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)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. 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 and top-tier savings and loan 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.

I, Arnold Zipperer, III
Name of the Holding Company Director and Official

President and 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.

Signature of Holding Company Director and Official

12/20/2017
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 3834710
C.I.

Date of Report (top-tier holding company's fiscal year-end):
September 30, 2017
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address
First Carolina Bancshares, M.H.C.
Legal Title of Holding Company

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

Walterboro	SC	29488
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

John D Dalton	CFO
Name	Title

843-549-5698
Area Code / Phone Number / Extension

843-549-6175
Area Code / FAX Number

jdalton@1stfederalofsc.com
E-mail Address

none
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

☐ Yes Please identify the report items to which this request applies:

- ☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
- ☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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Form FR-Y6
First Carolina Bancshares
Other Information
Fiscal Year End: 9/30/2017

Item 1. - Annual Report to Shareholders

The Bank (subsidiary) prepares an annual report and is not registered with the SEC. An Annual Report is not prepared for the Mutual Holding Company, the MHC is not registered with the SEC.

Item 2.a - Organization Chart

Parent:	First Carolina Bancshares, M.H.C.	
	Legal Entity Identifier:	N/A
	Walterboro, SC	
Subsidiary:	First Federal of South Carolina, Federal Savings Bank (parent owns 84%)	
	Legal Entity Identifier:	N/A
	Walterboro, SC	

Item 2.b - Domestic Branch Listing
See Attached

Item 3. - Securities Holders, control or holding 5% or more:
Item 3.1 - None
Item 3.2 - None

Item 4. - Insiders
See Attached

Results: A list of branches for your depository institution: FIRST FEDERAL OF SOUTH CAROLINA, FEDERAL SAVINGS BANK (ID_RSSD: 535575).
This depository institution is held by FIRST CAROLINA BANCSHARES, M.H.C. (3834710) of WALTERBORO, SC.
The data are as of 09/30/2017. Data reflects information that was received and processed through 10/06/2017.

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	FCIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	535575	First Federal of South Carolina, FSB	300 Robertson Blvd.	Walterboro	SC	29488	Colleton	USA	44244	0	First Federal of South Carolina, FSB	535575	
OK		Full Service	4156709	Edisto Island Branch	428 Highway 174	Edisto Island	SC	29438	Colleton	USA	448835	102	First Federal of South Carolina, FSB	535575	

Form FR-Y6
First Carolina Bancshares, MHC
Item 4. - Insiders
Fiscal Year End: 9/30/17

(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) © Title & Position with Other Businesses (include names of other businesses)	(4) (a) Percentage of Voting Shares in Holding Company	(4) (b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4) © List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and % of voting securities held)
Dr. Shannon Pye Walterboro, SC USA	Dentist	Director	Director First Federal of SC, FSB	Owner Shannon Pye, DMD	None	0.01% First Federal of SC, FSB	Shannon Pye, DMD - 100%
William Steadman Walterboro, SC USA	Insurance	Chairman	Director First Federal of SC, FSB	N/A	None	None	N/A
Terry O'Quinn Johns Island, SC USA	Restaurant Owner	Director	Director First Federal of SC, FSB	Owner Dukes BBQ Owner Video House	None	0.10% First Federal of SC, FSB	Dukes BBQ - 100% Video House -100%
Randy Carmichael Walterboro, SC USA	Oil and Propane	Director	Director First Federal of SC, FSB	Owner Carmichael Oil	None	None	Carmichael Oil -100%
Dorcas Tuten Walterboro, SC	Lawyer	Secretary	Director First Federal of SC, FSB	Owner Dorcas Tuten Law Firm LLC	None	None	Dorcas Tuten Law Firm, LLC -100%
Arnold Zipperer Walterboro, SC USA	N/A	Director, President and CEO	Director & President First Federal of SC, FSB	N/A	None	0.89% First Federal of SC, FSB	N/A
Wanda Bennett Walterboro, SC USA	N/A	COO	COO First Federal of SC, FSB	N/A	None	0.10% First Federal of SC, FSB	N/A
John Dalton Mt. Pleasant, SC USA	N/A	CFO	CFO First Federal of SC, FSB	N/A	None	None	N/A

First Federal of South Carolina, FSB

A wholly owned subsidiary of First Carolina Bancshares, MHC

Report on Financial Statements

For the years ended September 30, 2017 and 2016

First Federal of South Carolina, FSB

Contents

elliott davis

Independent Auditor's Report

To the Board of Directors
First Federal of South Carolina, FSB
Walterboro, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of First Federal of South Carolina, FSB, a wholly owned subsidiary of First Carolina Bancshares, MHC, which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Federal of South Carolina, FSB as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Columbia, South Carolina
December 21, 2017

First Federal of South Carolina, FSB

Balance Sheets

As of September 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 2,496,061	$ 2,724,334
Interest-bearing balances	5,231,300	4,254,954
Total cash and cash equivalents	7,727,361	6,979,288
Securities available-for-sale	10,244,434	12,494,285
Nonmarketable equity securities, at cost	154,600	151,500
Mortgage loans held-for-sale	-	630,160
Loans receivable	62,351,779	54,154,025
Less allowance for loan losses	(1,018,254)	(875,566)
Loans, net	61,333,525	53,278,459
Premises, furniture and equipment, net	2,041,296	2,019,108
Other real estate owned	88,540	413,787
Accrued interest receivable	215,103	176,708
Other assets	1,434,273	595,750
Total assets	$ 83,239,132	$ 76,739,045
Liabilities		
Deposits:		
Noninterest-bearing transaction accounts	$ 10,888,591	$ 10,083,993
Interest-bearing transaction accounts	25,141,803	20,977,619
Savings and money market	16,181,983	15,389,557
Time deposits	22,558,159	23,488,371
Total deposits	74,770,536	69,939,540
Advances from Federal Home Loan Bank	1,000,000	-
Accrued interest payable	1,591	2,313
Other liabilities	1,437,282	1,917,050
Total liabilities	77,209,409	71,858,903
Commitments and contingencies - Note 9		
Stockholders' Equity		
Common stock, $1.00 par value, 8,000,000 shares authorized, 1,012,755 issued and outstanding	1,012,755	1,012,755
Capital surplus	1,111,298	1,111,298
Retained earnings	5,302,858	4,083,284
Accumulated other comprehensive loss	(1,397,188)	(1,327,195)
Total stockholders' equity	6,029,723	4,880,142
Total liabilities and stockholders' equity	$ 83,239,132	$ 76,739,045

