities for the years ended 2016 and 2015.

At December 31, 2016 and 2015, U.S. Treasury securities with a carrying value of approximately $1.7 million and $1.5 million respectively, were pledged as collateral for sales of securities under repurchase agreements.

Unrealized losses that existed were a result of market changes in interest rates since the original purchase. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

An impairment loss is recognized in earnings only when (1) the Company intends to sell the debt security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis or (3) the Company does not expect to recover the entire amortized cost basis of the security. In situations where the Company intends to sell or when it is more likely than not that the Company will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in shareholders' equity as a component of other comprehensive income, net of deferred tax.

As of December 31, 2016, investments mature as follows:

	Available for Sale		Held to Maturity	
Maturing	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 20,684,607	$ 20,684,598	$ -	$ -
Due from one to five years	10,000	10,006	-	-
Due in over five years	-	-	1,079,275	1,054,366
	$ 20,694,607	$ 20,694,604	$ 1,079,275	$ 1,054,366

5. RESTRICTED STOCK

The following table shows the amounts of restricted stock as of December 31, 2016 and 2015:

	2016	2015
Federal Home Loan Bank of Atlanta	$ 540,100	$ 532,200
Federal Reserve Bank	1,221,150	1,221,150
Atlantic Central Banker's Bank	30,000	30,000
Maryland Financial Bank	30,000	30,000
	$ 1,821,250	$ 1,813,350

6. LOANS AND LEASES

Loans and leases consist of the following at December 31, 2016 and 2015:

	2016	2015
Commercial	$ 181,189,051	$ 184,382,576
Real estate - residential	16,662,890	19,383,351
Real estate - commercial	363,585,710	302,592,975
Construction - residential & commercial	16,411,310	1,482,443
Home equity	13,811,207	14,603,965
Land and land development	7,360,754	2,625,777
Commercial leases	3,641,125	6,501,737
Consumer	1,759,241	2,073,327
	604,421,288	533,646,151
Deferred loan origination fees, net of cost	(2,739,764)	(2,285,752)
Allowance for loan losses	(8,980,784)	(6,099,115)
Net Loans and Leases	$ 592,700,740	$ 525,261,284

The following table presents the maturities or repricing periods of our loan portfolio at December 31, 2016 and 2015:

Loan Maturity or Repricing Distribution at December 31, 2016

	1 year or less	1 - 5 years	After 5 years	Total
Commercial	$ 2,783,377	$ 124,289,872	$ 54,115,802	$ 181,189,051
Real estate - residential	90,466	10,428,382	6,144,042	16,662,890
Real estate - commercial	15,178,143	162,220,384	186,187,183	363,585,710
Construction	-	1,334,877	15,076,433	16,411,310
Home equity	-	3,112,908	10,698,299	13,811,207
Land and land development	-	6,202,221	1,158,533	7,360,754
Commercial leases	-	2,344,857	1,296,268	3,641,125
Consumer	-	149,530	1,609,711	1,759,241
Total loans	$ 18,051,986	$ 310,083,031	$ 276,286,271	$ 604,421,288
Fixed rate	$ 146,424	$ 72,883,044	$ 115,915,223	$ 188,944,691
Variable rate	17,905,561	237,199,987	160,371,049	415,476,597
Total loans	$ 18,051,985	$ 310,083,031	$ 276,286,272	$ 604,421,288

Loan Maturity or Repricing Distribution at December 31, 2015

	1 year or less	1 - 5 years	After 5 years	Total
Commercial	$ 41,521,825	$ 115,779,750	$ 27,081,001	$ 184,382,576
Real estate - residential	5,473,257	9,004,121	4,905,973	19,383,351
Real estate - commercial	96,502,595	133,181,311	72,909,069	302,592,975
Construction	158,318	-	1,324,125	1,482,443
Home equity	1,865,751	3,356,446	9,381,768	14,603,965
Land and land development	1,158,697	878,784	588,296	2,625,777
Commercial leases	2,377,319	4,028,479	95,939	6,501,737
Consumer	-	163,356	1,909,971	2,073,327
Total loans	$ 149,057,762	$ 266,392,247	$ 118,196,142	$ 533,646,151
Fixed rate	$ 16,541,104	$ 80,501,812	$ 43,746,203	$ 140,789,119
Variable rate	132,516,658	185,890,435	74,449,939	392,857,032
Total loans	$ 149,057,762	$ 266,392,247	$ 118,196,142	$ 533,646,151

Management uses an eight point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first four categories are considered not criticized, are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions, and are categories 5 - 8. The Special Mention category (risk rating - 5) includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a substandard classification. Loans in the Substandard category (risk rating - 6) have well-defined weaknesses that jeopardize the liquidation of the debt, may be on non-accrual, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. Loans greater than 90 days past due are considered substandard. Loans in the Doubtful category (risk rating - 7) are on non-accrual and have a definite loss of an undetermined amount. The portion of any loan that represents a specific allocation of the allowance for loan losses is placed in the Loss category (risk rating - 8).

