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, Valerie Hurst
Name of the Holding Company Director and Official

President & Chief Executive Officer
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.

Valerie Hurst
Signature of Holding Company Director and Official

3-30-17
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID _____
C.I. _____

Date of Report (top-tier holding company's fiscal year-end):
12/31/2016
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Freedom Bancshares, Inc.
Legal Title of Holding Company

20 N. Crim Avenue
(Mailing Address of the Holding Company) Street / P.O. Box

Belington	WV	26250
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Terri Kittle	CFO/SVP
Name	Title

304 823-1531 1121
Area Code / Phone Number / Extension

304 823-2982
Area Code / FAX Number

tkittle@freedombankwv.com
E-mail Address

www.freedombankwv.com
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.

ANNUAL REPORT OF BANK HOLDING COMPANIES – FR Y-6
FREEDOM BANCSHARES, INC.
DECEMBER 31, 2016

RESPONSES TO REPORT ITEMS CALLED FOR IN FORM FR Y-6 ARE AS FOLLOWS:

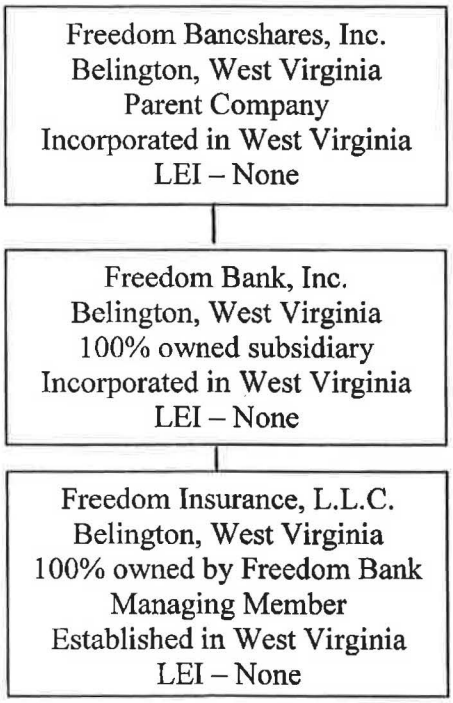
REPORT ITEM 1a: FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

Freedom Bancshares, Inc. is not currently subject to filing with the Securities and Exchange Commission. No Form 10-K is due for 2016.

REPORT ITEM 1b: ANNUAL REPORTS TO SHAREHOLDERS

The Annual Report to Shareholders as of and for the year ended December 31, 2016 is included as Attachment A.

REPORT ITEM 2: ORGANIZATIONAL CHART



ANNUAL REPORT OF BANK HOLDING COMPANIES – FR Y-6
FREEDOM BANCSHARES, INC.
DECEMBER 31, 2016

REPORT ITEM 2 CONT.

ORGANIZATION CHART, SUPPLEMENTAL QUESTIONS

(a) None
(b) None
(c) None
(d) None

REPORT ITEM 2B: BRANCHES

There is an address change for Branch 0. The city renumbered addresses for 911 emergency tracking. See Attachment B for listing.

REPORT ITEM 3: SHAREHOLDERS

A listing of shareholders that directly or indirectly own, control, or hold with power to vote five percent or more of common stock of Freedom Bancshares, Inc. is included as Attachment C.

All principal shareholders listed are United States citizens.

There were no other shareholders during the year who owned or controlled five percent or more of the common stock of Freedom Bancshares, Inc.

There were no options, warrants, or other securities which may be converted or exercised for common stock.

REPORT ITEM 4: DIRECTORS AND OFFICERS

Attachment D is a schedule of directors and officers of Freedom Bancshares, Inc. and subsidiary as of December 31, 2016

Percentage of securities owned or held with power to vote in direct or indirect subsidiaries of the BHC: NONE.

Freedom Bank is wholly owned by Freedom Bancshares, Inc.
Freedom Insurance, LLC is wholly owned by Freedom Bank, Inc.

Results: A list of branches for your depository institution: FREEDOM BANK, INC. (ID_RSSD: 629522).
This depository institution is held by FREEDOM BANCSHARES, INC. (1250053) of BELLINGTON, WV.
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
CHANGE	1/1/2016	Full Service (Head Office)	629522	FREEDOM BANK, INC.	20 N CRIM AVENUE	BELLINGTON	WV	26250	BARBOUR	UNITED STATES	9940	0	FREEDOM BANK, INC.	629522	
OK		Full Service	2309332	BRIDGEPORT OFFICE	625 W. MAIN STREET	BRIDGEPORT	WV	26330	HARRISON	UNITED STATES	234920	3	FREEDOM BANK, INC.	629522	
OK		Full Service	2529907	BUCKHANNON BRANCH	ROUTE 20 SOUTH	BUCKHANNON	WV	26201	UPSHUR	UNITED STATES	234921	4	FREEDOM BANK, INC.	629522	
OK		Full Service	2448398	ELKINS BRANCH	EAST U.S. ROUTES 219 & 250	ELKINS	WV	26241	RANDOLPH	UNITED STATES	234919	1	FREEDOM BANK, INC.	629522	
OK		Full Service	2448400	PHILIPPI BRANCH	124 SOUTH MAIN STREET	PHILIPPI	WV	26416	BARBOUR	UNITED STATES	241513	2	FREEDOM BANK, INC.	629522	

ATTACHMENT C

Freedom Bancshares, Inc.

5% or More Stock Ownership

December 31, 2016

Margaret L. Baughman Principal Shareholder Morgantown, WV United States of America	14,680 Shares	8.09% Ownership
Craig G. Phillips Principal Shareholder Belington, WV United States of America	12,099 Shares	6.67% Ownership
Thomas M. Pitsenberger Principal Shareholder/Director Emeritus Beverly, WV United States of America	31,527 Shares	17.38% Ownership
Anna Gale Smithson Principal Shareholder Belington, WV United States of America	27,678 Shares	15.26% Ownership

ATTACHMENT D

Freedom Bancshares, Inc.
Belington, WV 26250
December 31, 2016

Officers, Directors and Principal Shareholders

4.1 Name & Address	4.2 Principal Occupation	4.3a Title Freedom Bancshares, Inc.	4.4a Ownership Freedom Bancshares, Inc.	4.3b Title Freedom Bank	4.4b Ownership Freedom Bank	4.3c Other Business Relationships	4.4c Ownership of Other Business
L. Kevin Hawkins Tallmansville, WV	Building Contractor	Director	0.29%	Director	None	Gutterworks, LLC	100%
J. Craig Hott Upper Tract, WV	Ag Services	Director	0.28%	Director	None	None	
Valerie D. Hurst Clarksburg, WV	Banking	Director President/CEO	0.35%	Director President/CEO Exec. Officer Team	None	None	
William V. Ross Coalton, WV	Meter & Regulator Operator	Director	0.30%	Director	None	None	
Samuel D. Sedosky, Jr. Weston, WV	Accountant	Director Audit Chair	1.10%	Chair Director Audit Chair	None	Trent & Sedosky, PLLC	99%
Carol L. Sinsel Philippi, WV	Retired College Professor	Director	0.28%	Director	None	None	
Linda K. Wellings Buckhannon, WV	Software Development	Chair Director	0.56%	Director	None	None	
Terri L. Kittle Belington, WV	Banking	SVP/CFO/Treasurer Exec. Officer Team	0.06%	SVP/CFO/Treasurer Exec. Officer Team	None	None	
Gary (Dave) Shaw Fairmont, WV	Banking	SVP/Senior Credit Officer Exec. Officer Team	0.00%	SVP/Senior Credit Officer Exec. Officer Team	None	None	
*Thomas M. Pitsenberger Beverly, WV	Retired	Director Emeritus Principal Shareholder	17.38%		None	Seneca Mall P & M Properties LLC	33% 50%
*Anna Gale Smithson Belington, WV	Retired	Principal Shareholder	15.26%		None		