See Notes to Financial Statements

First Federal of South Carolina, FSB

Statements of Operations

For the years ended September 30, 2017 and 2016

	2017	2016
Interest income		
Loans, including fees	$ 2,814,880	$ 2,413,159
Securities available-for-sale	248,219	280,386
Nonmarketable equity securities	7,261	7,038
Interest-bearing deposits	57,246	30,416
Total	3,127,606	2,730,999
Interest expense		
Time deposits	85,652	82,556
Other deposits	13,263	11,605
Advances from Federal Home Loan Bank	1,318	2,903
Total	100,233	97,064
Net interest income	3,027,373	2,633,935
Provision for loan losses	125,934	180,000
Net interest income after provision for loan losses	2,901,439	2,453,935
Noninterest income		
Service charges on deposit accounts	519,564	500,015
Gain on sale of loans, net	398,981	312,162
Gain on sale of securities	12,426	-
Gain on sale of premises, furniture and equipment	-	367,563
Other service fees and commissions	424,944	455,626
Other income	1,763	2,438
Total noninterest income	1,357,678	1,637,804
Noninterest expenses		
Salaries and employee benefits	1,562,002	1,532,804
Net occupancy	364,113	419,447
Furniture and equipment	45,642	46,617
Data processing	400,111	408,551
FDIC assessments	44,421	116,764
Net cost of other real estate owned activity	75,724	268,727
Other operating	547,530	660,109
Total noninterest expense	3,039,543	3,453,019
Income before income taxes	1,219,574	638,720
Income taxes	-	-
Net income	$ 1,219,574	$ 638,720
Earnings per share		
Basic	$ 1.20	$ 0.63
Diluted	$ 1.20	$ 0.63
Average shares outstanding	1,012,755	1,012,755

See Notes to Financial Statements

First Federal of South Carolina, FSB

Statements of Comprehensive Income

For the years ended September 30, 2017 and 2016

	2017	2016
Net income	$ 1,219,574	$ 638,720
Other comprehensive income (loss)		
Unrealized holding (losses) gains on securities arising during the year	(204,250)	172,223
Reclassification adjustment for realized gains included in net income	(12,426)	-
Amortization of pension plan actuarial gain (loss) and prior service cost	146,683	(10,803)
Other comprehensive income (loss)	(69,993)	161,420
Comprehensive income	$ 1,149,581	$ 800,140

See Notes to Financial Statements

First Federal of South Carolina, FSB

Statements of Changes in Stockholders' Equity
For the years ended September 30, 2017 and 2016

	Number of Shares	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2015	1,012,755	$ 1,012,755	$ 1,111,298	$ 3,444,564	$ (1,488,615)	$ 4,080,002
Net income	-	-	-	638,720	-	638,720
Other comprehensive income	-	-	-	-	161,420	161,420
Balance at September 30, 2016	1,012,755	1,012,755	1,111,298	4,083,284	(1,327,195)	4,880,142
Net income	-	-	-	1,219,574	-	1,219,574
Other comprehensive loss	-	-	-	-	(69,993)	(69,993)
Balance at September 30, 2017	1,012,755	$ 1,012,755	$ 1,111,298	$ 5,302,858	$ (1,397,188)	$ 6,029,723

See Notes to Financial Statements

First Federal of South Carolina, FSB

Statements of Cash Flows

For the years ended September 30, 2017 and 2016

	2017	2016
Operating activities		
Net income	$ 1,219,574	$ 638,720
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	103,809	129,193
Provision for loan losses	125,934	180,000
Discount accretion and premium amortization	54,970	62,142
Gain on sale of securities	(12,426)	-
Proceeds from sale of loans held for sale	18,824,792	14,201,638
Origination of loans held for sale	(17,795,651)	(14,185,886)
Gain on sale of loans, net	(398,981)	(312,162)
Gain on sale of premises, furniture and equipment	-	(367,563)
Increase in accrued interest receivable	(38,395)	(1,858)
Increase in other assets	(838,523)	(30,948)
Writedown of other real estate owned	67,950	82,249
(Gain) loss on sale of other real estate owned	(10,669)	135,477
(Decrease) increase in accrued interest payable	(722)	502
(Decrease) in other liabilities	(333,085)	(59,190)
Net cash provided by operating activities	968,577	472,314
Investing activities		
Purchase of securities available-for-sale	(3,146,766)	(2,000,000)
Proceeds from sales and calls of securities available-for-sale	3,764,706	3,620,000
Principal paydowns on securities available-for-sale	1,372,691	1,535,576
Purchase of Federal Home Loan Bank stock	(3,100)	(1,900)
Net increase in loans	(8,181,000)	(8,172,309)
Proceeds from sale of other real estate owned	267,966	1,019,295
Sale (purchase) of premises, furniture and equipment, net	(125,997)	346,838
Net cash used by investing activities	(6,051,500)	(3,652,500)
Financing activities		
Net increase in deposit accounts	4,830,996	4,858,388
Repayment of advances from Federal Home Loan Bank	-	(1,000,000)
Proceeds from Federal Home Loan Bank advances	1,000,000	-
Net cash provided by financing activities	5,830,996	3,858,388
Net increase in cash and cash equivalents	748,073	678,202
Cash and cash equivalents, beginning of year	6,979,288	6,301,086
Cash and cash equivalents, end of year	$ 7,727,361	$ 6,979,288
Cash paid during the year for:		
Interest	$ 99,191	$ 97,564
Income taxes	$ -	$ -
Additions to other real estate owned through foreclosures	$ -	$ 690,077

See Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

On November 14, 1994, First Federal of South Carolina, FSB (the "Bank") converted from a mutual association to a federally chartered stock savings and loan. The accounting principles of the Bank conform to generally accepted accounting principles. The significant financial reporting policies are summarized below.

Management's 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, including valuation allowances for impaired loans, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises, furniture and equipment.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for losses on loans and foreclosed real estate may change materially in the near term.

Concentrations of credit risk:

Financial instruments, which potentially subject the Bank to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks. The Bank makes loans to individuals and small businesses for various personal and commercial purposes. The Bank's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, Management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by changing economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices outside of the geographic regions the Bank lends to. See footnote 4 for discussion of the geographic regions the Bank originates loans. Additionally, there are industry practices that could subject the Bank to increased credit risk should economic conditions change over the course of a loan's life. However, to offset this risk, the Bank makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully amortized (i.e. balloon payment loans usually 5 to 7 years). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Bank to unusual credit risk.

