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FRB RICHMOND

FR Y-6
OMB Number 7100-0297
Approval expires September 30, 2018
Page 1 of 2

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, Renee H. Shaw
Name of the Holding Company Director and Official

President
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.

Renee H. Shaw
Signature of Holding Company Director and Official

12/12/2017
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID 3837467
C.I.

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

None
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Wake Forest Bancorp, M.H.C.
Legal Title of Holding Company

PO Box 1167, 302 Brooks Street
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Wake Forest	NC	27587

same
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Robert C. White	Contract CFO

919-556-5146
Area Code / Phone Number / Extension

919-556-5300
Area Code / FAX Number

bob.white@wakeforestfederal.com
E-mail Address

www.wakeforestfederal.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.

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.

Wake Forest Bancshares, Inc.
Legal Title of Subsidiary Holding Company

PO Box 1167, 302 Brooks Street
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

Wake Forest	NC	27587
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

Physical Location (if different from mailing address)

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Physical Location (if different from mailing address)

Wake Forest Banchares, Inc.
Annual Report to Shareholders

Item 1.

The Annual Report to Shareholders for the fiscal year ended September 30, 2017 is attached. Wake Forest Bancshares, Inc. is the reporting entity. The financial statements for Wake Forest Bancorp, MHC are included in the Annual Report by reference to footnote number 14. The standalone financial statements for Wake Forest Bancshares, Inc. are included in the Annual Report by reference to footnote number 15.

Wake Forest Bancorp M.H.C and Subsidiaries

Organizational Chart

Item 2a

Address: all entitites are located at:
302 Brooks Street
Wake Forest, N.C. 27587

Note that none of the entities within the organizational structure have a Legal Entity Identifier (LEI)

Wake Forest Bancorp, M.H.C.
(Mutual Holding Company)
Federally chartered April 1996

↓

Owns 55.9% of Wake Forest Bancshares, Inc
at September 30, 2017
Organized April, 1996, Conducts no business activities

Wake Forest Bancshares, Inc.
(Stock Holding Company)
Federally chartered May 1999

↓

Owns 100% of Wake Forest Federal
at September 30, 2017
This is the reporting level that has outside shareholders but none more than 5% (other than the MHC)
Organized May, 1999
Conducts no activities other than buying back shares and paying dividends

Wake Forest Federal Savings and Loan Association
Federally charted Savings & Loan Assn
Organized in 1922

↓

Home office (which is only branch) located in Wake Forest, N.C.

Wake Forest Federal Savings & Loan Association
Domestic Branches

Item 2b.

The wholly owned Wake Forest Federal Savings & Loan Association has one branch, which is located at 302 Brooks Street, Wake Forest, NC 27587.

There are no corrections/additions/deletions to what has previously been supplied to the Federal Reserve.

The branch does not have a popular name but is known as located in Wake Forest. It is a full service branch.

Wake Forest Bancshares, Inc.
Securities Holders

Item 3.

Wake Forest Bancorp, M.H.C. is a Mutual Holding Company and the depositors and certain borrowers are voting members of the Company as described below:

Each depositor shall be permitted to cast one vote for each $100, or fraction thereof, of deposits held at the Association on December 31st of each year. In addition, borrowers from the Assn as of April 3, 1996 (the date of incorporation of the MHC) shall be entitled to one vote for the period of time during which such borrowing that existed on April 3, 1996 continues to exist on December 31st of each year. No member shall be allowed to cast more than 400 votes.

Wake Forest Bancorp, M.H.C. holds 55.9% of the voting stock of Wake Forest Bancshares, Inc., which is the reporting company and the entity that has outside shareholders.

Wake Forest Bancorp, M.H.C., Wake Forest, NC USA
Wake Forest Bancshares, Inc., Wake Forest, NC USA

There are no known shareholders of Wake Forest Bancshares, Inc. that hold more than 5% of the stock of Wake Forest Bancshares, Inc. either at or during the fiscal year ended September 30, 2017.

There are no outstanding warrants or stock options that could increase the potential number of shares held by any stockholder.

Wake Forest Bancorp, M.H.C.
Insiders

Item 4. Wake Forest Bancorp, M.H.C. is a mutual holding company and therefore does not have any principal stockholders. Wake Forest Bancshares, Inc. is the entity that has shareholders but none hold more than 5%. The Directors and Executive Officers of Wake Forest Bancorp, M.H.C. are the same as for Wake Forest Bancshares, Inc. and Wake Forest Federal Savings & Loan Association.

Name City, State, Country	Principal Occupation if Other than Holding Company	Title or Position with Holding Company	Title or Position with Subsidiaries	Title or Position with Other Businesses	% of Voting Shares in Wake Forest Bancorp, MHC	% of Voting Shares in Subsidiaries Wake Forest Bancshares, Inc.	Names of Companies if Own 25% or More Voting Shares
Howard L. Brown Wake Forest, NC, USA	Retired, Rolesville Oil Company	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.73%	N/A
John D. Lyon Wake Forest, NC, USA	Owner, Marathon Management	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	President, Marathon Management	N/A	2.42%	N/A
Rodney M. Privette Rolesville, NC, USA	Owner, Privette Insurance Agency	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	President, Privette Ins. Agency	N/A	0.11%	N/A
Earl F. Shoaf Raleigh, NC, USA	Owner, National Transformer Sales	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	President, National Transformer Sales	N/A	0.88%	N/A
Anna O. Sumerlin Wake Forest, NC, USA	Retired, Former CEO of the Company	Director, Chair of the Board	Director, Chair of the Board Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.39%	N/A
Robert W. Wilkinson III Wake Forest, NC, USA	Retired, Former Mg Officer of Company	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.53%	N/A
Robert C. White Wake Forest, NC, USA	Retired, Former CEO of the Company	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.58%	N/A
Randy L. Bright Wake Forest, NC, USA	Funeral Director-Bright Funeral Home	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	Funeral Director-Bright Funeral Home	N/A	0.26%	N/A
Sue E. Anthony Wake Forest, NC, USA	Owner/Operator, Anthony Law Office	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	Partner, Anthony Law Office	N/A	0.13%	N/A
Renee H. Shaw Wake Forest, NC, USA	President & CEO of the Company	President and CEO	President and CEO Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.04%	N/A
Carter S. Harrell Wake Forest, NC, USA	Sr VP, Treasurer/Sec of the Company	Sr VP, Treasurer/Secretary	Sr VP, Treasurer/Secretary Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.00%	N/A

Wake Forest Bancshares, Inc.