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential loans are included in the categories unless a specific action, such as a delinquency, bankruptcy, repossession or death occurs to raise awareness of a possible credit event. The Bank's commercial loan officers are responsible for timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Commercial loans, commercial real estate loans, residential loans, consumer loans and leases that are greater than 30 days past due are individually reviewed on a monthly basis and reported to the board of directors. In addition, all commercial loans, commercial real estate loans, residential loans, consumer loans and leases rated 5 through 8 are evaluated with a detailed review, including plans for resolution, and present to the Watch Committee quarterly. Loans in the substandard and doubtful categories are evaluated for impairment and are given separate consideration in the determination of the allowance. The Bank's outsourced loan review function conducts random loan sampling and portfolio reviews to determine the accuracy of risk ratings in the commercial and commercial real estate portfolios with an emphasis on loans over $500,000, concentrations, criticized assets, non-performing and Regulation O loans. The Bank makes non-healthcare related loans and leases to customers primarily in Maryland and the surrounding region. The Bank makes healthcare related loans to customers located nationally.

The following tables show the allowance for loan losses and recorded investment in loans and leases for the year ended December 31, 2016:

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Allowance for loan losses:				
Beginning balance, December 31, 2015	$ 1,618,607	$ 2,751,741	$ 1,728,767	$ 6,099,115
Provisions	(22,867)	1,115,663	6,020,726	7,113,522
Charge-offs	(1,008,439)	(120,711)	(3,435,240)	(4,564,390)
Recoveries	72,422	250,115	10,000	332,537
Ending balance, December 31, 2016	$ 659,723	$ 3,996,808	$ 4,324,253	$ 8,980,784

Allowance for loan losses:	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Ending balance: individually evaluated for impairment	$ 343,794	$ 130,771	$ 2,501,716	$ 2,976,281
Ending balance: collectively evaluated for impairment	$ 315,929	$ 3,866,037	$ 1,822,537	$ 6,004,503
Loans:				
As of December 31, 2016				
Loans receivable:				
Ending balance	$ 32,233,338	$ 387,357,774	$ 184,830,176	$ 604,421,288
Ending balance: individually evaluated for impairment	$ 1,548,698	$ 11,868,447	$ 7,816,030	$ 21,233,175
Ending balance: collectively evaluated for impairment	$ 30,684,640	$ 375,489,327	$ 177,014,146	$ 583,188,113

The following tables show the allowance for loan losses and recorded investment in loans and leases for the year ended December 31, 2015:

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Allowance for loan losses:				
Beginning balance, December 31, 2014	$ 1,647,157	$ 1,905,952	$ 1,352,166	$ 4,905,275
Provisions	649,362	870,770	364,101	1,884,233
Charge-offs	(734,503)	(26,331)	-	(760,834)
Recoveries	56,591	1,350	12,500	70,441
Ending balance, December 31, 2015	$ 1,618,607	$ 2,751,741	$ 1,728,767	$ 6,099,115

Allowance for loan losses:	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Ending balance: individually evaluated for impairment	$ 1,357,300	$ 202,729	$ 86,928	$ 1,646,957
Ending balance: collectively evaluated for impairment	$ 261,307	$ 2,549,012	$ 1,641,839	$ 4,452,158
Loans:				
As of December 31, 2015				
Loans receivable:				
Ending balance	$ 36,060,643	$ 306,701,195	$ 190,884,313	$ 533,646,151
Ending balance: individually evaluated for impairment	$ 5,983,611	$ 13,303,003	$ 1,904,299	$ 21,190,913
Ending balance: collectively evaluated for impairment	$ 30,077,032	$ 293,398,192	$ 188,980,014	$ 512,455,238

Credit Quality indicators as of December 31, 2016 are as follows:

December 31, 2016 Credit Risk Profile by Internally Assigned Grade	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Pass (risk rating 1 - 4)	$ 23,452,111	$ 332,541,855	$ 153,117,234	$ 509,111,200
Special Mention (risk rating - 5)	7,232,529	42,947,472	23,896,912	74,076,913
Classified (risk rating 6 - 8)	1,548,698	11,868,447	7,816,030	21,233,175
Total	$ 32,233,338	$ 387,357,774	$ 184,830,176	$ 604,421,288

Credit Quality indicators as of December 31, 2015 are as follows:

December 31, 2015 Credit Risk Profile by Internally Assigned Grade	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Pass (risk rating 1 - 4)	$ 25,974,930	$ 251,570,001	$ 183,658,073	$ 461,203,004
Special Mention (risk rating - 5)	4,102,102	41,828,191	5,321,941	51,252,234
Classified (risk rating 6 - 8)	5,983,611	13,303,003	1,904,299	21,190,913
Total	$ 36,060,643	$ 306,701,195	$ 190,884,313	$ 533,646,151

Age analysis tables of past due loans as of December 31, 2016 are as follows:

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
December 31, 2016				
30 - 59 Days Past Due & Accruing	$ 136,484	$ 2,102,383	$ 45,212	$ 2,284,079
60 - 89 Days Past Due & Accruing	163,649	592,845	83,288	839,782
90 or More Days Past Due & Accruing	-	-	79,014	79,014
Total Past Due & Accruing	$ 300,133	$ 2,695,228	$ 207,514	$ 3,202,875
Current	30,638,219	384,020,417	177,200,732	591,859,368
Non-Accruing Loans	1,294,986	642,129	7,421,930	9,359,045
Total	$ 32,233,338	$ 387,357,774	$ 184,830,176	$ 604,421,288

Age analysis tables of past due loans as of December 31, 2015 are as follows:

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
December 31, 2015				
30 - 59 Days Past Due & Accruing	$ 1,110,117	$ 1,084,899	$ -	$ 2,195,016
60 - 89 Days Past Due & Accruing	21,683	-	102,484	124,167
90 or More Days Past Due & Accruing	15,355	-	-	15,355
Total Past Due & Accruing	$ 1,147,155	$ 1,084,899	$ 102,484	$ 2,334,538
Current	34,392,180	305,000,385	190,649,401	530,041,966
Non-Accruing Loans	521,308	615,911	132,428	1,269,647
Total	$ 36,060,643	$ 306,701,195	$ 190,884,313	$ 533,646,151

The following table sets forth information with respect to the Bank's impaired loans as of December 31, 2016.

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Total Impaired Loans	$ 1,548,698	$ 11,868,447	$ 7,816,030	$ 21,233,175

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Total Impaired loans with a Specific Reserve	$ 1,102,402	$ 586,171	$ 7,469,325	$ 9,157,898
Allowance	$ 343,794	$ 130,771	$ 2,501,716	$ 2,976,281

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Total Impaired loans without a Specific Reserve	$ 446,296	$ 11,282,276	$ 346,705	$ 12,075,277
Unpaid principal balance in total impaired loans	$ 2,305,025	$ 11,868,447	$ 11,209,109	$ 25,382,581

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Average impaired loans for the period	$ 1,887,051	$ 12,431,669	$ 12,252,839	$ 26,571,559
Interest income recognized on impaired loans during the year	$ 70,533	$ 710,634	$ 664,355	$ 1,445,522

The following table sets forth information with respect to the Bank's impaired loans as of December 31, 2015.

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Total Impaired Loans	$ 5,983,611	$ 13,303,003	$ 1,904,299	$ 21,190,913

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Total Impaired loans with a Specific Reserve	$ 3,097,439	$ 792,429	$ 132,428	$ 4,022,296
Allowance	$ 1,357,300	$ 202,729	$ 86,928	$ 1,646,957

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Total Impaired loans without a Specific Reserve	$ 2,886,172	$ 12,510,574	$ 1,771,871	$ 17,168,617
Unpaid principal balance in total impaired loans	$ 8,155,206	$ 13,329,333	$ 1,904,299	$ 23,388,838

	Residential/ Consumer	Commercial Real Estate	Commercial and Industrial	Total
Average impaired loans for the period	$ 6,142,519	$ 13,444,987	$ 2,083,134	$ 21,670,640
Interest income recognized on impaired loans during the year	$ 305,386	$ 709,167	$ 72,354	$ 1,086,907

Management reviews and identifies loans and investments that require designation as non-performing assets and troubled debt restructurings. Nonperforming assets include loans accounted for on a non-accrual basis, troubled debt restructurings ("TDRs"), loans past due by 90 days or more but still accruing, and foreclosed real estate. TDRs include loans in which the borrower was having financial difficulty, and we agreed to grant a concession and modify the loan.

There was one Commercial Real Estate loan with a pre-modification balance of approximately $6.2 million that was modified as a new TDR during the year ended December 31, 2016. The Bank executed a forebearance agreement with the borrower in December 2016 and commensurate with the modification received an aproximate $0.4 million principal paydown on the loan. As the borrower was experiencing financial difficulty and the rate of interest on the loan is considered less than what the market would bear for a loan to a borrower with a similiar risk profile, it was classified as a TDR. There were no loans modified as new TDRs during the year ended December 31, 2015. There were no loans modified as a TDR during the previous 12 months that were in default of their modified terms at December 31, 2016 and 2015. There were no outstanding loan commitments to lend to debtors classified as TDRs at December 31, 2016 and 2015.