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of credit risk, continued

The Bank's investment portfolio consists principally of obligations of the United States, its agencies or its corporations. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Bank places its deposits and correspondent accounts with and sells its federal funds to other financial institutions. Management monitors credit risk associated with correspondent accounts.

Cash equivalents:

The Bank considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Securities available-for-sale:

Securities available-for-sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded in stockholders' equity net of deferred income taxes. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security. The adjusted cost basis of securities available-for-sale is determined by specific identification and is used in computing the gain or loss upon sale.

Nonmarketable equity securities:

Nonmarketable equity securities include the cost of the Bank's investment in the stock of the Federal Home Loan Bank ("FHLB"). The stock has no quoted market value and no ready market exists. Investment in FHLB stock is a condition of borrowing from the FHLB, and the stock is pledged to collateralize the borrowings. The Bank's investment in FHLB stock was $154,600 and $151,500 at September 30, 2017 and 2016, respectively.

Residential Mortgage Origination Fees:

The Bank's residential mortgage lending activities for sale in the secondary market are comprised of accepting residential mortgage loan applications, qualifying borrowers to standards established by investors, funding residential mortgage loans and selling mortgage loans to investors under pre-existing commitments. Funded residential mortgages held temporarily for sale to investors are recorded at the lower of cost or market value. Application and origination fees collected by the Bank are recognized as income upon sale to the investor.

Loans receivable:

Loans are stated at their unpaid principal balance, less any charge-offs. Interest income is computed using the simple interest method and is recorded in the period earned.

Note 1. Summary of Significant Accounting Policies, Continued

Loans receivable, continued:

When serious doubt exists as to the collectability of a loan or when a loan becomes contractually 90 days past due as to principal or interest, interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest. When interest accruals are discontinued, income earned but not collected is reversed. Management may elect to continue the accrual interest when the estimated net realizable value of the collateral is sufficient to ensure collection of the principal balance and accrued interest. Loans are returned to accrued status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms for a period of not less than six months.

Loan origination and commitment fees and certain direct loan origination costs (principally salaries and employee benefits) are deferred and amortized to income over the contractual life of the related loans or commitments, adjusted for prepayments, using the straight-line method.

The Bank identifies impaired loans through its normal internal loan review process. Loans on the Bank's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether all outstanding principal and interest are expected to be collected. Loans are not considered impaired if a minimal payment delay occurs and all amounts due, including accrued interest at the contractual interest rate for the period of delay, are expected to be collected.

Allowance for loan losses:

The provision for loan losses charged to operating expenses reflects the amount deemed appropriate by management to establish an adequate reserve to meet the probable loan losses incurred in the current loan portfolio. Management's judgment is based on periodic and regular evaluation of individual loans, the overall risk characteristics of the various portfolio segments, and prevailing economic conditions. Loans that are determined to be uncollectible are charged against the allowance. Provisions for loan losses and recoveries on loans previously charged off are added to the allowance.

The Bank accounts for impaired loans which requires that all lenders value loans at the loan's fair value if it is probable that the lender will be unable to collect all amounts due according to the terms of the loan agreement. Fair value may be determined based upon the present value of expected cash flows, market price of the loan, if available, or value of the underlying collateral. Expected cash flows are required to be discounted at the loan's effective interest rate. Generally accepted accounting principles allow a lender to use existing methods for recognizing interest income on an impaired loan and by requiring additional disclosures about how a creditor recognizes interest income on an impaired loan.

Under generally accepted accounting principles when the ultimate collectibility of an impaired loan's principal is in doubt, wholly or partially, cash receipts are applied to principal. Once the reported principal balance has been reduced to the loan's estimated net realized value, future cash receipts are applied to interest income, to the extent that any interest has been foregone. Further cash receipts are recorded as recoveries of any amounts previously charged off. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to interest income then to principal.

Note 1. Summary of Significant Accounting Policies, Continued

Troubled Debt Restructurings ("TDRs"):

The Bank designates loan modifications as TDRs when, for economic or legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of modification are initially classified as accruing TDRs at the date of modification, if the note is reasonably assured of repayment and performance is in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the modification date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. Nonaccrual TDR's are returned to accruing status when there is economic substance to the restructuring, there is well documented credit evaluation of the borrower's financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months).

Other real estate owned:

Real estate acquired through, or in lieu of, loan foreclosure is to be sold and is initially recorded at fair value, less costs to sell, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations and changes in any valuation allowance recorded are included in net cost of other real estate owned activity.

Income taxes:

Income taxes are the sum of amounts currently payable to taxing authorities and the net changes in income taxes payable or refundable in future years (deferred income tax). Income taxes deferred to future years are determined utilizing a liability approach. This method gives consideration to the future tax consequences associated with differences between financial accounting and tax bases of certain assets and liabilities which are principally the allowance for loan losses, depreciable premises and equipment, and the net operating loss carryforward. Deferred tax assets are reduced by a valuation allowance if based on the weight of evidence available; it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Bank believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustment that will result in a material adverse impact on the Bank's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded.

Premises, furniture and equipment:

Land is carried at cost. The Bank's premises, furniture and equipment are carried at cost, less accumulated depreciation computed principally by the straight-line method. Maintenance and repairs are charged to current expense. The cost of major renewals and improvements are capitalized.

Note 1. Summary of Significant Accounting Policies, Continued

Accumulated other comprehensive (loss):

Comprehensive income includes net income and all changes to the Bank's equity, with the exception of transactions with stockholders. The Bank's other comprehensive income (loss) and accumulated other comprehensive loss are comprised of unrealized gains and losses on certain investments in debt securities and defined benefit plan adjustments.

Changes in accumulated other comprehensive income (loss) by component:

For the years ended September 30, 2017 and 2016

	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Total
Balance as of September 30, 2015	$ 47,381	$ (1,535,996)	$ (1,488,615)
Other comprehensive income (loss)	172,223	(10,803)	161,420
Balance as of September 30, 2016	219,604	(1,546,799)	(1,327,195)
Other comprehensive income (loss)	(216,676)	146,683	(69,993)
Balance as of September 30, 2017	$ 2,928	$ (1,400,116)	$ (1,397,188)

Financial instruments:

In the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Marketing expense:

The Bank expenses the cost of marketing as incurred. Marketing expenses totaled $14,206 and $11,959 for the years ended September 30, 2017 and 2016, respectively.