*Denotes Principal Shareholder

ATTACHMENT A

FREEDOM BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2016

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BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
and Stockholders
Freedom Bancshares, Inc.
Belington, West Virginia

We have audited the accompanying consolidated financial statements of Freedom Bancshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

March 7, 2017

FREEDOM BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2016 and 2015

ASSETS

	2016	2015
ASSETS		
Cash and amounts due from banks	$ 5,888,382	$ 7,277,763
Certificates of deposit in other financial institutions	2,055,000	3,275,000
Investment securities: (Note 3)		
Securities held-to-maturity	1,000,020	1,014,151
Securities available-for-sale at approximate market value	10,596,227	12,483,631
Total investment securities	11,596,247	13,497,782
Loans (Note 4)	128,258,711	122,347,402
Less allowance for loan losses (Note 4)	2,478,893	2,856,397
Net loans	125,779,818	119,491,005
Bank premises, furniture and equipment	2,951,513	3,103,129
Deferred income taxes	1,303,578	1,196,765
Bank owned life insurance	3,160,366	3,089,873
Other real estate owned and repossessions	2,328,109	2,509,798
Restricted equity securities	427,100	317,000
Accrued interest receivable and other assets	982,519	1,026,154
Total other assets	11,153,185	11,242,719
Total assets	$ 156,472,632	$ 154,784,269

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		
Deposits:		
Interest bearing	90,363,402	$ 94,796,987
Non-interest bearing	39,476,698	37,930,109
Total deposits	129,840,100	132,727,096
Borrowings	11,030,000	7,250,000
Accrued interest payable and other liabilities	1,856,715	1,558,526
Total other liabilities	12,886,715	8,808,526
Total liabilities	142,726,815	141,535,622
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 1,000,000 shares authorized, 181,370 shares issued and 178,586 shares outstanding for 2016 and 2015	181,370	181,370
Surplus	3,502,636	3,502,636
Retained earnings	10,544,186	9,708,263
Treasury stock, at cost (2,784 shares for 2016 and 2015)	(156,220)	(156,220)
Accumulated other comprehensive income (loss)	(326,155)	12,598
Total stockholders' equity	13,745,817	13,248,647
Total liabilities and stockholders' equity	$ 156,472,632	$ 154,784,269

The Notes to Consolidated Financial Statements
are an integral part of these statements.

FREEDOM BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2016 and 2015

	2016	2015
Interest income:		
Interest and fees on loans	$ 5,390,751	$ 5,408,379
Investment securities:		
Taxable	156,650	151,651
Tax-exempt	145,551	109,763
Interest on deposits in other banks	46,800	26,003
	5,739,752	5,695,796
Interest expense:		
Interest on deposits and borrowed funds	612,036	677,091
Net interest income	5,127,716	5,018,705
Provision for loan losses	240,000	440,000
Net interest income after provision for loan losses	4,887,716	4,578,705
Other income:		
Service charges on deposit accounts	472,793	446,114
Visa check card fees	437,051	419,887
Other service charges, commissions and fees	86,728	101,850
Earnings on bank-owned life insurance	70,493	71,916
Gains/(losses) on sale of securities	272,438	(6,155)
Other operating income	127,746	150,399
Total other income	1,467,249	1,184,011
Other expenses:		
Salaries and employee benefits	2,472,091	2,276,499
Premises and fixed assets	544,791	546,221
Data processing	475,858	440,590
Postage and courier	95,655	97,103
ATM fees	293,875	272,077
FDIC and WV Assessment	183,100	231,100
Professional fees	135,404	130,828
Writedowns and adjustments on foreclosed assets	201,000	185,355
Other operating expenses	709,074	770,903
Total other expenses	5,110,848	4,950,676
Income before income taxes	1,244,117	812,040
Income taxes (Note 8)	408,194	161,876
Net income	$ 835,923	$ 650,164
Basic and fully diluted net income per common share	$ 4.61	$ 3.58

The Notes to Consolidated Financial Statements
are an integral part of these statements.

FREEDOM BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2016 and 2015

	2016	2015
Net income	$ 835,923	$ 650,164
Other comprehensive income (loss):		
Changes in unrealized income (loss) on securities available-for-sale, net of tax of $116,860 and ($28,530) for 2016 and 2015, respectively	(175,290)	42,794
Reclassification adjustment to transfer (gain)/loss on sale of securities to net income, net of tax effect of $108,975 and ($2,462) for 2016 and 2015, included as (loss)/gain on sale of available for sale securities	(163,463)	3,693
Total other comprehensive income (loss)	(338,753)	46,487
Total comprehensive income	$ 497,170	$ 696,651

The Notes to Consolidated Financial Statements
are an integral part of these statements.

FREEDOM BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
Years Ended December 31, 2016 and 2015

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCE, December 31, 2014	$ 181,370	$ 3,502,636	$ 9,058,099	$ (156,220)	$ (33,889)	$ 12,551,996
Net income	-	-	650,164	-	-	650,164
Other comprehensive income	-	-	-	-	46,487	46,487
BALANCE, December 31, 2015	181,370	3,502,636	9,708,263	(156,220)	12,598	13,248,647
Net income	-	-	835,923	-	-	835,923
Other comprehensive loss	-	-	-	-	(338,753)	(338,753)
BALANCE, December 31, 2016	$ 181,370	$ 3,502,636	$ 10,544,186	$ (156,220)	$ (326,155)	$ 13,745,817

The Notes to Consolidated Financial Statements
are an integral part of these statements.