At December 31, 2016 and 2015, there were consumer mortgage loans secured by residential real estate where formal foreclosure proceedings were in process with a balance of $152,000 and $0, respectively. At December 31, 2016, the Company held no foreclosed real estate. At December 31, 2015, there was $616,420 in foreclosed real estate that were residential real estate properties.

Information with respect to non-performing loans, non-performing assets, and TDRs at December 31, 2016 and 2015 is as follows:

	2016	2015
Non-Accrual Loans (Including TDRs)	$ 9,359,045	$ 1,269,647
TDRs that are accruing	5,819,448	312,769
Loans 90 or more days past due & accruing	79,014	15,355
Total Non-performing Loans	15,257,507	1,597,771
Foreclosed real estate	-	616,420
Total Non-performing Assets	$ 15,257,507	$ 2,214,191
TDRs included In Non-Accrual Loans	$ 190,892	$ 430,068
TDRs that are accruing	5,819,448	312,769
Total TDRs	$ 6,010,340	$ 742,837

7. CREDIT COMMITMENTS

Outstanding loan commitments, unused lines of credit, and letters of credit were as follows at December 31:

	2016	2015
Unused lines of credit:		
Residential/Consumer	$ 5,680,052	$ 6,985,557
Commercial Real Estate	35,707,803	49,783,447
Commercial and Industrial	60,974,215	71,853,517
	$ 102,362,070	$ 128,622,521
Letters of Credit	$ 8,100,849	$ 1,216,987

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have variable interest rates, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The Bank's maximum exposure to credit loss in the event of non-performance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss to be incurred by funding these loan commitments.

8. RELATED PARTY TRANSACTIONS

Executive officers, directors, and affiliates of the Bank are deemed related parties and may enter into loan and deposit transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. Activity in the loans during 2016 and 2015 was as follows:

	2016	2015
Balance, beginning of year	$ 3,908,056	$ 4,854,278
Advances	2,871,774	74,115,594
Principal repayments	(2,859,578)	(72,439,112)
Reclassification	(3,420,644)	(2,622,704)
Balance, end of year	$ 499,608	$ 3,908,056

Deposits held by the Bank for related parties totaled $68,297,526 and $21,258,275 at December 31, 2016 and 2015, respectively.

9. PREMISES AND EQUIPMENT

A summary of premises and equipment and the related depreciation follows:

	Useful Lives	2016	2015
Furniture and equipment	3 - 10 years	$ 3,424,554	$ 3,256,132
Equipment held for lease	5 - 10 years	7,313,735	7,313,735
Leasehold improvements	3 - 40 years	1,276,149	1,263,359
		12,014,438	11,833,226
Accumulated depreciation		(5,312,600)	(4,515,057)
Net premises and equipment		$ 6,701,838	$ 7,318,169
Depreciation expense		$ 821,332	$ 803,350

Computer software is included in other assets at an amortized cost of $22,170 and $21,716 at December 31, 2016 and 2015, respectively. Software amortization expense was $187,508 and $222,185 in 2016 and 2015, respectively and was included in other non-interest expenses.

10. GOODWILL

The entire amount of the goodwill was recorded as a result of the acquisition of AmericasBank Corp, Inc. There were no adjustments to goodwill during the periods ended December 31, 2016 and 2015. Per Accounting Standards Update ("ASU") 2011-08: Intangibles – Goodwill and Other (Topic 350), the Bank is required to perform an annual goodwill impairment test. For purposes of this analysis, the Bank is comprised of a single reporting unit. Given the Bank has experienced significant consistent growth over the past several years, while maintaining higher than average earnings, return on Equity, and Return on Assets when compared to its peers, per the FASB guidance, management has elected to perform a "Step 0 Test." Qualitative factors were reviewed to determine whether the existence of events or circumstances during the prior twelve months could lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. After assessing the totality of events/circumstances during the year, noting no significant adverse changes from prior year, management determined that is more likely than not that the fair value of the reporting unit is in excess of the carrying amount as of December 31, 2016 and 2015.

11. MORTGAGE SERVICING RIGHTS

Mortgage servicing assets are complex, intangible assets that arise from owning the rights to service mortgage loans that have been securitized or sold to third-party investors. The market value of MSRs is affected by market supply and demand factors. MSR values are economically represented as the discounted present value of estimated future net cash flows over the life of the underlying mortgage loans.