2017 Annual Report

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REPORT TO STOCKHOLDERS

The fiscal year ending September 30, 2017 proved to be another good year for Wake Forest Bancshares, Inc. (the "Company") with earnings of $969,750 or $0.85 per share. Total assets, loans and deposits all experienced slight increases during the current year. Local economic conditions and our real estate markets have continued to trend in an optimistic direction. Aided by such underlying conditions, the Company had no nonperforming assets at September 30, 2017, a situation that has not occurred at any time in the past fifteen years. Because of the lack of nonperforming loans and the recovery of prior year loan charge-offs, the Company was able to lower its loan loss allowance and take a portion of its reserve into income during 2017. However the Company's results continue to be negatively influenced by constricted interest rate margins that in large part have been caused by the Federal Reserve policy of keeping interest rates low to protect the economy from any unexpected market downturns. As a result, traditional yield curves have remained flat over extended maturity periods and have provided little incentive and far greater interest rate risk to invest in longer term interest-earning assets. Given the existing monetary environment, the Company has prudently continued to remain interest rate sensitive and keep its investments and loans on a relatively short maturity cycle, sacrificing some immediate yield. While shorter term construction lending has remained strong, originating longer term loans in the current rate environment has been challenging because the Company holds the loans it closes. During the current year, yields on our loan portfolio adjusted slightly downward and overall lending volumes increased marginally. Our cost of funds declined minimally during the current year. As a result our interest rate spreads and margins declined slightly in the current year. While we were pleased with our 2017 earnings, our ability to duplicate or expand those earnings in the future will be predicated on maintaining low levels of nonperforming assets, control of other operating expenses, and a more favorable interest rate environment which will be dictated largely by Federal Reserve actions.

Although the Company's real estate lending is still at levels below what was once considered typical, improvement in our residential markets has occurred primarily because while home values and sales have risen month over month, inventories of available homes have dropped and new starts and homes on the resale market have lagged. Reasons for the tight inventory vary, but many potential buyers have either elected to forego home purchases in the interim given their job status, uncertainty of finding a suitable replacement property, or because they have been unable to qualify for financing under tighter underwriting standards and increasing home values.

The Company's level of non-performing assets continued to fall in the current year and expenses associated with non-performing loans and foreclosed assets remained relatively insignificant. Non-performing loans and foreclosed assets amounted to $-0- at September 30, 2017 and the Company had no foreclosures during 2017. Because of the lack of nonperforming loans, the Company was able to recover $160,000 of its loan loss allowance during 2017. In comparison, the Company had no loan loss provisions and experienced net loan loss charge-offs of $44,000 during 2016. The Company's loan loss allowances amounted to approximately 2.52% of total loans outstanding at September 30, 2017. The Company's ratio of non-performing assets to total assets was -0%- at September 30, 2017, which demonstrates the steady improvement which has occurred over the past several years from 0.36%, 0.66%, 0.93%, 1.79%, 1.84%, 3.67%, and 4.91% ratios at September 30, 2016, 2015, 2014, 2013, 2012, 2011 and 2010, respectively.

The Company continues to remain well capitalized. With a Tier 1 capital leverage ratio of 22.55% at September 30, 2017, the Company is well in excess of regulatory requirements and most other community banks in our market. Due to this strong capital position and continued profitability, The Company was able to declare and pay cash dividends of $0.24 per share in 2017. Although future dividends will be dictated by these same operational issues, the Company is very proud of the fact that they have been able to continue to pay dividends without interruption for the past twenty years.

The Company is optimistic about its future. The long-term fundamentals for our market areas remain strong and should provide a base for continued growth. The Board and Management's primary commitment is to maximize shareholder value while continuing to serve as a hometown community-oriented financial institution. We encourage your comments and suggestions and we truly thank you for your continued support, business and your investment in Wake Forest Bancshares, Inc.

Respectfully,

Renee H. Shaw

Renee H. Shaw
President & Chief Executive Officer

WAKE FOREST BANCSHARES, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

	September 30,				
	2017	2016	2015	2014	2013
Financial Condition Data:			(In Thousands)		
Total assets	$ 106,740	$ 106,021	$ 106,593	$ 114,014	$ 115,551
Investments (1)	48,516	47,804	43,030	45,011	43,421
Loans receivable, net	54,584	53,894	59,984	64,234	66,596
Deposits	81,401	81,220	82,336	90,366	92,928
Stockholders' equity	24,082	23,489	22,801	22,225	21,667