FREEDOM BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 835,923	$ 650,164
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	240,000	440,000
Depreciation, amortization and accretion	312,618	335,385
Deferred income tax expense	119,022	102,870
Gain on sale of foreclosures and repossessions	(4,267)	(5,826)
Valuation writedowns on foreclosures and repossessions	201,000	185,355
Loss (gain) on sales of investment securities	(272,438)	6,155
Decrease (increase) in interest receivable and other assets	(26,857)	(215,988)
Increase in interest payable and other liabilities	298,188	248,581
Net cash provided by operating activities	1,703,189	1,746,696
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities held-to-maturity:		
Proceeds from maturities and calls	4,530	3,864
Securities available-for-sale:		
Proceeds from sales, maturities, and calls	9,411,427	10,463,187
Payments for purchases	(7,955,456)	(9,068,552)
Purchase of CDs with other financial institutions	(6,360,000)	(5,630,000)
Maturities of CDs from other financial institutions	7,580,000	5,635,000
Purchases of premises and equipment	(12,118)	(119,279)
Purchase of FHLB stock	(110,100)	(209,100)
Net increase in loans	(6,626,368)	(6,818,168)
Proceeds from sale of foreclosures and repossessions	82,511	74,169
Net cash used in investing activities	(3,985,574)	(5,668,879)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(2,886,996)	(5,023,281)
Proceeds from borrowings	3,780,000	5,000,000
Net cash provided by (used in) financing activities	893,004	(23,281)
Decrease in cash and cash equivalents	(1,389,381)	(3,945,464)
CASH AND CASH EQUIVALENTS		
Beginning	7,277,763	11,223,227
Ending	$ 5,888,382	$ 7,277,763
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid in cash	$ 619,016	$ 714,673
SUPPLEMENTAL DISCLOSURES OF NON-CASH FLOW INFORMATION		
Loans transferred to foreclosures and repossessions	$ 377,950	$ 120,000
Bank financed sales of foreclosures and repossessions	$ 280,395	$ 277,618

The Notes to Consolidated Financial Statements are an integral part of these statements.

Note 1. **Summary of Significant Accounting Policies**

Operations and principles of consolidation:

Freedom Bancshares, Inc. through its wholly owned subsidiary, Freedom Bank (the "Bank" or collectively, the "Company") provides banking services to domestic markets in north central West Virginia. To a large extent, the operations of the Company, such as loan portfolio management and deposit growth, are directly affected by the local economy. The consolidated financial statements include the accounts of the respective parent company and its subsidiary. All significant inter-company balances and transactions have been eliminated.

Management estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include the allowance for loan losses and valuation of other real estate owned and repossessions and are based upon known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change.

Investment securities:

Debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premium and accretion of discounts computed by the interest method from purchase date to maturity. The Company also holds restricted equity securities that are carried at cost. Other marketable securities are classified as available-for-sale, and are carried at fair value. Unrealized gains and losses on securities available-for-sale, net of the deferred income tax effect, are recognized as direct increases or decreases in stockholders' equity. Cost of securities sold is recognized using the specific identification method.

Loans:

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balance, net of the allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees and direct loan origination costs are primarily being recognized as collected and incurred. Management has concluded that the use of this method of recognition does not produce results that are materially different from results which would have been produced if such costs and fees were deferred and amortized as an adjustment of the loan yield.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Interest accrual resumes when the loan is no longer past due and the borrower, in management's opinion, is able to meet future payments as they become due. A loan is considered past due if the required principal and interest payment has not been received as of the contractual due date.

(continued)

Note 1. **Summary of Significant Accounting Policies** (continued)

Premiums on loans purchased are recorded at cost and adjusted for amortization of premium over the average life of the loans purchased using the straight-line method.

Allowance for loan losses:

The allowance for loan losses is maintained at a level believed to be adequate by management to absorb probable losses inherent in the portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries and the local economy and other pertinent factors such as regulatory guidance and general economic conditions. The allowance is established through a provision for loan losses charged to earnings. Loans identified as losses and deemed uncollectible by management are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired, for which an allowance is established when the fair value of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk-similar loan pools and a loss ratio factor is applied to each group's loan balances to determine the allocation.

Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company. Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, effects of changes in risk selection and underwriting practices, experience, ability, and depth of lending management and staff, national and local economic trends and conditions such as unemployment rates, housing statistics, banking industry conditions, and the effect of changes in credit concentrations. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends, all of which may be susceptible to significant change.

Loan charge-off policies:

Unsecured consumer loans generally are charged off when the loan becomes 90 days past due or deemed uncollectible. Overdrafts generally are charged off at the earlier of determination that recovery is not expected or the overdraft becomes 60 days old. Consumer loans secured by collateral other than the borrower's primary or secondary residence are generally charged down to net recoverable value within 30 days of being added to the classified loan list.

Real estate loans other than first mortgages are reviewed closely for charge-off at 180 days past due if the "well-secured and in process of collection" test cannot be met. Commercial loans are charged off as soon as all or a portion of the loan balance is deemed to be uncollectible. Loans are charged off in any circumstance where all efforts to achieve collection have been exhausted and the loan appears non-collectable. A loan that is unsecured and the applicant has obtained relief under the protection of the Federal Bankruptcy Court will be charged off.

(continued)

Note 1. **Summary of Significant Accounting Policies** (continued)

Company premises, furniture and equipment:

Company premises, furniture and equipment are carried at cost less accumulated depreciation. The provision for depreciation is computed for financial reporting purposes by the straight-line method, based on the estimated useful lives of the assets, ranging from 1-40 years.

Foreclosed and repossessed assets held for resale:

Foreclosed and repossessed assets held for resale acquired in satisfaction of loan obligations and in foreclosure and repossession proceedings are recorded at the fair market value of the asset. Properties carried in foreclosed and repossessed assets held for resale are assessed quarterly for decline in market value and future cash flows, and provisions for impairment losses are charged to income as required.

Income taxes:

Deferred income taxes are reported for timing differences between items of income or expense reported in the consolidated financial statements and those reported for income tax purposes. The differences relate principally to the provision for loan losses, deferred compensation, and differences between book and tax methods of depreciation. The federal income tax returns of the Company for 2016, 2015, 2014, and 2013 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Basic and fully diluted net income per common share:

Basic and fully diluted net income per common share amounts are computed based on the weighted average number of common shares outstanding during the year. The Company had no dilutive common stock equivalents as of December 31, 2016 and 2015; therefore, basic and diluted earnings per share are the same for both years.

Cash flows:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and short term deposits in other banks. The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Comprehensive income:

Accounting principles require that recognized revenue, expenses and gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the Consolidated Statements of Financial Position, such items, along with net income, are components of comprehensive income.

(continued)

Note 1. **Summary of Significant Accounting Policies** (continued)

Subsequent events:

Subsequent events were considered through March 7, 2017, the date the consolidated financial statements were available to be issued.

Note 2. **Restrictions on Cash and Due From Banks**

The Company is required to maintain average reserve balances with the Federal Reserve Bank. The required reserve balance was approximately $1,044,000 and $1,127,000 as of December 31, 2016 and 2015, respectively.