Changes in the fair value of MSRs are reflected below:

	2016	2015
Fair value - beginning of period	$ 34,011,606	$ 39,611,909
Additions of fair value as result of new loans	2,158,147	3,679,802
Reduction in fair value of cash flows	(3,772,529)	(9,280,105)
Fair value at December 31,	$ 32,397,224	$ 34,011,606

The fair value of MSRs is estimated by a third party using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, servicing rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions.

The valuation model uses a static discounted cash flow methodology incorporating current market interest rates. Assumptions are used that may reflect some prediction of future rate environments to temper the effects of current market biases on a short-term for something generally expected over a longer term. However, the assumptions, once selected and calibrated for market observation, remain unchanged for the model. The current mortgage interest rate influences the expected prepayment rate and therefore the length of the cash flows associated with servicing asset, while the discount rate determines the present value of those cash flows. Expected mortgage loan prepayment assumptions are estimated.

The key economic assumptions used in determining the fair value of MSRs at year end were as follows:

	2016	2015
Weighted - average life (in years)	26.8	27.3
Weighted - average constant prepayment rate (CPR)	4.85%	4.26%
Weighted - average discount rate	8.036%	8.000%
Weighted - average note rate	3.805%	3.859%

As of December 31, 2016 and 2015, the portfolio of serviced loans that financed skilled nursing and assisted living facilities amounted to approximately $2.4 billion.

12. INTEREST-BEARING DEPOSITS

Major classifications of interest-bearing deposits are as follows:

	2016	2015
NOW accounts	$ 2,421,229	$ 3,137,945
Money market	146,095,830	155,469,674
Savings	2,399,395	1,649,359
Certificates of deposit, $250,000 or more	74,951,230	35,302,704
Other certificates of deposit	212,902,349	185,623,461
	$ 438,770,033	$ 381,183,143

At December 31, 2016, certificates of deposit mature as follows:

Maturing in one year or less	$ 254,243,707
Maturing over one through two years	26,335,455
Maturing over two through three years	3,579,131
Maturing over three through four years	2,570,751
Maturing over four through five years	1,124,535
	$ 287,853,579

13. ADVANCES FROM FEDERAL HOME LOAN BANK

The Company has a secured line of credit with the FHLB with a borrowing limit set at thirty percent of Bank assets subject to collateral. The Bank is required to maintain as collateral for its FHLB borrowings qualified loans in an amount greater than 100% of the outstanding. Lendable collateral totaled $113.2 million and $111.2 million as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the outstanding FHLB advances were $1.0 million.

Additional information is as follows:

	2016	2015
Maximum month-end amount outstanding	$ 73,000,000	$ 33,000,000
Average amount outstanding	24,092,896	16,588,219
Average rate paid during the period	0.62%	0.39%

The Bank has an available secured line of credit of $4,000,000 from a correspondent bank. This line had an average balance outstanding of $0 in 2016 and 2015, respectively. The Bank also has two available unsecured lines of credit totaling $9,000,000 from other correspondent banks, which had a total average balance outstanding of $55 and $2,740 in 2016 and 2015, respectively.

14. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase represent overnight borrowings from customers. The U.S. Treasury securities that are the collateral for these agreements are owned by the Bank and maintained in the custody of a non-affiliated agent designated by the Bank. Additional information is as follows:

	2016	2015
Maximum month-end amount outstanding	$ 1,602,282	$ 791,409
Average amount outstanding	480,251	406,830
Balance at December 31,	1,602,282	558,465
Average rate paid during the period	0.05%	0.06%

15. LEASES

CFG Community Bank occupied its Fells Point location under the terms of a lease dated June 13, 2012 for office space to be occupied by its Fells Point banking center and mortgage loan origination unit. The lease commenced on September 1, 2012. The lease has an original term of ten years with two options to renew for five years each.

On December 16, 2011, the Bank entered into a lease in Lutherville, Maryland for office space to be occupied by its Lutherville banking center and mortgage loan origination unit. The lease commenced on January 1, 2012. The lease has an original term of 15 years with an option to renew for two consecutive five year terms.

On May 3, 2007, the Bank entered into a lease in Annapolis, Maryland for office space to be occupied by its Annapolis banking center and mortgage loan origination unit. The lease commenced on May 1, 2007 and had an initial term of five years. The lease was subsequently modified and extended for a five year renewal term commencing May 1, 2012. In 2014, this lease was amended to reduce the renewal term by two years, thus resulting in the revised renewal term to be three years commencing May 1, 2012 and ending April 30, 2015. The lease was then renewed for a three year period commencing May 1, 2015 and ending April 30, 2018.

On July 11, 2014 the Bank entered into a lease in Annapolis, Maryland for a new loan production office. The lease commenced on January 1, 2015 and has an initial term of five years with an option to renew for a five year term.