	Years Ended September 30,				
	2017	2016	2015	2014	2013
Operating Data:		(In Thousands, Except Per Share Data)			
Interest and dividend income	$ 3,703	$ 3,732	$ 4,128	$ 4,066	$ 4,081
Interest expense	714	736	962	1,144	1,355
Net interest income	2,989	2,996	3,166	2,922	2,726
Provision for (recovery of) loan losses	(160)	-	163	100	153
Noninterest income	95	143	97	122	130
Noninterest expense	1,724	1,565	1,709	1,575	1,578
Income before income taxes	1,520	1,574	1,391	1,369	1,125
Income tax expense	550	592	511	519	436
Net income	$ 970	$ 982	$ 880	$ 850	$ 689
Basic earnings per share	$ 0.85	$ 0.86	$ 0.76	$ 0.74	$ 0.60
Diluted earnings per share	0.85	0.86	0.76	0.74	0.60
Dividends per share	0.24	0.24	0.24	0.23	0.20
Dividend payout ratio	28.23%	28.02%	31.36%	31.14%	33.41%
Selected Other Data:					
Return on average assets (3)	0.92%	0.93%	0.80%	0.75%	0.60%
Return on average equity (3)	4.08%	4.29%	3.93%	3.88%	3.21%
Interest rate spread (3)	2.70%	2.73%	2.74%	2.41%	2.19%
Average equity to average assets (3)	22.48%	21.79%	20.44%	19.34%	18.70%
Net interest margin (3)	2.89%	2.92%	2.96%	2.64%	2.44%
Allowance for loan losses to nonperforming loans (2)	N/A	1267.62%	407.50%	309.34%	282.18%
Nonperforming loans to total loans (2)	N/A	0.21%	0.61%	0.80%	0.84%
Allowance for loan losses to total loans	2.52%	2.69%	2.49%	2.46%	2.38%

(1) Includes interest earning deposits, bank certificate of deposits, FHLB stock and investment securities

(2) Nonperforming loans include mortgage loans delinquent more than 90 days and non-accrual loans. There were no nonperforming loans outstanding at September 30, 2017

(3) Average balances are derived from month-end balances

WAKE FOREST BANCSHARES, INC.
YIELDS AND COSTS OF FUNDS
Years Ended September 30, 2017 and 2016

	Year Ended September 30,					
	2017			2016		
Assets:	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Interest-earning assets:						
Interest-earning deposits	$ 20,004	$ 188	0.94%	$ 17,651	$ 76	0.43%
Bank certificate of deposits	26,436	385	1.46%	25,772	375	1.46%
Investment securities	1,260	17	1.35%	1,250	18	1.44%
Loans receivable (1)	55,623	3,113	5.60%	57,920	3,263	5.63%
Total interest-earning assets	103,323	$ 3,703	3.58%	102,593	$ 3,732	3.64%
Non-interest-earning assets	2,348			2,520		
Total	$ 105,671			$ 105,113		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Passbook accounts	$ 2,889	$ 4	0.14%	$ 3,052	$ 3	0.10%
NOW & MMDA accounts	33,679	160	0.48%	30,318	119	0.39%
Certificates of deposit	43,945	550	1.25%	47,496	614	1.29%
Total interest-bearing liabilities	80,513	$ 714	0.89%	80,866	$ 736	0.91%
Non-interest-bearing liabilities	1,404			1,062		
Stockholders' equity	23,754			23,185		
Total	$ 105,671			$ 105,113		
Net interest income and interest rate spread (2)		$ 2,989	2.70%		$ 2,996	2.73%
Net interest margin (3)			2.89%			2.92%
Ratio of interest-earning assets to interest-bearing liabilities			128.33%			126.87%

(1) Balance is net of deferred loan fees and loans in process. Non-accrual loans are included in the balances.

(2) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of funds.

(3) Net interest margin represents net interest income divided by average interest-earning assets.

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Wake Forest Bancshares, Inc. and Subsidiary
Wake Forest, North Carolina

We have audited the accompanying consolidated financial statements of Wake Forest Bancshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated statements of financial condition as of September 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 Wake Forest Bancshares, Inc. and Subsidiary as of September 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, North Carolina
December 12, 2017

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
September 30, 2017 and 2016

ASSETS		2017		2016
Cash:				
Interest-earning deposits	$	20,468,250	$	20,262,850
Noninterest-earning deposits		851,550		1,233,050
		21,319,800		21,495,900
Certificate of deposits in other banks		26,631,000		26,283,000
Investment securities, available for sale (Note 2)		1,320,400		1,162,700
FHLB stock, at cost (Note 2)		96,000		95,900
Loans receivable, net of allowance for loan losses of $1,404,450 in 2017 and $1,489,450 in 2016 (Note 3)		54,584,350		53,893,950
Accrued interest receivable		160,800		136,450
Property and equipment, net (Note 5)		193,500		214,150
Foreclosed real estate, net (Note 6)		-		265,500
Bank owned life insurance (Note 7)		1,607,000		1,561,350
Deferred income taxes (Note 11)		735,700		782,950
Prepaid expenses and other assets		91,750		129,550
Total assets	$	106,740,300	$	106,021,400
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits (Note 8)	$	81,400,800	$	81,219,600
Accrued interest on deposits		4,550		1,500
Accounts payable and accrued expenses		667,500		654,600
Dividends payable		68,200		68,750
Deferred gain on sale of foreclosed real estate (Note 6)		326,650		335,200
Redeemable common stock held by the ESOP, net of unearned ESOP shares (Note 10)		190,600		253,000
Total liabilities		82,658,300		82,532,650
Commitments and contingencies (Note 13)				
Stockholders' Equity (Note 12):				
Preferred stock, authorized 1,000,000 shares, none issued		-		-
Common stock, $.01 par value, authorized 5,000,000 shares; issued 1,253,948 shares in 2017 and 2016		12,550		12,550
Additional paid-in-capital		5,779,500		5,779,500
Accumulated other comprehensive income		11,950		7,050
Retained earnings, substantially restricted (Note 12)		20,115,550		19,357,100
Common stock in treasury, at cost (117,166 shares in 2017 and 107,752 shares in 2016)		(1,837,550)		(1,667,450)
Total stockholders' equity		24,082,000		23,488,750
Total liabilities and stockholders' equity	$	106,740,300	$	106,021,400

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended September 30, 2017 and 2016