Note 3. **Investment Securities**

Amortized cost and approximate market value of investment securities held-to-maturity, including gross unrealized gains and losses, are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
December 31, 2016:				
Subordinated debt security	$ 1,000,000	$ -	$ -	$ 1,000,000
Mortgage-backed securities	20	-	-	20
	$ 1,000,020	$ -	$ -	$ 1,000,020

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
December 31, 2015:				
Subordinated debt security	$ 1,000,000	$ -	$ -	$ 1,000,000
Mortgage-backed securities	14,151	9	-	14,160
	$ 1,014,151	$ 9	$ -	$ 1,014,160

(continued)

Note 3. **Investment Securities** (continued)

Amortized cost and approximate market values of investment securities available-for-sale are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
December 31, 2016:				
Government sponsored enterprises	$ 5,228,370	$ -	$ (87,244)	$ 5,141,126
State and municipal securities	5,871,080	148	(457,917)	5,413,311
Mortgage-backed securities	32,129	1,421	-	33,550
	11,131,579	1,569	(545,161)	10,587,987
Equity securities	8,240	-	-	8,240
	$ 11,139,819	$ 1,569	$ (545,161)	$ 10,596,227

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
December 31, 2015:				
Government sponsored enterprises	$ 3,540,706	$ -	$ (56,574)	$ 3,484,132
State and municipal securities	6,433,490	133,233	(9,036)	6,557,687
Mortgage-backed securities	2,480,206	2,790	(49,424)	2,433,572
	12,454,402	136,023	(115,034)	12,475,391
Equity securities	8,240	-	-	8,240
	$ 12,462,642	$ 136,023	$ (115,034)	$ 12,483,631

(continued)

Note 3. **Investment Securities** (continued)

Maturities of investment securities held-to-maturity and available-for-sale at December 31, 2016 are as follows:

	Held-to-Maturity	
	Amortized Cost	Approximate Market
Due in one year or less	$ 20	$ 20
Due after one year but within five years	1,000,000	1,000,000
Due after five years but within ten years	-	-
Due after ten years	-	-
	$ 1,000,020	$ 1,000,020

	Available for Sale	
	Amortized Cost	Approximate Market
Due in one year or less	$ 33,096	$ 33,099
Due after one year but within five years	15,161	16,333
Due after five years but within ten years	505,435	504,414
Due after ten years	10,577,887	10,034,141
	$ 11,131,579	$ 10,587,987

The Company had Federal Home Loan Bank stock of $427,100 and $317,000 at December 31, 2016 and 2015, respectively. These amounts are included in the balance sheet caption "Restricted Equity Securities".

Investment securities with a carrying amount of $3,796,964 and $3,646,769 at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

(continued)

Note 3. **Investment Securities** (continued)

The amortized cost and approximate fair value of securities that were in a loss position at December 31, 2016 and 2015 are shown below:

	Loss Position Less Than 12 Months		Loss Position 12 Months or Longer		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
2016						
Government sponsored enterprises	$ 1,999,312	$ (14,671)	$ 3,109,364	$ (72,573)	$ 5,108,676	$ (87,244)
State and municipals	5,016,618	(457,917)	-	-	5,016,618	(457,917)
	$ 7,015,930	$ (472,588)	$ 3,109,364	$ (72,573)	$ 10,125,294	$ (545,161)
2015						
Government sponsored enterprises	$ 3,484,132	$ (56,574)	$ -	$ -	$ 3,484,132	$ (56,574)
State and municipals	833,894	(7,788)	277,185	(1,248)	1,111,079	(9,036)
Mortgage-backed securities	615,749	(14,907)	1,763,989	(34,517)	2,379,738	(49,424)
	$ 4,933,775	$ (79,269)	$ 2,041,174	$ (35,765)	$ 6,974,949	$ (115,034)

At December 31, 2016 and 2015, the available-for-sale portfolio included 21 and 11, respectively, individual investments for which the fair market value was less than amortized cost. Management does not believe any individual unrealized loss as of December 31, 2016 represents an other-than-temporary impairment. These unrealized losses are primarily attributable to changes in interest rates resulting from market fluctuations. The Company has the ability to hold these securities for a time necessary, including to maturity, to recover the amortized cost.

In 2016, the Company realized gross gains and gross losses of $289,728 and $17,290, respectively on the sales of securities. In 2015, the Company realized gross gains and losses of $51,752 and $57,906, respectively on the sale of securities.

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses**

The following table summarizes the primary segments of the loan portfolio as of December 31, 2016 and 2015:

	2016	2015
Residential loans	$ 71,254,356	$ 68,550,152
Commercial real estate loans	28,311,581	29,798,906
Multi-family	433,866	203,525
Consumer loans	10,117,578	8,399,514
Commercial business loans	11,521,163	10,758,718
Other	6,620,167	4,636,587
Total	$ 128,258,711	$ 122,347,402

The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. In reviewing risk, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) the commercial business loan portfolio; (ii) the commercial real estate loan portfolio; (iii) the multi-family loan portfolio; (iv) the consumer loan portfolio; and, (v) the residential loan portfolio. The commercial business segment consists of loans made for the purpose of financing the activities of commercial customers. The commercial real estate segment primarily consists of loans made to commercial customers secured by real estate. Consumer loans consist of loans secured by motor vehicles, savings accounts and personal lines of credit, overdraft protection and other types of secured and unsecured personal loans. The residential loan segment is made up of fixed rate and adjustable rate single-family amortizing term loans, which are primarily first liens.

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial loans and commercial real estate loans are reviewed on a regular basis with a focus on larger loans along with loans which have experienced past payment or financial deficiencies. Certain loans including commercial and other loans which are experiencing payment or financial difficulties, loans in industries for which economic trends are negative and loans which are of heightened concern to management are included on the Company's "watch list". Significant watch list loans and larger commercial loans and commercial real estate loans which are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine if they are "impaired", which means that it is probable that not all amounts will be collected according to the contractual terms of the loan agreement.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management using the fair value of collateral method for loans that are collateral dependent or the present value of future cash flows method as appropriate. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impaired status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2016 and 2015:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans		
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2016:						
Residential loans	$ 190,307	$ 28,000	$ 225,966	$ 416,273	$ 416,273	$ 28,000
Commercial real estate loans	2,408,274	225,000	1,584,623	3,992,897	3,992,897	225,000
Commercial business loans	2,111,808	304,000	1,032,962	3,144,770	3,144,770	304,000
Consumer loans	-	-	34,208	34,208	34,208	-
Other	-	-	22,822	22,822	22,822	-
Total impaired loans	$ 4,710,389	$ 557,000	$ 2,900,581	$ 7,610,970	$ 7,610,970	$ 557,000

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans		
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2015:						
Residential loans	$ 123,170	$ 65,000	$ 277,431	$ 400,601	$ 400,601	$ 65,000
Commercial real estate loans	2,157,819	725,000	1,067,196	3,225,015	3,225,015	725,000
Commercial business loans	2,957,296	903,000	-	2,957,296	2,957,296	903,000
Consumer loans	40,738	10,000	-	40,738	40,738	10,000
Other	-	-	127,270	127,270	127,270	-
Total impaired loans	$ 5,279,023	$ 1,703,000	$ 1,471,897	$ 6,750,920	$ 6,750,920	$ 1,703,000

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

At times, there may be certain impaired loans whose payments are being applied to reduce the principal balance of the loan because the recovery of principal is not determinable. The unpaid principal balance reflects the balance as if the payments were applied in accordance with the terms of the original contractual agreement whereas the recorded investment reflects the outstanding principal balance for financial reporting purposes. In addition, the recorded investment in a loan may be reduced by partial charge offs which would not be reflected in the unpaid principal balance.