On June 18, 2009, the Company entered into a lease agreement in Baltimore, Maryland for office space to be occupied by the Corporate Headquarters including the lending, operations and administrative functions of the Company and the Bank. The lease commenced on June 18, 2009 and had an original term of five years with three options to renew for five years. The original lease ended on June 18, 2014 and was amended to extend the lease for a one year term commencing August 27, 2014 and ending August 27, 2015. Effective August 28, 2015 and thereafter, the Company agreed to rent the building on a month to month basis in accordance with terms per the original lease agreement. The lease is with Capital Funding Group, Inc., an affiliate of the Company.

The leases call for the following minimum payments:

Year	
2017	$ 308,266
2018	263,989
2019	245,052
2020	156,138
2021	160,632
Thereafter	690,970
	$ 1,825,047

Rent expense was $1,435,773 and $1,375,142 for 2016 and 2015, respectively.

16. OTHER NON-INTEREST EXPENSES

A summary of other non-interest expenses follows:

	2016	2015
Data processing fees	$ 509,177	$ 496,442
Professional fees	552,000	514,795
Business development	953,325	1,108,880
Liability insurance	224,068	220,289
Telephone	183,233	183,993
Software	187,508	222,185
Stationary, printing, and supplies	102,913	107,128
GNMA and HUD expenses	40,504	150,746
Postage and courier	46,949	52,902
Correspondent bank charges	33,944	32,279
Merger termination costs	-	19,681
Other	(205,455)	(224,919)
	$ 2,628,166	$ 2,884,401

17. EMPLOYEE BENEFIT PLANS

The Company offers a 401(k) plan to its employees. The 401 (k) Plan's attributes include eligibility after 12 months of service, an employer matching contribution of 100% up to 3% of employee salary contributed and 50% for the next 2% of employee salary contributed, and a vesting of 100% after the first year of service. For the period ending December 31, 2016 and 2015, the Company contributed $373,423 and $292,244, respectively to this plan.

18. CAPITAL STANDARDS

The Federal Reserve Board and The Federal Deposit Insurance Corporation have adopted risk-based capital standards for banking organizations. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. Common equity tier 1 ("CET1") capital consists of common stock, additional paid-in capital, and accumulated deficit less goodwill and disallowed portion of MSR's. Tier 1 capital is consistent with CET1 capital, as the Company and the Bank do not have any qualifying additional tier 1 capital. Total capital includes a limited amount of the allowance for loan losses. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off balance sheet items. The capital ratios and minimum capital requirements for the Company and the Bank are as follows:

Capital Funding Bancorp, Inc. (in thousands) December 31, 2016	Actual		To be well capitalized	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$74,462	12.12%	$61,432	10.00%
CET1 capital (to risk-weighted assets)	66,586	10.84%	36,859	6.00%
Tier 1 capital (to risk-weighted assets)	66,586	10.84%	36,859	6.00%
Tier 1 capital (to average assets)	66,586	9.92%	33,578	5.00%

CFG Community Bank (in thousands) December 31, 2016	Actual		Minimum capital adequacy		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$74,410	12.11%	$49,146	8.00%	$61,432	10.00%
CET1 capital (to risk-weighted assets)	66,534	10.83%	24,573	4.00%	36,859	6.00%
Tier 1 capital (to risk-weighted assets)	66,534	10.83%	24,573	4.00%	36,859	6.00%
Tier 1 capital (to average assets)	66,534	9.91%	26,862	4.00%	33,578	5.00%

Capital Funding Bancorp, Inc. (in thousands) December 31, 2015	Actual		To be well capitalized	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$72,249	13.26%	$54,500	10.00%
CET1 capital (to risk-weighted assets)	66,020	12.11%	32,710	6.00%
Tier 1 capital (to risk-weighted assets)	66,020	12.11%	32,700	6.00%
Tier 1 capital (to average assets)	66,020	10.32%	31,983	5.00%

CFG Community Bank (in thousands) December 31, 2015	Actual		Minimum capital adequacy		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$72,197	13.25%	$43,591	8.00%	$54,488	10.00%
CET1 capital (to risk-weighted assets)	65,968	12.10%	21,808	4.00%	32,711	6.00%
Tier 1 capital (to risk-weighted assets)	65,968	12.10%	21,808	4.00%	32,711	6.00%
Tier 1 capital (to average assets)	65,968	10.31%	25,594	4.00%	31,992	5.00%

Failure to meet the capital requirements could affect the Company's ability to pay dividends and accept deposits and may significantly affect the operations of the Company and Bank. See Note 2 regarding the possibility of future dividend restrictions.