		2017		2016
Interest and dividend income:				
Loans	$	3,112,750	$	3,262,950
Investment securities		17,500		18,500
Bank certificate of deposits		385,000		374,900
Interest-earning deposits		188,200		75,950
		3,703,450		3,732,300
Interest expense:				
Deposits		714,300		736,100
		714,300		736,100
Net interest income before recovery of loan losses		2,989,150		2,996,200
Recovery of loan losses (Note 3)		(160,000)		-
Net interest income after recovery of loan losses		3,149,150		2,996,200
Noninterest income:				
Service fees		29,850		32,900
Income from bank owned life insurance		45,650		45,250
Gain on sale of foreclosed real estate		13,500		62,400
Other income		5,750		1,950
		94,750		142,500
Noninterest expense:				
Compensation and benefits (Notes 9 and 10)		1,156,400		920,350
Occupancy		46,850		48,600
Federal insurance premiums and operating assessments		48,650		68,150
Data processing and outside service fees		173,800		183,400
Foreclosed assets		7,150		49,750
Other operating expense		291,300		294,400
		1,724,150		1,564,650
Income before income taxes		1,519,750		1,574,050
Income taxes (Note 11):				
Current		505,550		510,150
Deferred		44,450		81,400
		550,000		591,550
Net income	$	969,750	$	982,500
Basic earnings per share	$	0.85	$	0.86
Diluted earnings per share	$	0.85	$	0.86
Dividends paid per share	$	0.24	$	0.24

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended September 30, 2017 and 2016

		2017		2016
Net income	$	969,750	$	982,500
Other comprehensive income (loss):				
Investment securities available for sale:				
Unrealized holding gains (losses)		7,700		(8,700)
Tax effect of unrealized (gains) losses		(2,800)		3,350
		4,900		(5,350)
Total comprehensive income	$	974,650	$	977,150

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2017 and 2016

	Outstanding Shares of Common Stock		Common Stock		Additional Paid in Capital
Balance at September 30, 2015	1,149,293	$	12,550	$	5,779,500
Comprehensive income for 2016			-		-
Market value adjustment for redeemable common stock held by ESOP			-		-
Cash dividends ($0.24 per share)			-		-
Purchase of 3,097 shares for the Treasury	(3,097)		-		-
Balance at September 30, 2016	1,146,196		12,550		5,779,500
Comprehensive income for 2017			-		-
Market value adjustment for redeemable common stock held by ESOP			-		-
Cash dividends ($0.24 per share)			-		-
Purchase of 9,414 shares for the Treasury	(9,414)		-		-
Balance at September 30, 2017	1,136,782	$	12,550	$	5,779,500

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2017 and 2016

Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock Acquired	Total
$ 12,400	$ 18,614,550	$ (1,617,950)	$ 22,801,050
(5,350)	982,500	-	977,150
-	35,350	-	35,350
-	(275,300)	-	(275,300)
-	-	(49,500)	(49,500)
7,050	19,357,100	(1,667,450)	23,488,750
4,900	969,750	-	974,650
-	62,400	-	62,400
-	(273,700)	-	(273,700)
-	-	(170,100)	(170,100)
$ 11,950	$ 20,115,550	$ (1,837,550)	$ 24,082,000

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2017 and 2016

		2017		2016
Cash Flows From Operating Activities				
Net income	$	969,750	$	982,500
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		28,600		28,800
Recovery of loan losses		(160,000)		-
Deferred income taxes		44,450		81,400
Increase in bank owned life insurance contracts		(45,650)		(45,250)
Net gain on sale of foreclosed assets		(9,400)		(62,400)
Gain on sale of participation loans		(5,050)		(1,350)
Changes in assets and liabilities:				
(Increase) decrease in:				
Accrued interest receivable		(24,350)		13,300
Prepaid expenses and other assets		37,800		(35,450)
Increase (decrease) in:				
Accounts payable and accrued expenses		15,950		(99,450)
Net cash provided by operating activities	$	852,100	$	862,100
Cash Flows From Investing Activities				
Principal collected on loans	$	27,432,800	$	27,093,750
Purchase of participation loans		(100,000)		(40,000)
Proceeds from sale of participation loans		169,250		42,900
Loans originated		(28,027,400)		(21,005,100)
Purchase of certificate of deposits in other banks		(5,210,000)		(3,674,000)
Maturity of certificate of deposits in other banks		4,862,000		2,688,000
Proceeds from sale of foreclosed assets		266,350		110,800
Purchase of investment securities		(150,000)		(1,050,000)
Called investment securities		-		1,050,000
(Purchase) redemption of FHLB of Atlanta Stock		(100)		5,500
Proceeds from disposal of property and equipment		2,400		-
Purchases of property and equipment		(10,350)		(3,250)
Net cash (used) provided by investing activities	$	(765,050)	$	5,218,600

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2017 and 2016
(Continued)

		2017		2016
Cash Flows From Financing Activities				
Cash dividends paid	$	(274,250)	$	(275,500)
Purchase of treasury stock		(170,100)		(49,500)
Net increase (decrease) in deposits		181,200		(1,116,150)
Net cash used in financing activities		(263,150)		(1,441,150)
Net increase (decrease) in cash		(176,100)		4,639,550
Cash:				
Beginning		21,495,900		16,856,350
Ending	$	21,319,800	$	21,495,900
Supplemental Disclosures of Cash Flow Information				
Cash payments for:				
Interest	$	711,250	$	735,950
Income taxes	$	554,000	$	500,500
Supplemental Schedule of Noncash Investing and Financing Activities:				
Reduction in fair value of ESOP obligation	$	62,400	$	35,350
Change in unrealized gain (loss) on available for sale securities, net of tax effect	$	4,900	$	(5,350)

Note 1. Nature of Business and Significant Accounting Policies

Wake Forest Bancshares, Inc. (the "Company") is the parent stock holding company of Wake Forest Federal Savings & Loan Association (the "Association" or "Wake Forest Federal"), its only subsidiary. The Company was formed in 1999 for the purpose of becoming a savings and loan holding company and had no prior operating history. The Company conducts no business other than holding all of the stock in the Association, investing dividends received from the Association, repurchasing its common stock from time to time, and distributing dividends on its common stock to its shareholders. The Association's principal activities consist of obtaining savings deposits and providing mortgage credit to customers in its primary market area, the counties of Wake and Franklin, North Carolina. The Company's primary regulator is the Federal Reserve and the Association's primary regulator is the Comptroller of the Currency ("OCC"). The Association's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

The Company is majority owned by Wake Forest Bancorp, M.H.C., (the "MHC") a mutual holding company. Members of the MHC consist of depositors and certain borrowers of the Association, who have the sole authority to elect the board of directors of the MHC. The MHC's principal assets consist of 635,000 shares of the Company's common stock and deposits at the Association. The MHC, which by law must own in excess of 50% of the stock of the Company, currently has an ownership interest of 55.9% of the Company. The mutual holding company is registered as a savings and loan holding company and is subject to regulation, examination, and supervision by the Federal Reserve.