Risks and uncertainties:

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

Note 1. Summary of Significant Accounting Policies, Continued

Risks and uncertainties, continued:

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

Recently issued accounting pronouncements:

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Bank:

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Bank for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Bank will apply the guidance using a modified retrospective approach. The Bank does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which changes the presentation of debt issuance costs. The amendments were effective for fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016, with early adoption permitted for financial statements that have not been previously issued. These amendments did not have a material effect on the Bank's financial statements.

In August 2015, the FASB deferred the effective date of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Bank for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Bank will apply the guidance using a modified retrospective approach. These amendments did not have a material effect on the Bank's financial statements.

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued :

In March 2016, the FASB amended several topics of the ASC to make the guidance in all private bank accounting alternatives effective immediately by removing their effective dates. The amendments also include transition provisions that provide that private companies are able to forgo a preferability assessment the first time they elect the private bank accounting alternatives. The amendments were effective immediately. These amendments did not have a material effect on the Bank's financial statements.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Bank for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Bank does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Bank for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Bank does not expect these amendments to have a material effect on its financial statements.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Bank for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Bank does not expect these amendments to have a material effect on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Bank for annual periods beginning after December 15, 2020, and interim periods within annual reporting periods beginning after December 15, 2021. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Bank is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB amended the Statement of Cash Flows topic of the ASC to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments will be effective for the Bank for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Bank does not expect these amendments to have a material effect on its financial statements.

In October 2016, the FASB amended the Income Taxes topic of the ASC to modify the accounting for intra-entity transfers of assets other than inventory. The amendments will be effective for the Bank for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Bank does not expect these amendments to have a material effect on its financial statements.

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued :

In November 2016, the FASB amended the Statement of Cash Flows topic of the ASC to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments will be effective for the Bank for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Bank does not expect these amendments to have a material effect on its financial statements.

In December 2016, the FASB issued amendments to clarify the ASC, correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (December 14, 2016) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Bank does not expect these amendments to have a material effect on its financial statements.

In December 2016, the FASB issued technical corrections and improvements to the Revenue from Contracts with Customers Topic. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The effective date and transition requirements for the technical corrections will be effective for the Bank for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Bank will apply the guidance using a modified retrospective approach. The Bank does not expect these amendments to have a material effect on its financial statements.

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

Reclassifications:

Certain captions and amounts in the 2016 financial statements were reclassified to conform with the 2017 presentation. These reclassifications had no effect on stockholders' equity or results of operations as previously presented.

Note 2. Cash and Cash Equivalents

The Bank is required by regulation to maintain an average cash reserve balance based on a percentage of deposits. At September 30, 2017 and 2016, the required cash reserve was satisfied by vault cash and cash held at other financial institutions.

Note 3. Securities Available-for-Sale

The amortized cost and estimated fair values of securities available-for-sale were:

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises	$ 2,000,000	$ -	$ (29,685)	$ 1,970,315
Mortgage-backed securities	6,900,599	28,481	(43,208)	6,885,872
Municipal securities	1,340,907	49,731	(2,391)	1,388,247
Total	$ 10,241,506	$ 78,212	$ (75,284)	$ 10,244,434

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises	$ 4,000,000	$ 3,895	$ -	$ 4,003,895
Mortgage-backed securities	7,257,388	139,822	-	7,397,210
Municipal securities	1,017,293	75,887	-	1,093,180
Total	$ 12,274,681	$ 219,604	$ -	$ 12,494,285

The following table shows investments with gross unrealized losses and their related fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2017. There were no investments in an unrealized loss position at September 30, 2016.

	Less than twelve months		Twelve months or more		Total	
September 30, 2017	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government-sponsored securities	$ 1,479,545	$ 20,455	$ 490,770	$ 9,230	$ 1,970,315	$ 29,685
Mortgage-backed securities	5,248,202	43,208	-	-	5,248,202	43,208
Municipal securities	323,077	2,391	-	-	323,077	2,391
Total	$ 7,050,824	$ 66,054	$ 490,770	$ 9,230	$ 7,541,594	$ 75,284

Securities classified as available-for-sale are recorded at fair market value. The Bank does not intend to sell these securities while in a loss position and it is more likely than not that the Bank will not be required to sell these securities before recovery of their amortized cost. The Bank believes, based on industry analyst reports and credit ratings that the deterioration in value is attributable to changes in market interest rates and the lack of liquidity in individual securities and is not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary.

Note 3. Securities Available-for-Sale, Continued

The amortized costs and fair values of investment securities at September 30, 2017, by contractual maturity, are shown in the following chart. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized cost	Estimated fair value
Due after one through five years	$ 1,000,000	$ 981,325
Due after five years but within ten years	3,216,485	3,279,587
Due after ten years	6,025,021	5,983,522
Total securities	$ 10,241,506	$ 10,244,434

Proceeds from sales of securities available for sale during the year ended September 30, 2017 were $766,559 resulting in gross realized gains of $12,426. There were no investments sold during the year ended September 30, 2016. At September 30, 2017, there was no collateral to secure public deposits. At September 30, 2016, investment securities with a par value of $2,500,000 and a fair market value of $2,502,478 were pledged as collateral to secure public deposits.

Note 4. Loans Receivable

Major classifications of loans receivable at September 30 are summarized as follows:

	2017	2016
Real estate - commercial	$ 3,952,055	$ 4,493,695
Real estate - residential	50,097,634	42,144,717
Real estate - construction	6,813,517	6,118,220
Commercial and industrial	344,955	325,933
Consumer and other	1,174,007	1,126,003
Total gross loans	62,382,168	54,208,568
Less: Unearned origination (fees) costs, net	(30,389)	(54,543)
Allowance for loan losses	(1,018,254)	(875,566)
Total loans, net	$ 61,333,525	$ 53,278,459

The Bank has no loans pledged as collateral as of September 30, 2017 or 2016.

Loans serviced for others at September 30, 2017 and 2016 were $66,513,596 and $54,882,888, respectively. Custodial escrow balances maintained in connection with the loan servicing were approximately $414,388 and $299,768 at September 30, 2017 and 2016, respectively.

The Bank primarily originates residential loans to customers in Walterboro (South Carolina) and the surrounding communities including the Edisto Beach area. The Bank's ability to collect these balances depends substantially upon the economic conditions and real estate market in the region.