The following table presents the average recorded investment in impaired loans and related interest income recognized for the year ended December 31, 2016 and 2015 according to the loan policy:

	Average Investment in Impaired Loans	Interest Income Recognized on a Cash Basis
December 31, 2016		
Residential loans	$ 408,437	$ 33,170
Commercial real estate loans	3,608,957	47,087
Commercial business loans	3,051,033	140,799
Other	112,520	2,722
	$ 7,180,946	$ 223,778
December 31, 2015		
Residential loans	$ 384,008	$ 26,557
Commercial real estate loans	3,350,634	114,641
Commercial business loans	3,223,595	134,189
Other	182,956	8,877
	$ 7,141,193	$ 284,264

Management uses a nine point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first five categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category 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 have well-defined weaknesses that jeopardize the orderly liquidation of the debt, and have a distinct possibility that some loss may be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Loans in the Doubtful category have all the weaknesses found in Substandard loans, with the added provision that the weaknesses make collection of debt in full highly questionable and improbable. Any portion of a loan that has been charged off is placed in the Loss category.

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company's loan rating process is subject to both internal and external oversight. The Company's Chief Executive Officer and Senior Lending Officer review risk grades when approving a loan and approve all risk rating changes, except those made within the pass risk ratings. The Company utilizes an internal loan review specialist and engages an external consultant to conduct loan reviews on an on-going basis. Generally, the external consultant reviews commercial relationships that equal or exceed $500,000. The consultant also samples residential, commercial, and consumer installment loans originated during the previous 12 months.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention and Substandard within the internal risk rating system as of December 31, 2016 and 2015:

	Pass	Special Mention	Substandard	Total
December 31, 2016:				
Commercial business	$ 7,856,222	$ 708,912	$ 2,956,029	$ 11,521,163
Commercial real estate	22,689,333	3,655,646	1,966,602	28,311,581
Multi-family	433,866	-	-	433,866
Other	6,108,871	488,474	22,822	6,620,167
	$ 37,088,292	$ 4,853,032	$ 4,945,453	$ 46,886,777

	Pass	Special Mention	Substandard	Total
December 31, 2015:				
Commercial business	$ 6,979,972	$ 821,450	$ 2,957,296	$ 10,758,718
Commercial real estate	25,396,909	1,176,983	3,225,014	29,798,906
Multi-family	203,525	-	-	203,525
Other	4,122,741	386,576	127,270	4,636,587
	$ 36,703,147	$ 2,385,009	$ 6,309,580	$ 45,397,736

No loans were classified as Doubtful or Loss as of December 31, 2016 and 2015.

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

The following table presents the classes of the loan portfolio for which loan performance is the primary credit quality indicator as of December 31, 2016 and 2015:

	Residential Loans	Consumer Loans	Total
December 31, 2016:			
Performing loans	$ 70,709,515	$ 10,031,529	$ 80,741,044
Non-performing loans	544,841	86,049	630,890
	$ 71,254,356	$ 10,117,578	$ 81,371,934

	Residential Loans	Consumer Loans	Total
December 31, 2015:			
Performing loans	$ 67,566,801	$ 8,282,231	$ 75,849,032
Non-performing loans	983,351	117,283	1,100,634
	$ 68,550,152	$ 8,399,514	$ 76,949,666

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due as of December 31, 2016 and 2015:

December 31, 2016:	Current	30-89 Days Past Due	90 Days + Past Due	Total Past Due	Total Loans
Residential loans	$ 70,709,515	$ 459,857	$ 84,984	$ 544,841	$ 71,254,356
Commercial real estate loans	25,231,615	1,960,995	1,118,971	3,079,966	28,311,581
Multi-family	433,866	-	-	-	433,866
Consumer loans	10,031,529	86,049	-	86,049	10,117,578
Commercial business loans	9,653,638	1,635,438	232,087	1,867,525	11,521,163
Other	6,620,167	-	-	-	6,620,167
	$ 122,680,330	$ 4,142,339	$ 1,436,042	$ 5,578,381	$ 128,258,711

December 31, 2015:	Current	30-89 Days Past Due	90 Days + Past Due	Total Past Due	Total Loans
Residential loans	$ 67,566,801	$ 882,600	$ 100,751	$ 983,351	$ 68,550,152
Commercial real estate loans	27,422,993	-	2,375,913	2,375,913	29,798,906
Multi-family	203,525	-	-	-	203,525
Consumer loans	8,282,231	102,722	14,561	117,283	8,399,514
Commercial business loans	10,132,741	625,977	-	625,977	10,758,718
Other	4,582,087	54,500	-	54,500	4,636,587
	$ 118,190,378	$ 1,665,799	$ 2,491,225	$ 4,157,024	$ 122,347,402

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

Management also monitors the accrual status of all loans. The following table presents the classes of the loans that are classified as 90 days past due and accruing as well as non-accrual loans as of December 31, 2016 and 2015:

December 31, 2016:	**90 Days + Past Due and Accruing**	**Non-Accrual**
Residential loans	$ 84,984	$ 269,692
Commercial real estate loans	-	1,966,600
Multi-family	-	-
Consumer loans	-	-
Commercial business loans	3,600	702,000
Other	-	26,416
	$ 88,584	$ 2,964,708

December 31, 2015:	**90 Days + Past Due and Accruing**	**Non-Accrual**
Residential loans	$ -	$ 211,683
Commercial real estate loans	-	3,225,013
Multi-family	-	-
Consumer loans	14,561	-
Commercial business loans	-	1,651,093
Other	-	127,088
	$ 14,561	$ 5,214,877

An allowance for loan and lease losses ("ALLL") is maintained to absorb losses from the loan portfolio. The ALLL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The classes described above provide the starting point for the ALLL analysis. Management tracks the historical net charge-off activity by loan class. A historical charge-off factor is calculated and applied to each class. Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. Other qualitative factors are also considered.

Management has identified a number of qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The qualitative factors are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources.

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

The Company's qualitative factors consist of: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; levels of and trends in the borrower's financial condition and performance; trends in volume and terms of loans; effects of changes in lending policies and strategies; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALLL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALLL.