A summary of the Company's significant accounting policies follows:

Basis of financial statement presentation: 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 or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Wake Forest Federal. All significant inter-company accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents: For purposes of reporting cash flows, the Company considers all interest-bearing deposits with maturities of less than three months at acquisition and non-interest-bearing deposits to be cash and cash equivalents. At times, the Association maintains deposits in correspondent banks in amounts that may be in excess of the FDIC insurance limit.

Investment securities: The Company carries its investments at fair market value or amortized cost depending on its classification of such securities. Classification of securities and the Company's accounting policies are as follows:

Securities held to maturity: Securities classified as held to maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at amortized cost. The Company currently has no securities which are classified as held to maturity.

Securities available for sale: Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity and equity securities not classified as held for trading. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of its securities, liquidity needs and other significant factors. Securities available for sale are carried at fair value. Unrealized gains and losses are reported as a separate component of equity, net of related tax effects. Realized gains and losses are included in earnings.

Securities held for trading: Trading securities are held in anticipation of short-term market gains. Such securities are carried at fair value with realized and unrealized gains and losses included in earnings. The Company currently has no securities which are classified as trading.

Loans receivable and Fees: Loans receivable are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees. The Association's loan portfolio consists principally of mortgage loans collateralized by first trust deeds on single family residences, other residential property, commercial property and land. The Association receives fees for originating mortgage loans. The Association defers all loan fees less certain direct costs as an adjustment to yield with subsequent amortization into income over the life of the related loan.

Allowance for loan losses: The allowance for loan losses is established for probable losses estimated to have occurred and risks inherent in the loan portfolio through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of specific loans, historical loan loss experience and credit risk trends, loan concentrations, current loan portfolio quality, the estimated value of any underlying collateral on impaired loans, and prevailing economic and regulatory conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available and in part on factors beyond the Association's control, including changes in interest rates and the view of regulatory authorities toward loan classifications.

The Association's allowance for loan losses consists of three elements: (1) specific valuation allowances determined in accordance with ASC Topic 310 "Receivables" on identifiable problem or impaired loans (2) valuation allowances determined in accordance with ASC Topic 450 "Contingencies" based upon historical loan loss experience for pools of similar loans, adjusted as necessary to reflect current conditions and (3) general valuation allowances determined in accordance with ASC Topic 450 based on qualitative risk factors both internal and external to the Association.

A loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. A loan whose delinquency is considered temporary is not necessarily impaired. An allowance is recorded if the present value of the loan's future cash flows, discounted using the loan's effective interest rate, is less than the carrying value of the loan. An impaired loan can also be valued at its fair value in the market place or on the basis of its underlying collateral if the loan is primarily collateral dependent. If foreclosure is imminent, and the loan is collateral dependent, the loan is valued based upon the net fair value of the underlying collateral.

Specific valuation allowances are established based upon the regular analysis and evaluation of individual problem loans. Impaired loans are classified based upon our internal risk grading process which involves our assessment of the borrower's ability to repay, the value of the underlying collateral, the economic environment of the industry in which the borrower operates, and other factors affecting the collectability of specific loans with higher risk characteristics. All other loans with unidentified impairment issues are pooled and segmented by major loan types (single-family residential properties, construction loans, commercial real estate, land, etc.). Historical loan loss rates for these categories are then generated by capturing historical loan losses net of recoveries over the latest three year period while utilizing the latest ten year period as a minimum loan loss rate if it generates a higher charge-off experience. These loss rates are then applied to current outstanding balances of similar pooled loans to arrive at historical valuation allowances.

General valuation allowances are provided based upon qualitative factors that may affect the credit worthiness of the Association's loan portfolios that have not otherwise been specifically evaluated for loss. Unallocated internal and external factors are used to estimate inherent loss potential in the Association's loan portfolios. Some risks are external factors that are largely beyond the Association's control such as local economic conditions, the status of the housing market, market interest rates and regional unemployment statistics. Other risk factors are specific to our institution and we have consciously assumed the risk. These internal risks include geographical and lending concentrations, delinquency trends, large balance or highly leveraged credit relationships, performing loans with known collateral deficiencies, and the quality of our credit review practices.

Property, equipment and depreciation: Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by use of the straight-line method over depreciable lives of 3-7 years for furniture and equipment and up to 40 years for buildings and improvements.

Foreclosed real estate: Foreclosed real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value 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 cost or fair value minus costs to sell. Revenue and expenses from holding or disposing of the properties and additions or recoveries to the valuation allowance are included in earnings.

Deposits: Eligible deposits are insured up to $250,000 ($500,000 for joint accounts) by the FDIC.

Off-balance-sheet risk and credit risk: The Association is a party to financial instruments with off-balance-sheet risk such as commitments to extend credit. Management assesses the risk related to these instruments for potential loss. The Association lends primarily on one-to-four family residential properties throughout its primary lending area, Wake and Franklin counties of North Carolina.

Interest income: Interest income is recorded as earned on an accrual basis. The Association discontinues the recognition of interest income when, in the opinion of management, collection of such interest is doubtful. It is the general policy of the Association to discontinue the accrual of interest on loans, including loans impaired when principal or interest payments are contractually delinquent 90 days or more, unless collectability is assured. Any unpaid amounts previously accrued on these loans are reversed from income, and thereafter interest is recognized only to the extent payments are received.