Note 4. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses at and for the year ended September 30, 2017:

	Real Estate Commercial	Real Estate Residential	Real Estate Construction	Commercial and Industrial	Consumer- and Other	Total
Allowance for loan losses:						
Beginning balance	$ 84,005	$ 604,707	$ 103,151	$ 23,206	$ 60,497	$ 875,566
Charge-offs	-	-	-	-	(14,966)	(14,966)
Recoveries	-	-	18,920	9,942	2,858	31,720
Provisions	(6,099)	156,722	(42,032)	(5,473)	22,816	125,934
Ending balance	$ 77,906	$ 761,429	$ 80,039	$ 27,675	$ 71,205	$ 1,018,254
Ending balances:						
Individually evaluated for impairment	$ -	$ 23,243	$ 4,070	$ -	$ -	$ 27,313
Collectively evaluated for impairment	$ 77,906	$ 738,186	$ 75,969	$ 27,675	$ 71,205	$ 990,941
Loans receivable:						
Ending balance - total	$ 3,952,055	$ 50,097,634	$ 6,813,517	$ 344,955	$ 1,174,007	$ 62,382,168
Ending balances:						
Individually evaluated for impairment	$ 279,355	$ 1,785,378	$ 188,593	$ -	$ -	$ 2,253,326
Collectively evaluated for impairment	$ 3,672,700	$ 48,312,256	$ 6,624,924	$ 344,955	$ 1,174,007	$ 60,128,842

The following is a summary of information pertaining to our allowance for loan losses at and for the year ended September 30, 2016:

	Real Estate Commercial	Real Estate Residential	Real Estate Construction	Commercial and Industrial	Consumer- and Other	Total
Allowance for loan losses:						
Beginning balance	$ 39,663	$ 685,004	$ 85,977	$ 47,901	$ 4,792	$ 863,337
Charge-offs	-	(85,821)	(18,920)	(63,396)	(41,453)	(209,590)
Recoveries	-	2,595	3,949	18,246	17,029	41,819
Provisions	44,342	2,929	32,145	20,455	80,129	180,000
Ending balance	$ 84,005	$ 604,707	$ 103,151	$ 23,206	$ 60,497	$ 875,566
Ending balances:						
Individually evaluated for impairment	$ -	$ 14,115	$ -	$ -	$ -	$ 14,115
Collectively evaluated for impairment	$ 84,005	$ 590,592	$ 103,151	$ 23,206	$ 60,497	$ 861,451
Loans receivable:						
Ending balance - total	$ 4,493,695	$ 42,144,717	$ 6,118,220	$ 325,933	$ 1,126,003	$ 54,208,568
Ending balances:						
Individually evaluated for impairment	$ 319,096	$ 2,135,283	$ 202,343	$ -	$ -	$ 2,656,722
Collectively evaluated for impairment	$ 4,174,599	$ 40,009,434	$ 5,915,877	$ 325,933	$ 1,126,003	$ 51,551,846

Note 4. Loans Receivable, Continued

The Bank identifies impaired loans through its normal internal loan review process. Loans on the Bank's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether all outstanding principal and interest are expected to be collected. Loans are not considered impaired if a minimal delay occurs and all amounts due including accrued interest at the contractual interest rate for the period of delay are expected to be collected.

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at and for the year ended September 30, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance needed:				
Real estate - commercial	$ 279,355	$ 300,880	$ -	$ 299,225
Real estate - residential	720,713	797,427	-	776,718
Real estate - construction	171,932	171,932	-	177,136
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
With an allowance recorded:				
Real estate - commercial	-	-	-	-
Real estate - residential	1,064,665	1,076,092	23,243	1,084,805
Real estate - construction	16,661	16,661	4,070	18,332
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
Total:				
Real estate - commercial	279,355	300,880	-	299,225
Real estate - residential	1,785,378	1,873,519	23,243	1,861,523
Real estate - construction	188,593	188,593	4,070	195,468
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
	$ 2,253,326	$ 2,362,992	$ 27,313	$ 2,356,216

Note 4. Loans Receivable, Continued

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at September 30, 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance needed:				
Real estate - commercial	$ 319,096	$ 344,667	$ -	$ 456,783
Real estate - residential	1,999,749	2,073,228	-	1,273,798
Real estate - construction	202,343	202,343	-	279,326
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
With an allowance recorded:				
Real estate - commercial	-	-	-	-
Real estate - residential	135,534	135,534	14,115	133,202
Real estate - construction	-	-	-	-
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
Total:				
Real estate - commercial	319,096	344,667	-	456,783
Real estate - residential	2,135,283	2,208,762	14,115	1,407,000
Real estate - construction	202,343	202,343	-	279,326
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
	$ 2,656,722	$ 2,755,772	$ 14,115	$ 2,143,109

Credit Quality Indicators

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Note 4. Loans Receivable, Continued

The following is an analysis of our loan portfolio by credit quality indicators at September 30, 2017:

	Real Estate Commercial	Real Estate Residential	Real Estate Construction	Commercial and Industrial	Consumer and Other	Total
Pass	$ 3,672,701	$ 49,852,596	$ 6,813,517	$ 296,525	$ 1,157,943	$ 61,793,282
Special Mention	279,354	-	-	48,430	-	327,784
Substandard	-	245,038	-	-	16,064	261,102
	$ 3,952,055	$ 50,097,634	$ 6,813,517	$ 344,955	$ 1,174,007	$ 62,382,168

The following is an analysis of our loan portfolio by credit quality indicators at September 30, 2016:

	Real Estate Commercial	Real Estate Residential	Real Estate Construction	Commercial and Industrial	Consumer and Other	Total
Pass	$ 4,493,695	$ 41,756,382	$ 6,118,220	$ 325,933	$ 1,102,331	$ 53,796,561
Special Mention	-	-	-	-	-	-
Substandard	-	388,335	-	-	23,672	412,007
	$ 4,493,695	$ 42,144,717	$ 6,118,220	$ 325,933	$ 1,126,003	$ 54,208,568

The following is an aging analysis of our loan portfolio at September 30, 2017:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Nonaccrual
Real estate-commercial	$ 37,947	$ -	$ -	$ 37,947	$ 3,914,108	$ 3,952,055	$ -
Real estate-residential	419,795	152,450	128,103	700,348	49,397,286	50,097,634	129,132
Real estate-construction	-	-	-	-	6,813,517	6,813,517	-
Commercial and industrial	-	-	-	-	344,955	344,955	-
Consumer-other	2,967	18,642	-	21,609	1,152,398	1,174,007	-
	$ 460,709	$ 171,092	$ 128,103	$ 759,904	$ 61,622,264	$ 62,382,168	$ 129,132