The following table summarizes the primary segments of the ALLL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2016 and 2015. Activity in the allowance is presented for the twelve months ended December 31, 2016 and 2015:

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

	Residential Loans	Commercial Real Estate Loans	Consumer Loans	Commercial Business Loans	Other	Unallocated	Total
ALLL balance at December 31, 2015	$ 295,000	$ 902,000	$ 46,000	$ 1,307,000	$ 9,000	$ 297,397	$ 2,856,397
Charge-offs	(42,000)	(637,598)	(33,000)	-	-	-	(712,598)
Recoveries	-	86,094	9,000	-	-	-	95,094
Provision	69,000	350,504	23,000	(903,000)	9,000	691,496	240,000
ALLL balance at December 31, 2016	$ 322,000	$ 701,000	$ 45,000	$ 404,000	$ 18,000	$ 988,893	$ 2,478,893
Ending ALLL for loans							
Individually evaluated for impairment	$ 28,000	$ 225,000	$ -	$ 304,000	$ -	$ -	$ 557,000
Collectively evaluated for impairment	$ 294,000	$ 476,000	$ 45,000	$ 100,000	$ 18,000	$ 988,893	$ 1,921,893
Individually evaluated for impairment	$ 416,273	$ 3,992,897	$ 34,208	$ 3,144,770	$ 22,822	$ -	$ 7,610,970
Collectively evaluated for impairment	$ 70,838,083	$ 24,752,550	$ 10,083,370	$ 8,376,393	$ 6,597,345	$ -	$ 120,647,741

	Residential Loans	Commercial Real Estate Loans	Consumer Loans	Commercial Business Loans	Other	Unallocated	Total
ALLL balance at December 31, 2014	$ 203,000	$ 717,000	$ 43,000	$ 1,467,001	$ 7,000	$ 199,863	$ 2,636,864
Charge-offs	(113,037)	(110,600)	(24,030)	-	-	-	(247,667)
Recoveries	-	11,600	12,000	3,600	-	-	27,200
Provision	205,037	284,000	15,030	(163,601)	2,000	97,534	440,000
ALLL balance at December 31, 2015	$ 295,000	$ 902,000	$ 46,000	$ 1,307,000	$ 9,000	$ 297,397	$ 2,856,397
Ending ALLL for loans							
Individually evaluated for impairment	$ 65,000	$ 725,000	$ 10,000	$ 903,000	$ -	$ -	$ 1,703,000
Collectively evaluated for impairment	$ 230,000	$ 177,000	$ 36,000	$ 404,000	$ 9,000	$ 297,397	$ 1,153,397
Individually evaluated for impairment	$ 400,601	$ 3,225,015	$ 40,738	$ 2,957,296	$ 127,270	$ -	$ 6,750,920
Collectively evaluated for impairment	$ 68,149,551	$ 26,777,416	$ 8,358,776	$ 7,801,422	$ 4,509,317	$ -	$ 115,596,482

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALLL that is representative of the risk found in the components of the portfolio at any given date.

In 2014, the Company purchased loans from third party financial institutions. At the time of the purchases, the principal balances of the loans totaled $18,871,685 and the Company paid a premium of $188,717. In 2015, the Company purchased additional loans from a third party financial institution in the amount of $4,308,080 and the Company paid a premium of $43,080. In 2016, the Company purchased additional loans from a third party financial institution in the amount of $2,356,713 with a premium paid of $23,567. As of December 31, 2016 the balance of these purchased loans was $16,210,402, with an unamortized premium of $137,689.

The Company conducts its business through five offices located in north central, West Virginia. At December 31, 2016 and 2015, the majority of the Company's loan portfolio was secured by properties located in this region. The Company does not believe it has significant concentrations of credit risk to any one group of borrowers given its underwriting and collateral requirements.

The Company's loan portfolio also includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions.

When the Company modifies a loan and subsequently if the loan goes into default, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through a charge to the allowance. Segment and class status is determined by the loan's classification at origination.

(continued)

Note 4. **Loans Receivable and Allowance For Loan Losses** (continued)

Loan modifications that are considered TDRs completed during the years ended December 31, 2016 and 2015 are as follows:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2016:			
Commercial real estate loans	1	1,898,450	1,898,450
Total		$ 1,898,450	$ 1,898,450
December 31, 2015:			
Commercial business loans	2	$ 1,082,565	$ 1,082,565
Commercial real estate loans	1	130,183	130,183
Residential real estate loans	1	28,355	28,355
Othter loans	1	9,000	9,000
Total		$ 1,250,103	$ 1,250,103

These modifications extended the loan term and reduced the interest rate to reduce the monthly payment for the borrowers. During 2015, one loan modified in the previous 12 months as a TDR defaulted and was foreclosed on.

Residential Real Estate included in Other Real Estate Owned consisted of 3 properties totaling $116,398 at December 31, 2016 and 4 properties totaling $145,354 at December 31, 2015.

At December 31, 2016, there were three loans secured by residential real estate properties for which the foreclosure process had begun but had yet to be completed. T`hese loan balances totaled $116,320. There were no loans secured by residential real estate properties for which the foreclosure process had begun but had yet to be completed as of December 31, 2015.

Note 5. **Company Premises, Furniture and Equipment**

Company premises, furniture and equipment at December 31, 2016 and 2015, were as follows:

	2016	2015
Bank premises	$ 4,519,469	$ 4,519,470
Equipment, furniture and fixtures	1,998,463	1,985,788
	6,517,932	6,505,258
Less allowance for depreciation	(3,566,419)	(3,402,129)
	$ 2,951,513	$ 3,103,129

Depreciation expense for 2016 and 2015 was $164,291 and $163,734, respectively.

(continued)

Note 6. **Deposits**

Deposits at December 31, 2016 and 2015 were as follows:

	2016	2015
Demand deposits of individuals, partnerships and corporations:		
Interest bearing	$ 10,570,753	$ 10,053,822
Non-interest bearing	38,441,588	36,730,051
Time and savings deposits of individuals, partnerships and corporations	75,726,932	76,144,416
Deposits of US Government	3,307	-
Deposits of state and political subdivisions	4,498,262	9,028,635
All other deposits	52,354	44,197
Certified and official checks	546,904	725,975
	$ 129,840,100	$ 132,727,096
Time deposits of over $250,000 included above	$ 3,515,413	$ 4,792,718

Scheduled maturities of certificates of deposit at December 31, 2016, were as follows:

2017	$ 14,295,579
2018	9,847,304
2019	3,432,493
2020	3,601,436
2021 and thereafter	3,922,973
	$ 35,099,785

Note 7. **Financial Instruments**

Financial instruments with off-balance-sheet risk:

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

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

(continued)

Note 7. **Financial Instruments** (continued)

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

The amount and type of collateral obtained, if deemed necessary by the Company upon extension of credit, varies and is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

Total contractual amounts of the commitments as of December 31, 2016 and 2015, were as follows:

	2016	2015
Available on lines of credit	$ 5,530,455	$ 4,979,987
Standby letter of credit	242,328	242,328
Other loan commitments	1,114,644	757,200
	$ 6,887,427	$ 5,979,515

Fair value of financial instruments:

Fair value estimates are based on present value of expected future cash flows, quoted market prices of similar financial instruments, if available, and other valuation techniques. These valuations are significantly affected by the discount rates, cash flow assumptions and risk assumptions used. Therefore, the fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the financial instruments.