Income taxes: Deferred income taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are either eliminated or reduced by valuation allowances if in the opinion of management it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company continually monitors and evaluates the potential impact of current events on the estimates used to establish income tax expense and income tax liabilities. On a periodic basis, the Company evaluates its income tax positions based on current tax law, positions taken by various tax authorities within the jurisdictions that the Company is required to file income tax returns, as well as any potential or pending audits or assessments by such tax authorities. The Company did not recognize or accrue any interest or penalties related to income taxes during the years ended September 30, 2017 and 2016. The Company did not have an accrual for uncertain tax positions because it believes its tax positions are based on widely understood administrative practices and procedures that would be sustained upon examination. It is the Company's policy to recognize any income tax related interest and penalties as components of income tax expense. Income tax returns for all years 2014 and thereafter are subject to possible future examinations by tax authorities.

Earnings per share: The Company provides for a dual presentation of basic and diluted earnings per share (EPS) with a reconciliation of the numerator and denominator of the EPS computations. Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. Diluted earnings per share assume the conversion, exercise or issuance of all potential common stock instruments such as options, unless the effect is to reduce a loss or increase earnings per share. No adjustments were required to net income for any period presented in the computation of diluted earnings per share and there were no differences in basic and diluted earnings per share in 2017 or 2016. The weighted average numbers of shares outstanding for earnings per share computation was 1,141,807 and 1,147,750 in 2017 and 2016, respectively.

Stock compensation plans: The Company recognizes the fair value of equity instruments as an expense in the financial statements as services are performed or vesting occurs.

Subsequent events: Management has evaluated subsequent events through December 12, 2017, the date the financial statements were available to be issued.

Fair value measurement: Fair value is a market-based measurement and is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the assets or owes the liability. In general, the transaction price will equal the exit price and, therefore, represent the fair value of the asset or liability at initial recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, the Company is required to consider factors specific to the transaction and the asset or liability, the principal or most advantageous market, and the participants with whom the Company would transact in the market. In order to determine the fair value, the Company must determine the highest and best use, the principal market, and market participants. These determinations allow the Company to define the inputs for fair value and level of hierarchy. Outlined below is the application of the fair value hierarchy.

- Level 1 –The asset or liability has available quoted prices for identical assets or liabilities in active markets. An active market is a marketplace with sufficient frequency and volume to provide pricing information on an ongoing basis. As of September 30, 2017, the Company carried certain investment securities at fair value hierarchy Level 1.

- Level 2 – The asset or liability has available quoted prices for similar assets and liabilities in active markets, and inputs that are observable for substantially the full term of the financial instrument. As of September 30, 2017, the Company had no assets or liabilities carried at fair value hierarchy Level 2.
- Level 3 – The asset or liability has no observable market inputs that are significant to the fair value measurement and fair value is supported by the entity's own assumptions. As of September 30, 2017, the Company carried certain impaired loans, measured on a non-recurring basis, at fair value hierarchy Level 3.

The Company measures certain assets at fair value on a recurring and non-recurring basis, as described below.

Investment securities available-for-sale: Investment securities available-for-sale consist of US Government agency obligations and FHMLC stock and are recorded at fair value on a recurring basis. These investments are considered Level 1 securities because the fair value measurement is based upon quoted market prices traded by dealers or brokers in active over-the-counter markets and exchanges.

Loans: The Company does not record loans at fair value on a recurring basis. However, loans for which it is probable that the payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired if such payment delinquencies are not considered temporary. The fair value of impaired loans is estimated using the underlying collateral value or the present value of discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected cash flows or collateral value exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. At September 30, 2017 and 2016, substantially all of the Company's impaired loans were evaluated based on the fair value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value that relies upon comparable values from identical sources, the Company records the impaired loan as non-recurring Level 2. When current 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 Company records the impaired loan or asset as nonrecurring Level 3. Loans totaling $369,600 and $117,500 were considered impaired at September 30, 2017 and 2016, respectively. None of these impaired loans had specific impairment loss allowances at September 30, 2017 and 2016.

Foreclosed real estate: Foreclosed real estate is adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at fair value 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 that relies upon comparable values from identical sources, the Company records the foreclosed real estate as non-recurring Level 2. When a current 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 Company records the foreclosed real estate as nonrecurring Level 3.

Presented below is information about assets measured at fair value at September 30, 2017 and 2016:

		Fair Value Measurements using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Signficant Unobservable Inputs (Level 3)
At September 30, 2017:				
US Government agency securities	$ 1,296,900	$ 1,296,900	$ -	$ -
FHLMC stock	23,500	23,500	-	-
Foreclosed real estate	-	-	-	-
Impaired loans	369,600	-	-	369,600
At September 30, 2016:				
US Government agency securities	$ 1,149,900	$ 1,149,900	$ -	$ -
FHLMC stock	12,800	12,800	-	-
Foreclosed real estate	265,500	-	-	265,500
Impaired loans	117,500	-	-	117,500

Fair value of financial instruments: Estimated fair values have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates for the fair value of the Company's financial instruments are not necessarily indicative of the amounts the Company could realize in a current market exchange and do not represent the underlying value of the Company. The use of different market assumptions or estimation methodologies may have a material effect on the fair value amounts. The fair value estimates are based on pertinent information available to management as of September 30, 2017. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash, certificate of deposits in other banks and accrued interest receivable: The carrying amounts (cost) approximate these assets' fair values.

Investment securities: The fair values of investment securities are determined based on quoted market values. For the Association's investment in Federal Home Loan Bank stock, no ready market exists and it has no quoted market value. For disclosure purposes, such stock is assumed to have a fair value which is equal to its cost.