The following is an aging analysis of our loan portfolio at September 30, 2016:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Nonaccrual
Real estate-commercial	$ -	$ -	$ -	$ -	$ 4,493,695	$ 4,493,695	$ -
Real estate-residential	468,590	67,504	128,996	665,090	41,479,627	42,144,717	237,879
Real estate-construction	-	-	-	-	6,118,220	6,118,220	-
Commercial and industrial	-	-	-	-	325,933	325,933	-
Consumer-other	45,032	-	-	45,032	1,080,971	1,126,003	-
	$ 513,622	$ 67,504	$ 128,996	$ 710,122	$ 53,498,446	$ 54,208,568	$ 237,879

Loans past due ninety days or more and still accruing interest totaled $91,015 as of September 30, 2017. There were no loans past due ninety days or more and still accruing interest at September 30, 2016.

The TDRs amounted to $2,125,410 at September 30, 2017. The accruing TDR's were $2,125,410 and the non-accruing TDR's were $16,790 at September 30, 2017. The TDRs amounted to $2,503,398 at September 30, 2016. The accruing TDR's were $2,418,843 and the non-accruing TDR's were $84,555 at September 30, 2016.

Note 4. Loans Receivable, Continued

The following chart represents the TDR's identified during the year ended September 30, 2017:

	For the year ended September 30, 2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate - residential	1	$ 279,355	$ 279,355
	1	$ 279,355	$ 279,355

During the year ended September 30, 2017, we modified one loan that was considered to be a troubled debt restructuring. We extended the term for this loan.

There were no loans identified as TDR's during the year ended September 30, 2016.

Note 5. Other Real Estate Owned

The following summarizes the activity in the other real estate owned for the years ended September 30:

	2017	2016
Balance, beginning of year	$ 413,787	$ 960,731
Additions - foreclosures	-	690,077
Sales	(257,297)	(1,154,772)
Write-downs	(67,950)	(82,249)
Balance, end of year	$ 88,540	$ 413,787

Note 6. Premises, Furniture and Equipment

Premises, furniture and equipment consisted of the following at September 30:

	2017	2016
Land and improvements	$ 1,161,093	$ 1,161,093
Buildings and improvements	1,609,140	1,584,763
Furniture and equipment	1,256,522	1,154,902
	4,026,755	3,900,758
Less, accumulated depreciation	1,985,459	1,881,650
	$ 2,041,296	$ 2,019,108

During the year ended September 30, 2016, the Bank sold its downtown Walterboro location. Proceeds from the sale totaled $415,436 and the gain recorded on the sale totaled $364,062.

Depreciation expense for the years ended September 30, 2017 and 2016 was $103,809 and $129,193, respectively.

Note 7. Deposits

At September 30, 2017, the scheduled maturities of certificates of deposit were as follows:

Maturing in year ending September 30:	Amount
2018	$ 22,060,988
2019	454,650
2020	42,521
2021	-
2022 and thereafter	-
Total	$ 22,558,159

The aggregate amount of certificates of deposit with a minimum denomination of $250,000 was $626,287 and $1,261,485 at September 30, 2017 and 2016, respectively.

Note 8. Advances from Federal Home Loan Bank

Pursuant to a collateral agreement with the FHLB, the Bank has an open line of credit based on market values of certain mortgage-backed securities and investments. In addition, the stock in the Federal Home Loan Bank is pledged to secure any advance outstanding.

At September 30, 2017, the Bank had an advance from the FHLB in the amount of $1,000,000, with a 1.94% fixed interest rate that matures on September 27, 2021. As collateral, the Bank had pledged securities with fair value of $1,396,337. The Bank had no outstanding borrowings from the FHLB as of September 30, 2016.

Note 9. Commitments and Contingent Liabilities

In conjunction with its lending activities, the Bank enters into various commitments to extend credit. Loan commitments (unfunded loans and unused lines of credit) are issued to accommodate the financing needs of the Bank's customers. Loan commitments are agreements by the Bank to lend monies at a future date, so long as there are no violations of any conditions established in the agreement.

The following table summarizes the Bank's off-balance-sheet financial instruments at September 30, 2017 and 2016 whose contract amounts represent credit risk:

	2017	2016
Commitments to extend credit	$ 7,945,519	$ 7,373,477
Letters of credit	54,129	54,129
	$ 7,999,648	$ 7,427,606

Outstanding commitments on mortgage loans not yet closed are reflected above. Such commitments, which are funded subject to certain limitations, extend over varying periods of time with the majority being funded within a twelve-month period.

Note 9. Commitments and Contingent Liabilities, Continued

These loan commitments are subject to the same credit policies and reviews as loans on the balance sheet. Collateral, both the amount and nature, is obtained based upon management's assessment of the credit risk. Since many of the extensions of credit are expected to expire without being drawn, the total commitment amounts do not necessarily represent future cash requirements.

In the ordinary course of business, the Bank may, from time to time, become a party to legal claims and disputes. At September 30, 2017, management and legal counsel are not aware of any pending or threatened ligation or unasserted claims or assessment that could result in losses, if any, that would be material to the financial statements.

Note 10. Regulatory Matters and Capital Requirements

On July 18, 2012, the Bank entered into a formal written agreement (the "Agreement") with the Office of the Comptroller of the Currency (the "OCC") arising from the OCC's findings related to asset quality, and credit and liquidity risk management. The Agreement required the Bank to undertake certain actions within designated timeframes, and to operate in compliance with the provisions thereof during its term. The Agreement was terminated by the OCC on November 28, 2016.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's 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 classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (as set forth in the table below) of Tier 1, Common Equity Tier 1 ("CET1"), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 150%. Tier 1 capital of a Bank typically consists of common stockholders' equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets, white CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 1 capital.

The Bank is also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. Only the strongest banks are allowed to maintain capital at the minimum requirement of 3%. All others are subject to the minimum requirement of 4%.

Note 10. Regulatory Matters and Capital Requirements, Continued

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act"), require the Bank to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank will also be required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of CET1, but the buffer will apply to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016 and becoming fully effective on January 1, 2019, and will ultimately consist of an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets.