As of December 31, 2016 and 2015, the Company and the Bank met the regulatory requirements to be well capitalized. Management knows of no conditions that would change this classification.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820, *Fair Value Measurements,* clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under ASC Topic, fair value measurements are not adjusted for transaction costs. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement inputs) and the lowest priority to unobservable inputs (Level 3 measurement inputs). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1 Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by ASC 820, the Bank does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy. The fair value of MSRs is also classified within Level 2 of the fair value hierarchy and is estimated by a third party on a quarterly basis using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, servicing rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions.

Loans for which it is probable that payment of principal and interest will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310, using the present value of expected cash flows, the loan's observable market price, or the fair value of collateral (less estimated selling costs) if the loan is collateral dependent. A specific allowance for loan loss is then established or a charge-off is recorded if the loan is collateral dependent and the loan is classified at a Level 3 in the fair value hierarchy. Appraised collateral values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the borrower's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the factors identified above. Valuation techniques are consistent with those applied in prior periods.

Foreclosed real estate is adjusted to fair value upon transfer of the loan to foreclosed real estate and is classified at a Level 3 in the fair value hierarchy. Subsequently, the foreclosed real estate is carried at the lower of carrying value or fair value. The estimated fair value for foreclosed real estate included in Level 3 is determined by independent market based appraisals and other available market information, less costs to sell, that may be reduced further based on market expectations or an executed sales agreement. If the fair value of foreclosed real estate deteriorates subsequent to the period of transfer, the foreclosed real estate is also classified at a Level 3 in the fair value hierarchy. Valuation techniques are consistent with those techniques applied in prior periods.

Assets measured at fair value on a recurring basis comprise the following asset classes:

December 31, 2016		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Securities	$ 1,699,694	$ -	$ 1,699,694	$ -
Industrial Revenue Bonds	10,006	-	10,006	-
GNMA Participation Certificates	18,984,904		18,984,904	
Mortgage servicing rights	32,397,224	-	32,397,224	-

December 31, 2015		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Securities	$ 1,499,924	$ -	$ 1,499,924	$ -
Industrial Revenue Bonds	30,114	-	30,114	-
Mortgage servicing rights	34,011,606	-	34,011,606	-

Assets measured at fair value on a non-recurring basis comprise the following asset classes:

Impaired Loans[1]:	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Residential/Consumer	$ 1,062,609	$ -	$ -	$ 1,062,609
Commercial Real Estate	471,626	-	-	471,626
Commercial and Industrial	5,314,314	-	-	5,314,314
Foreclosed real estate	-	-	-	-

Impaired Loans[1]:	December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Residential/Consumer	$ 1,752,463	$ -	$ -	$ 1,752,463
Commercial Real Estate	652,900	-	-	652,900
Commercial and Industrial	45,500	-	-	45,500
Foreclosed real estate	616,420	-	-	616,420

[1] Impaired loans measured at fair value include loans with current period partial charge-offs or specific reserves.

Quantitative information about Level 3 fair value measurements is as follows as of December 31, 2016 and 2015:

December 31, 2016:	Valuation Technique	Unobservable Inputs	Range
Impaired Loans	Third party appraisal	Appraisal adjustments[1]	15 - 20%
Foreclosed real estate	Third party appraisal	Appraisal adjustments[1]	15 - 20%
December 31, 2015:			
Impaired Loans	Third party appraisal	Appraisal adjustments[1]	15 - 20%
Foreclosed real estate	Third party appraisal	Appraisal adjustments[1]	15 - 20%

[1] Appraisals may be adjusted by management for qualitative factors such as property type, recent market condition, and estimated selling costs.

Fair value estimates, methods, and assumptions are summarized below for the Company's financial instruments as of December 31, 2016 and 2015.

The carrying value and estimated fair value of financial instruments is summarized as follows:

	2016		2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 48,251,702	$ 48,251,702	$ 21,669,864	$ 21,669,864
Securities available-for-sale	20,694,604	20,694,604	1,530,038	1,530,038
Securities held to maturity	1,079,275	1,054,366	2,078,076	2,034,466
Loans and leases, net of allowance	592,700,740	602,661,087	525,261,284	541,090,744
Foreclosed real estate	-	-	616,420	616,420
Mortgage servicing rights	32,397,224	32,397,224	34,011,606	34,011,606
Liabilities				
Deposits	$ 617,912,194	$ 601,639,727	$ 518,344,611	$ 505,619,772
Securities sold under repurchase agreement	1,602,282	1,602,282	558,465	558,465
Advances from Federal Home Loan Bank	1,000,000	1,000,000	1,000,000	1,000,000

Cash and Cash Equivalents

The carrying amount for cash and cash equivalents approximates fair value due to the short maturity of these instruments.