Loans receivable: The fair value for all loans, except short-term construction loans, home equity loans and prime-based real estate loans, has been estimated by discounting projected future cash flows using the current rate at which loans with similar maturities would be made to borrowers with similar credit ratings. Prepayment assumptions were made to the Association's portfolio of long-term fixed rate mortgage loans. The fair value of construction loans, home equity loans, and prime-based real estate loans are assumed to be equal to their recorded amounts because such loans have relatively short terms and adjust to market rates as prime changes. No liquidity discount has been considered in determining loan fair values.

Bank owned life insurance. Bank owned life insurance is not a marketable instrument and its fair value is considered to equal to its redeemable value, or its cash surrender value.

Deposits: The fair value of deposits with no stated maturities is estimated to be equal to the amount payable on demand. The fair value of certificates of deposit is based upon the discounted value of future contractual cash flows. The discount rate is estimated using rates offered for deposits of similar remaining maturities.

Off-balance-sheet commitments: The Association's commitments, which consist entirely of loan commitments, are either short-term in nature or subject to immediate re-pricing and no fair value has been assigned to these off-balance-sheet items.

Accrued Interest Payable and Dividends Payable: The fair value of accrued interest and dividends payable is assumed to equal to its recorded amount because of the short term nature of the liability.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2017 and 2016:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 21,319,800	$ 21,319,800	$ 21,495,900	$ 21,495,900
Certificate of deposits in other banks	26,631,000	26,631,000	26,283,000	26,283,000
Investment securities	1,320,400	1,320,400	1,162,700	1,162,700
FHLB stock	96,000	96,000	95,900	95,900
Loans receivable, net of loss allowance	54,584,350	53,648,700	53,893,950	54,676,150
Bank owned life insurance	1,607,000	1,607,000	1,561,350	1,561,350
Accrued interest receivable	160,800	160,800	136,450	136,450
Financial liabilities:				
Deposits	81,400,800	81,733,050	81,219,600	81,723,650
Accrued interest payable	4,550	4,550	1,500	1,500
Dividends payable	68,200	68,200	68,750	68,750

Future Reporting Requirements:

In June 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements. This update includes maintenance updates, such as non-substantive corrections to the FASB Accounting Standards Codification, such as editorial corrections, link-related changes, and changes to source fragment information that will affect a wide variety of Topics in the Codification. The amendments in the ASU will apply to all reporting entities within the scope of the affected accounting guidance. The effective date of the guidance varies based on the amendments in the ASU. The amendments in this ASU that require transition guidance were effective for interim and annual reporting periods after December 15, 2015. All other amendments were effective upon issuance of the ASU. The adoption of the transition guidance in the update did not have a material impact on the consolidated financial statements.

In May 2014, the FASB issued new guidance related to Revenue from Contracts with Customers. This guidance was developed as a joint project with the International Accounting Standards Board to remove inconsistencies in revenue recognition requirements and provide a more robust framework for addressing revenue issues. The core principle of this guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued guidance which deferred the effective date by one year; interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before the original effective date; interim and annual reporting periods beginning after December 15, 2016. The guidance may be adopted using either a modified retrospective method or a full retrospective method. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 82510): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU includes the following changes: i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requires the use of exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) allows an equity investment that does not have readily determinable fair values, to be measured at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (v) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and (vii) clarifies that a valuation allowance on a deferred tax asset related to available for sale securities should be evaluated in combination with the organization's other deferred tax assets. This ASU is effective for interim and annual periods beginning after December 15, 2018. The adoption of this update is not expected to have a material impact on the consolidated financial statements.

In June 2016, FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. This ASU is effective for interim and annual reporting periods beginning after December 15, 2020. Early adoption is permitted for all entities beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the ASU on its consolidated financial statements.

During August 2016, FASB issued ASU No. 2016-15 related to the Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The ASU addresses the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this ASU provide guidance on (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The guidance requires application using a retrospective transition method. The adoption of this standard is not expected to have a material impact on our Consolidated Statements of Cash Flows.

In November 2016, the FASB issued ASU No. 2016-18 related to the Statement of Cash Flows. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU does not provide a definition of restricted cash or restricted cash equivalents. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.The Company does not expect this guidance will have a material impact on its Consolidated Statements of Cash Flows.

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

From time to time the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Company and monitors the status of changes to and proposed effective dates of exposure drafts.

Note 2. Investment Securities, Available for Sale

The amortized cost, fair market value and gross unrealized gains and losses of the Association's available for sale investment securities at September 30, 2017 and 2016 are as follows:

2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available for sale securities:				
FHLMC stock	$ 1,750	$ 21,750	$ -	$ 23,500
US Government agency securities	1,300,000	-	3,100	1,296,900
	$ 1,301,750	$ 21,750	$ 3,100	$ 1,320,400

2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available for sale securities:				
FHLMC stock	$ 1,750	$ 11,050	$ -	$ 12,800
US Government agency securities	1,150,000	-	100	1,149,900
	$ 1,151,750	$ 11,050	$ 100	$ 1,162,700

There were no sales of investment securities during 2017 or 2016.

The change during 2017 and 2016 in accumulated other comprehensive income, which consists solely of net unrealized gains associated with available for sale securities, is as follows:

	2017	2016
Accumulated other comprehensive income, beginning of year	$ 7,050	$ 12,400
Change in unrealized gains (losses), net of tax effect of $2,800 in 2017 and $3,350 in 2016	4,900	(5,350)
Accumulated other comprehensive income, end of year	$ 11,950	$ 7,050

The Association, as a member of the Federal Home Loan Bank (FHLB) system, maintains an investment in capital stock of the FHLB of Atlanta. No ready market exists for the bank stock and its market value is equal to its cost due to the redemptive provisions of the FHLB of Atlanta. In 2017, FHLB stock with a cost basis of $100 was required to be purchased. During 2016, FHLB stock with a cost basis of $5,500 was redeemed at par by the FHLB of Atlanta.