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements at September 30, 2017 and 2016:

(Dollars in thousands)	Actual		For capital adequacy purposes Minimum		To be well capitalized under prompt corrective action provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2017						
Common equity tier 1 (to risk weighted assets)	$ 7,426	16.80%	$ 1,989	4.50%	$ 2,874	6.50%
Total capital (to risk weighted assets)	7,984	18.06%	3,537	8.00%	4,421	10.00%
Tier 1 capital (to risk weighted assets)	7,426	16.80%	2,653	4.00%	3,537	8.00%
Tier 1 capital (to average assets)	7,426	8.85%	3,355	4.00%	4,193	5.00%
As of September 30, 2016						
Common equity tier 1 (to risk weighted assets)	$ 6,207	14.89%	$ 1,875	4.50%	$ 2,709	6.50%
Total capital (to risk weighted assets)	6,732	16.16%	3,334	8.00%	4,167	10.00%
Tier 1 capital (to risk weighted assets)	6,207	14.89%	1,667	4.00%	3,334	8.00%
Tier 1 capital (to average assets)	6,207	8.06%	3,081	4.00%	3,851	5.00%

Note 11. Income Taxes

The following is a summary of the provision for income taxes:

	2017	2016
Current payable		
Federal	$ -	$ -
State	-	-
Total current	-	-
Deferred income taxes		
Change in deferred income taxes	463,376	241,246
Valuation allowance for deferred income taxes	(463,376)	(241,246)
Total deferred	-	-
Total income tax expense	$ -	$ -

The Bank's effective tax rate differs from that computed at the statutory federal income tax rate of 34%, as follows:

	2017	2016
Tax expense (benefit) at statutory rate	$ 414,656	$ 217,165
Other	48,720	24,081
Valuation allowance	(463,376)	(241,246)
	$ -	$ -

The components of net deferred tax assets and deferred tax liabilities are as follows:

	2017	2016
Deferred tax assets:		
Allowance for loan losses	$ 279,258	$ 231,453
Net operating losses - federal	712,790	979,848
Net operating losses - state	120,877	151,982
Fixed assets	3,112	5,902
Writedowns on other real estate owned	57,959	85,457
Loan origination fees	7,140	9,559
Minimum pension liability	532,044	587,784
Other	13,134	4,992
Gross deferred tax assets	1,726,314	2,056,977
Less valuation allowance	(1,519,381)	(1,956,160)
Net deferred tax assets	206,933	100,817
Deferred tax liabilities		
Unrealized gains on securities available for sale	1,113	83,450
Pension plan liability	194,908	6,455
Other	10,912	10,912
Total gross deferred tax liabilities	206,933	100,817
Net deferred tax asset recognized	$ -	$ -

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded tax asset to net realizable value. After review of all positive and negative factors and potential tax planning strategies, as of September 30, 2017 management has recorded a full valuation allowance of $1,519,381. The balance of the valuation allowance changed by ($436,779) and ($302,585) during the years ended September 30, 2017 and 2016, respectively.

Note 11. Income Taxes, Continued

The Bank had federal net operating loss carryforwards of $2,096,440 and $2,881,905 for the years ended September 30, 2017 and 2016, respectively. The Bank had state net operating loss carryforwards of $3,052,453 and $3,837,918 for the years ended September 30, 2017 and 2016, respectively. The federal net operating losses expire in tax years 2030 - 2035 and state net operating losses expire in tax years 2030 - 2035.

Savings associations which meet certain definitional tests and operating requirements prescribed by the Internal Revenue Code have been allowed a special bad debt deduction and other special tax provisions. If a savings association did not continue to meet the federal income tax requirements necessary to meet these definitions, the savings association would lose the benefits of these special provisions.

In 1996, legislation was passed that eliminated the special bad debt deduction for thrift institutions effective for years beginning after 1995, or for the bank's fiscal year beginning October 1, 1996. For tax purposes, the Bank will be required to recapture $173,463 of post-1987 additions ("excess reserves") to its tax bad debt reserves. Under the legislation, the association qualifies as a "small bank", and the excess reserves will be restored to taxable income ratably over the six years, beginning in the year the association no longer qualifies as a bank. Deferred taxes have been provided for the amount of these excess reserves. No deferred tax liability has been provided for the tax bad debt reserve amounting to $348,021 that arose prior to 1987.

The Bank is included in a consolidated federal income tax return with First Carolina Bancshares, MHC. The tax provision is allocated among members of the group based upon the separate income of each entity. There were no tax related balances due to or from affiliates as of September 30, 2017 and 2016. Tax returns for 2013 and subsequent years are subject to examination by taxing authorities.

As of September 30, 2017, the Bank had no material unrecognized tax benefits or accrued interest and penalties. It is the Bank's policy to account for interest and penalties accrued relative to unrecognized tax benefits as a component of income tax expense.

Note 12. Employee Benefit Plans

Pension Plan:

The Bank participates in a non-contributory defined benefit plan covering eligible employees based upon age and years of service. Benefits are based upon length of service and a percentage of qualifying compensation during the final years of employment. The Bank uses the projected unit credit method as its actuarial valuation method.

On October 22, 2014, the Company's Board of Directors voted to freeze participation and benefit accruals related to the Bank's pension plan effective December 31, 2014.

The following tables outline the required disclosure information at September 30:

	2017	2016
Net periodic pension cost:		
Service cost with interest to year-end	$ -	$ -
Interest cost on projected benefit obligation	131,249	159,215
Expected return on assets	(160,412)	(158,443)
Net amortizations:		
(Gain) loss	128,467	111,215
Net periodic pension cost	$ 99,304	$ 111,987

Note 12. Employee Benefit Plans, Continued

	2017	2016
Accounting Assumptions:		
Discount Rate	3.35%	3.00%
Expected long term rate of return on assets	5.50%	5.50%
Rate of increase in compensation levels	N/A	N/A
Rate of increase in maximum benefit and compensation levels	N/A	N/A
Estimated contribution for the subsequent fiscal year	$ 514,942	$ 290,094

Projected benefit payments
Estimated benefit payments for fiscal year ended September 30:

2018	$ 220,000
2019	226,000
2020	247,000
2021	681,000
2022	715,000
2023 - 2027	1,371,000
Total	$ 3,460,000

The following tables set forth the plan's funded status and amounts recognized in the financial statements at September 30:

	2017	2016
Change in benefit obligation		
Benefits obligations at beginning of year	$ (4,410,336)	$ (4,513,529)
Service cost	-	-
Interest cost	(131,249)	(159,215)
Actuarial gain (loss)	(40,079)	(196,861)
Benefits paid	197,027	459,269
Benefit obligations at end of year	$ (4,384,637)	$ (4,410,336)
Change in plan assets:		
Fair value of assets at beginning of year	$ 2,886,280	$ 2,914,608
Actual return on plan assets	218,707	154,059
Employer contribution	590,036	291,596
Settlement - amount paid	-	(290,839)
Benefits paid	(197,027)	(183,164)
Plan assets at fair value at end of year	$ 3,497,976	$ 2,886,260
Unfunded status at end of year	$ (886,661)	$ (1,524,076)

The entire unfunded status as of September 30, 2017 and 2016 is currently recorded in other liabilities.