Securities available for sale

The fair value for U.S. Treasury securities and Industrial revenue bonds were based upon market values from a pricing service. GNMA participation certificates are short-term in nature and are valued at book value.

Securities held to maturity

The fair value for U.S. Government agency notes were based upon market values from a pricing service.

Loans

The fair value of loans was calculated by discounting the anticipated cash flows based on contractual maturity, weighted-average coupon, and discount rate.

Foreclosed Real Estate

The fair value of foreclosed real estate was determined by recent appraisal.

Mortgage Servicing Rights

The fair value of mortgage servicing rights was based upon market value from an independent appraisal.

Deposits

The fair value of deposits with no stated maturity, such as non-interest-bearing deposits, interest-bearing now accounts, money market, and passbook and statement savings is deemed to be equal to the carrying amounts. The fair value of certificates of deposit is based on the discounted value on contractual cash flows. The discount rate for certificates of deposit was estimated using the rate currently offered for deposits of similar remaining maturities.

Securities Sold Under Repurchase Agreements

Securities sold under a repurchase agreement are comprised of securities sold overnight under an obligation to repurchase. The carrying amount for the overnight borrowings approximates fair value due to the short maturity of the borrowings.

Advances from Federal Home Loan Bank

The carrying amount for Advances from the Federal Home Loan Bank approximate fair value due to the relative short duration of the borrowings.

20. DERIVATIVE ACTIVITY

The Company is exposed to interest rate risk inherent in the purchase of a fixed rate mortgage backed security collateralized by a FHA insured commercial mortgage. The Company entered into a derivative financial instrument in the form of a forward-starting interest rate swap agreement to mitigate the interest rate risk associated with prior and planned mortgage backed security purchases. The interest rate swap was reported at fair value in assets held for sale. The Company did not designate the interest rate swap as a hedge.

At December 31, 2014, the Company had a forward-starting interest rate swap agreement to receive from the counterparty at one month LIBOR and to pay interest to the counterparty at a fixed rate of 3.335% on notional amounts of $27,400,000, which had a fair value of $24,900,622. For the first 18 months subsequent to the October 11, 2013 trade date of this agreement, no cash flows were to be exchanged until the effective date of the transaction which was May 20, 2015. From this effective date and through the maturity date of September 20, 2023 the Company would pay a fixed interest rate of 3.335% and the counterparty will pay the Company one month LIBOR. The strategy was to eliminate MBS fair value variability by converting fixed-rate interest payments to variable-rate interest payments.

From May 20, 2015 through June 21, 2015, the Company paid $71,948 on the interest rate swap which was recorded as an offset to interest income. On June 22, 2015, the Company terminated the interest rate swap agreement. The net loss on interest rate swap consisted of the following for the years ended December 31, 2015:

	2015
Swap valuation write-downs	$ (809,923)
Gain on termination of swap	601,449
	$ (208,474)

At December 31, 2016, the Company held no derivative financial instruments.

21. PARENT COMPANY FINANCIAL INFORMATION

The balance sheets as of December 31, 2016 and 2015, and statements of operations for the year then ended, for Capital Funding Bancorp, Inc. (Parent only) are presented below:

Balance Sheets

December 31,	2016	2015
Assets		
Cash	$ 52,771	$ 51,584
Investment in CFG Community Bank	82,338,584	77,745,225
	$ 82,391,355	$ 77,796,809
Liabilities and Stockholders' Equity		
Other liabilities	$ -	$ -
Stockholders' equity		
Common stock	69,513	69,511
Additional paid-in capital	41,629,980	41,628,390
Accumulated earnings	40,691,863	36,098,785
Accumulated other comprehensive income	(1)	123
	$ 82,391,355	$ 77,796,809

Statements of Operations

	2016	2015
Revenue	$ -	$ -
Expenses	(405)	-
Loss before undistributed net income of subsidiary	(405)	-
Equity in undistributed net income of subsidiary	13,494,158	15,222,504
Net income	$ 13,493,753	$ 15,222,504

Statements of Cash Flows

December 31,	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,493,753	$ 15,222,504
Adjustments to reconcile net income		
Equity in undistributed net income of subsidiary	(13,494,158)	(15,222,504)
Net cash used by operating activities	(405)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Equity investment in subsidiary	8,900,675	10,083,363
Net cash provided by investing activities	8,900,675	10,083,363
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid for dividends	(8,900,675)	(10,083,363)
Issuance (redemption) of common stock	1,592	(2,066)
Net cash used by financing activities	(8,899,083)	(10,085,429)
Net increase (decrease) in cash and cash equivalents	1,187	(2,066)
Cash and cash equivalents at beginning of year	51,584	53,650
Cash and cash equivalents at end of year	$ 52,771	$ 51,584