The authoritative guidance excludes certain items from the disclosure requirements, and accordingly, the aggregate fair values of amounts presented do not represent the underlying value of the Company. Management does not have the intention to dispose of a significant portion of its financial instruments and, therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

(continued)

Note 7. **Financial Instruments** (continued)

The following table represents the estimates of fair value of financial instruments as of December 31, 2016 and 2015:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS:				
Cash and short-term investments	$ 7,943,382	$ 7,943,382	$ 10,552,763	$ 10,552,763
Investment securities available-for-sale	11,139,819	10,596,227	12,462,634	12,483,631
Investment securities held-to-maturity	1,000,020	1,000,020	1,014,151	1,014,160
Loans	125,779,818	127,747,000	119,491,005	122,927,005
Accrued interest receivable	427,309	427,309	393,560	393,560
FINANCIAL LIABILITIES:				
Deposits	129,840,100	128,644,877	132,727,096	132,271,756
Accrued interest payable	69,228	69,228	76,208	76,208
Borrowings	11,030,000	11,030,000	7,250,000	7,250,000

The following methods and assumptions are used to estimate the fair value of financial instruments:

Cash and short-term investments:

The carrying amount for cash and short-term investments is a reasonable estimate of fair value. Short-term investments consist of Federal funds sold and certificates of deposit in other banks with a maturity of three months or less.

Investment securities:

Fair values for investment securities are based on quoted market prices, if available. If market prices are not available, quoted market prices of similar securities or discounted cash flows are used.

Loans:

The fair value of net loans is based on a discounted value of the estimated future cash flow expected to be received through the earlier of the loan payout or the loan repricing date. The interest rate applied in the discounted cash flow method reflects average current rates on new loans adjusted for relative risk and maturity. Fair values of impaired loans are estimated primarily on estimates of net realization of underlying collateral.

Deposits:

The carrying amount is considered a reasonable estimate of fair value for demand and savings deposits and other variable rate deposit accounts. The fair value of fixed maturity certificates of deposit is estimated by a discounted cash flow method using the interest rates currently offered for deposits of similar remaining maturities.

(continued)

Note 7. **Financial Instruments** (continued)

Accrued interest receivable and payable:

The carrying amounts of accrued interest receivable and payable approximate their fair values.

Debt:

The interest rate for debt approximates the interest rate available for similar debt in the current economic market. Accordingly, the carrying amount of debt approximates the fair value.

Off-balance sheet instruments:

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the customers. The amount of fees currently charged on commitments is determined to be insignificant and therefore the fair value and carrying value of off-balance sheet instruments are not shown.

Note 8. **Income Taxes**

The Company records income taxes using an asset and liability approach that requires the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

The amount reflected as income taxes represents federal and state income taxes on financial statement income. Certain items of income and expense, primarily the provision for possible loan losses, deferred compensation and depreciation, are reported in different accounting periods for income tax purposes.

The provision for income taxes for 2016 and 2015 consist of the following:

	2016	2015
Current	$ 289,172	$ 59,006
Deferred taxes	119,022	102,870
Income taxes	$ 408,194	$ 161,876

(continued)

Note 8. **Income Taxes** (continued)

Deferred income tax assets and liabilities are the result of timing differences in recognition of revenue and expense for income tax and financial statement purposes. Deferred income tax assets and liabilities were comprised of the following at December 31:

	2016	2015
Provision for loan loss	$ 209,013	$ 319,635
Net operating losses	173,281	330,982
Deferred compensation	346,145	324,478
Non accrual interest	201,684	156,673
Valuation on OREO reserve	173,222	3,858
Net unrealized loss on available-for-sale securities	217,436	-
AMT tax credit	36,374	136,654
Other items	24,000	23,733
Gross deferred tax assets	1,381,155	1,296,013
Depreciation	(77,577)	(89,849)
Net unrealized gain on available-for-sale securities	-	(8,399)
Gross deferred tax liabilities	(77,577)	(98,248)
	$ 1,303,578	$ 1,197,765

The Company has state net operating losses of $2,888,020 as of December 31, 2016 of which $1,720,590 will expire at December 31, 2031, $865,665 will expire at December 31, 2032, and $301,765 will expire at December 31, 2033, respectively.

Note 9. **Related Party Transactions**

Loans:

The Company has granted loans to officers and directors and to their affiliates. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk of collectability. Set forth below is a summary of the related party loan activity:

	Balance at Beginning of Year	Related Party Change	Borrowings	Reductions	Balance At End of Year
December 31, 2016	$ 2,452,474	$ -	$ 1,290,357	$ (1,007,223)	$ 2,735,608
December 31, 2015	$ 2,083,865	$ 389,375	$ 1,140,010	$ (1,160,776)	$ 2,452,474

(continued)

Note 9. **Related Party Transactions** (continued)

Deposits:

The Company held related party deposits of approximately $917,789 and $1,165,657 at December 31, 2016 and 2015, respectively.

Note 10. **Regulatory Limitations on Dividends**

The primary source of funds for the dividends paid by Freedom Bancshares, Inc. is dividends received from Freedom Bank, Inc. The approval of its regulatory agencies would be required if the total of all dividends declared by the subsidiary in any calendar year was greater than its net profits, as defined, for that year combined with its retained net profits for the preceding two calendar years.

Note 11. **Retirement Plans**

The Company provides a 401(k) profit sharing plan covering substantially all eligible employees. Under the provisions of the plan, eligible employees may defer a portion of their compensation. A matching contribution equal to a percentage of the amount the employee deferred is determined annually by the Company. The Company may make a discretionary contribution to the plan. To be fully vested, an employee must complete five years of service. The Company's matching contribution for December 31, 2016 and 2015 was $48,634 and $44,259, respectively.

The Company also has a nonqualified retirement plan that covers certain employees, executive management and certain directors. Provisions charged to the consolidated statement of income and the cumulative liability under the plan is computed using a 6.43% present value discount. The liability accrued under these plans at December 31, 2016 and 2015 was $865,362 and $811,196. During the years ended December 31, 2016 and 2015, the Company recorded retirement plan expenses of $78,166 and $62,226, respectively.

Note 12. **Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk ratings, and other factors. Prompt corrective action provisions are not applicable to holding companies. The capital ratios of the holding company are essentially the same as those of the subsidiary, as the subsidiary is its only significant asset.

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital requirements with the implementation of Basel III. These new requirements create a new required ratio for common equity Tier 1 ("CET1") capital, increase the Tier 1 capital ratio, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

(continued)

Note 12. **Regulatory Matters** (continued)

Under the new capital regulations, the minimum capital ratios are: (1) CET1 capital ratio of 4.5% of risk-weighted assets (new); (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from 4.0%): (3) a total capital ratio of 8.0% of risk-weighted assets (unchanged); and (4) a leverage ratio of 4.0% (unchanged). CET1 generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

There are a number of changes in what constitutes regulatory capital, some of which are subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. The Bank does not use any of these instruments. Under the new requirements for total capital, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of CET1 will be deducted from capital. The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in the capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on regulatory capital levels.

The new requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (increased from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in non-accrual status; a 20% (increased from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (increased from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk weights (0% to 600%) for equity exposures.