Note 12. Employee Benefit Plans, Continued

	2017	2016
Amounts recognized on the Balance Sheets:		
Noncurrent assets	$ -	$ -
Current liabilities	-	-
Noncurrent liabilities	(886,661)	1,524,076
Net amount recognized	(886,661)	1,524,076
Pre-FAS 158 (accrued) prepaid cost	513,455	22,723
Net adjustment to other comprehensive income	$ (1,400,116)	$ (1,546,799)
Amounts recognized in accumulated other comprehensive loss:		
Unrecognized actuarial loss	$ 1,400,116	$ 1,546,799
Unrecognized prior service cost	-	-
Net amount recognized	$ 1,400,116	$ 1,546,799
FASB ASC 715 (accrued) prepaid pension cost:		
(Accrued) prepaid pension cost at beginning of year	$ 22,723	$ (62,925)
Prior year adjustment	-	8,051
Net periodic pension cost for fiscal year	(99,304)	(111,987)
Actual employer contributions	590,036	291,596
Effect of settlement	-	(102,012)
(Accrued) prepaid pension cost at end of year	$ 513,455	$ 22,723
Accumulated benefit obligation	$ (4,384,637)	$ (4,410,336)
Net periodic pension cost:		
Service cost	$ -	$ -
Interest cost	31,249	159,215
Expected return on plan assets	(160,412)	(158,443)
Amortization of prior service cost	-	-
Amortization of net loss	128,467	111,215
Net periodic pension cost	99,304	111,987
One-time additional expense	-	102,012
Total pension expense	$ 99,304	$ 213,999
Other changes in plan assets and benefits obligations recognized in other comprehensive income:		
Net (gain) loss	$ (18,216)	$ 224,030
Amortization of net loss	(128,467)	(213,227)
Total recognized in other comprehensive income	$ (146,683)	$ 10,803
Total recognized in net periodic pension cost and other comprehensive income	$ (47,379)	$ 224,802

Note 12. Employee Benefit Plans, Continued

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year are $113,296 and $0, respectively.

Statement of Assets as of September 30, 2017:

Investment Category	Market Value	Percent
Cash – interest and non-interest bearing	$ 349,798	$ 10.00%
Employer securities - equity	34,978	1.00%
Equity – common stock	1,119,352	32.00%
Equity – mutual funds	244,858	7.00%
Fixed income	1,084,373	31.00%
Fixed income – mutual funds	664,617	19.00%
Net Assets	$ 3,497,976	$ 100.00%

Note 13. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Bank, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Bank. 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 persons and do not involve more than the normal risk of collectability. As of September 30, 2017 and 2016, the Bank had related party loans totaling $1,063,187 and $459,035, respectively.

Note 14. Fair Value of Financial Instruments

Generally Accepted Accounting Principles (GAAP) provide a framework for measuring and disclosing fair value which requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair value is defined as the exchange in price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Note 14. Fair Value of Financial Instruments, Continued

Fair value hierarchy:

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

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

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

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

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

Investment securities available-for-sale:

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

Loans:

The Bank 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 are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At September 30, 2017 and 2016 substantially all of the impaired loans were evaluated based upon the fair value of the collateral or the discounted cash flows method. Impaired loans where an allowance is established based on the fair value of collateral or the discounted cash flows method require classification in the fair value hierarchy. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the loan as nonrecurring Level 3.

Note 14. Fair Value of Financial Instruments, Continued

Loans held for sale:

The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

Other real estate owned:

Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank recorded the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the foreclosed asset as nonrecurring Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and 2016, by level within the hierarchy.

	2017			
	Total	Level 1	Level 2	Level 3
Government-sponsered enterprises	$ 1,970,315	$ -	$ 1,970,315	$ -
Mortgage-backed securities	6,885,872	-	6,885,872	-
Municipal securities	1,388,247	-	1,388,247	-
	$ 10,244,434	$ -	$ 10,244,434	$ -

	2016			
	Total	Level 1	Level 2	Level 3
Government-sponsered enterprises	$ 4,003,895	$ -	$ 4,003,895	$ -
Mortgage-backed securities	7,397,210	-	7,397,210	-
Municipal Securities	1,093,180	-	1,093,180	-
Loans held for sale	630,160	-	630,160	-
	$ 13,124,445	$ -	$ 13,124,445	$ -

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy (as described above) as of September 30, 2017 and 2016 for which a nonrecurring change in fair value has been recorded during the years ended September 30, 2017 and 2016.

Note 14. Fair Value of Financial Instruments, Continued

	2017			
	Total	Level 1	Level 2	Level 3
Impaired loans, net of specific reserve	$ 2,226,013	$ -	$ -	$ 2,226,013
Other real estate owned	88,540	-	-	88,540
	$ 2,314,553	$ -	$ -	$ 2,314,553

	2016			
	Total	Level 1	Level 2	Level 3
Impaired loans, net of specific reserve	$ 2,642,607	$ -	$ -	$ 2,642,607
Other real estate owned	413,787	-	-	413,787
	$ 3,056,394	$ -	$ -	$ 3,056,394

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2017 and September 30, 2016, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value as of September 30, 2017	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$ 2,226,013	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 6% to 20% for sales commissions and other holding cost
Other real estate owned	$ 88,540	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 6% to 20% for sales commissions and other holding cost

	Fair Value as of September 30, 2016	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$ 2,642,607	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 6% to 20% for sales commissions and other holding cost
Other real estate owned	$ 413,787	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 6% to 20% for sales commissions and other holding cost

Note 15. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through December 21, 2017, the date the financial statements were available to be issued, and found the following subsequent event that is detailed below.