In addition to the minimum CET1, Tier 1 and total capital ratios, the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

(continued)

Note 12. **Regulatory Matters** (continued)

As of December 31, 2016, the Bank is considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category. The Bank's actual and required capital amounts and ratios are as follows:

	Actual		Minimum For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total Capital (to risk-weighted assets)	$17,173	15.64%	$8,784	8.00%	$10,981	10.00%
Tier I Capital (to risk-weighted assets)	$15,785	14.38%	$6,588	6.00%	$8,784	8.00%
Tier I Capital (to average assets)	$15,785	10.13%	$6,232	4.00%	$7,790	5.00%
Common Equity Tier 1 (to risk-weighted assets)	$15,785	14.38%	$4,941	4.50%	$7,137	6.50%
As of December 31, 2015						
Total Capital (to risk-weighted assets)	$15,891	15.12%	$8,409	8.00%	$10,512	10.00%
Tier I Capital (to risk-weighted assets)	$14,554	13.85%	$6,307	6.00%	$8,409	8.00%
Tier I Capital (to average assets)	$14,554	9.37%	$6,210	4.00%	$7,763	5.00%
Common Equity Tier 1 (to risk-weighted assets)	$14,554	13.85%	$4,730	4.50%	$6,833	6.50%

(continued)

Note 13. **Line of Credit Arrangements and Borrowings**

The Company is a member of the Federal Home Loan Bank and has a maximum borrowing capacity at December 31, 2016, of $62,532,550 available from the Federal Home Loan Bank of Pittsburgh. At December 31, 2016, the Company had an outstanding loan balance of $8,780,000. Principal of $3,780,000 is due January 3, 2017, $2,000,000 is due September 18, 2017 and principal of $3,000,000 is due September 11, 2018.

The Company has additional federal funds lines of credit totaling $4,500,000 as of December 31, 2016.

The Company issued $2,500,000 of debentures in 2012 at rate of 10% per annum with the principal due on April 1, 2017. Interest is payable quarterly on April 1, July 1, October 1 and January 2 of each year until maturity. In 2014, the Company made a $250,000 principal payment. Effective the 2nd quarter of 2015, the interest rate was decreased from 10% to 6%. Interest payable as of December 31, 2016 was $34,875. Interest expense for 2016 and 2015 was $137,250 and $159,125, respectively.

Note 14. **Postretirement Benefit of Split-Dollar Life Insurance**

The Company currently has endorsement split-dollar life insurance agreements with five directors and three officers. Under these agreements the Company agrees to pay all insurance premiums from its general assets and designates that it will divide received death benefit proceeds with a beneficiary designated by the related insured. The agreements also stipulate that the Company owns the policies and can terminate the insurance at any time without consent of the insured individual.

At December 31, 2016 and 2015, the estimated postretirement benefit liability is $176,958 and $157,591, respectively related to these policies. The total liability is included in the "Accrued interest payable and other liabilities". During the years ended December 31, 2016 and 2015, the Company recorded an expense of $19,367 and $14,216, respectively for these agreements.

Note 15. **Fair Value Measurements**

U.S. Generally Accepted Accounting Principles establish a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, volatilities, prepayment speeds, and credit risks, or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

(continued)

Note 15. **Fair Value Measurements** (continued)

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon third party models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Recurring - Investment securities available for sale

Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. The Company obtains fair value measurements from an independent third party source. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things.

Non-recurring – Impaired loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral value, recent appraisal value and /or tax assessed value, liquidation value and discounted cash flows.

At December 31, 2016, impaired loans were either evaluated based on the fair value of the collateral or the present value of expected cash flows. For impaired loans valued on using the value of collateral, fair value is based upon independent market prices or appraised values of the collateral which the Company considers as nonrecurring Level 3. For impaired loans valued on expected cash flows, fair value for these loans are based upon the discounted expected future cash flows at year end. The Company considers these as nonrecurring Level 3.

Non-recurring - Other real estate owned

Other real estate owned is adjusted to fair value upon transfer of the loans to other real estate owned. Subsequently, other real estate owned is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices or appraised values of the collateral which the Company considers as nonrecurring Level 3.

The following tables summarize the Company's assets and liabilities that are measured at fair value on either a recurring or non-recurring basis as of December 31, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy.

(continued)

Note 15. **Fair Value Measurements** (continued)

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016:				
Assets and liabilities measured on a recurring basis:				
Government sponsored enterprises	$ 5,141,126	$ -	$ 5,141,126	$ -
State and Municipal securities	5,413,311	-	5,413,311	-
Mortgaged-backed securities	33,550	-	33,550	-
Equities	8,240	8,240	-	-
	$ 10,596,227	$ 8,240	$ 10,587,987	$ -
Assets and liabilities measured on a non-recurring basis:				
Impaired loans	$ 7,610,970	$ -	$ -	$ 7,610,970
Other real estate owned and repossessions	2,328,109	-	-	2,328,109
	$ 9,939,079	$ -	$ -	$ 9,939,079
2015:				
Assets and liabilities measured on a recurring basis:				
U.S. Treasury and Agency Sec.	$ 3,484,132	$ -	$ 3,484,132	$ -
State and Municipal securities	6,557,687	-	6,557,687	-
Mortgaged-backed securities	2,433,572	-	2,433,572	-
Equities	8,240	8,240	-	-
	$ 12,483,631	$ 8,240	$ 12,475,391	$ -
Assets and liabilities measured on a non-recurring basis:				
Impaired loans	$ 6,750,920	$ -	$ -	$ 6,750,920
Other real estate owned and repossessions	2,509,798	-	-	2,509,798
	$ 9,260,718	$ -	$ -	$ 9,260,718

Note 15. **Fair Value Measurements** (continued)

The following table shows the unobservable inputs used for Level 3 assets as of December 31, 2016 and 2015:

	Fair Value at December 31, 2016	Valuation Technique	Significant Unobservable Inputs	Range
Other real estate owned	$ 2,328,109	Discounted appraised value	Discounted for selling costs and age of appraisals	15%-55%
Impaired loans	$ 7,610,970	Discounted appraised value, present value of future cash flows	Discounted for selling costs and age of appraisals, time value of money	15%-55%

	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Inputs	Range
Other real estate owned	$ 2,509,798	Discounted appraised value	Discounted for selling costs and age of appraisals	15%-55%
Impaired loans	$ 6,750,920	Discounted appraised value	Discounted for selling costs and age of appraisals	15%-55%

Note 16. **Recent Accounting Pronouncements and Changes**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 was effective for annual reporting periods beginning after December 15, 2017. ASU No. 2015-14 issued in August 2015 deferred the effective date of this Update to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The adoption of this ASU is not expected to have a material effect on the Company's current financial position or results of operations; however, it may impact the reporting of future financial statement disclosures.

In January 2016, ASU No. 2016-01 Financial Instruments – Overall (Subtopic 825-10) was issued by the FASB. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of these amendments on its financial statements.

Note 16. **Recent Accounting Pronouncements and Changes** (continued)

In June 2016, ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326) was issued by the FASB. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU is effective for the Company in fiscal years beginning after December 15, 2020. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

Other accounting standards have been issued by the FASB that are not currently applicable to the Bank or are not expected to have a material impact on the Bank's financial statements.

ATTACHMENT B