US Government agency securities with an amortized cost of $1,300,000 are pledged to secure public deposits at September 30, 2017. US Government agency securities at September 30, 2017 mature as follows but may be called earlier by the issuer:

	Amortized Cost	Estimated Market Value
Due in one through five years	$ 1,300,000	$ 1,296,900

Note 3. Loans Receivable

Loans receivable consist of the following:	2017	2016
Single family, one-to-four units	$ 26,290,050	$ 26,309,450
Multifamily, residential	389,800	535,600
Commercial real estate	5,784,350	6,808,700
Churches	4,014,950	4,469,700
Land	5,848,050	6,188,300
Residential construction	17,393,500	15,379,250
Equity line mortgages	3,612,100	3,162,250
Loans on deposit accounts	377,700	228,850
	63,710,500	63,082,100
Undisbursed portion of loans in process	(7,605,950)	(7,584,450)
Allowance for loan losses	(1,404,450)	(1,489,450)
Deferred loan fees	(115,750)	(114,250)
	(9,126,150)	(9,188,150)
	$ 54,584,350	$ 53,893,950

The change in the Association's allowance for loan losses is as follows for the years ended September 30, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ 1,489,450	$ 1,533,450
Recovery of loan losses	(160,000)	-
Charge-offs	-	(100,000)
Recoveries	75,000	56,000
Balance, end of year	$ 1,404,450	$ 1,489,450

The following is an analysis of activity in the allowance for loan losses by loan portfolio segment for the years indicated:

Year Ended September 30, 2017:

	Residential	Construction	Home Equity	Commercial Real Estate	Land	Loans on Deposits	Total
Balance at September 30, 2016	$ 133,450	$ 80,500	$ 15,500	$ 757,100	$ 502,900	$ -	$ 1,489,450
Recovery of loan losses	105,750	177,650	2,500	(227,000)	(218,900)	-	(160,000)
Charge-offs	-	-	-		-	-	-
Recoveries	-	-	-	-	75,000	-	75,000
Net recoveries	-	-	-	-	75,000	-	75,000
Balance at September 30, 2017	$ 239,200	$ 258,150	$ 18,000	$ 530,100	$ 359,000	$ -	$ 1,404,450

Year Ended September 30, 2016:

	Residential	Construction	Home Equity	Commercial Real Estate	Land	Loans on Deposits	Total
Balance at September 30, 2015	$ 167,300	$ 89,150	$ 15,350	$ 628,300	$ 633,350	$ -	$ 1,533,450
Provision for loan losses	(33,850)	(8,650)	150	192,800	(150,450)	-	-
Charge-offs	-	-	-	(100,000)	-	-	(100,000)
Recoveries	-	-	-	36,000	20,000	-	56,000
Net charge-offs	-	-	-	(64,000)	20,000	-	(44,000)
Balance at September 30, 2016	$ 133,450	$ 80,500	$ 15,500	$ 757,100	$ 502,900	$ -	$ 1,489,450

As of September 30, 2017:	Residential	Construction	Home Equity	Commercial Real Estate	Land	Loans on Deposits	Total
Portion of ending balance:							
Individually evaluated for Impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for Impairment	$ 239,200	$ 258,150	$ 18,000	$ 530,100	$ 359,000	$ -	$1,404,450
Total loan loss allowances	$ 239,200	$ 258,150	$ 18,000	$ 530,100	$ 359,000	$ -	$1,404,450

As of September 30, 2016:	Residential	Construction	Home Equity	Commercial Real Estate	Land	Loans on Deposits	Total
Portion of ending balance:							
Individually evaluated for Impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for Impairment	$ 133,450	$ 80,500	$ 15,500	$ 757,100	$ 502,900	$ -	$1,489,450
Total loan loss allowances	$ 133,450	$ 80,500	$ 15,500	$ 757,100	$ 502,900	$ -	$1,489,450

The following segregates total loans by portfolio segment and impairment methodology as of September 30, 2017 and 2016:

	Residential	Construction	Home Equity	Commercial Real Estate	Land	Loans on Deposits	Total
September 30, 2017:							
Individually evaluated for impairment	$ 51,300	$ -	$ -	$ -	$ 318,300	$ -	$ 369,600
Collectively evaluated for impairment	$26,628,550	$ 9,787,550	$3,612,100	$ 9,799,300	$5,529,750	$ 377,700	$55,734,950
Total	$26,679,850	$ 9,787,550	$3,612,100	$ 9,799,300	$5,848,050	$ 377,700	$56,104,550
September 30, 2016:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 117,500	$ -	$ 117,500
Collectively evaluated for impairment	$26,845,050	$ 7,794,800	$3,162,250	$ 11,278,400	$6,070,800	$ 228,850	$55,380,150
Total	$26,845,050	$ 7,794,800	$3,162,250	$ 11,278,400	$6,188,300	$ 228,850	$55,497,650

Loans are evaluated for credit quality on a recurring basis and the composition of the loans outstanding at September 30, 2017 and 2016 by credit quality indicator is presented below. The credit quality indicators are the same for each portfolio segment.

Loan Origination/Risk Management: The Association has certain lending policies and procedures in place that are designed to enhance the profitability of our lending operations within an acceptable level of risk. Management and the Board of Directors review these policies and procedures on a regular basis. Ongoing monitoring related to loan production, loan quality, concentrations of credit, and loan performance are critical functions of the Association. Lending concentrations derived from significant borrowing relationships also have a material effect on the qualitative factors that influence the credit risks associated with the size and scope of the Association's loan loss allowances. The Association has a several large lending relationships and the Association quantifies that concentration risk by factoring in qualitative factors resulting in the allocation of an additional loan loss allowances established to account for these qualitative considerations. The Association's loan activities are segmented into various lending categories. Such lending diversification allows the Association to mitigate risk associated with changing economic conditions.

Residential mortgage lending has historically been the Association's primary business line. The Association originates both owner occupied single family mortgage loans as well as loans on residential investment properties. Substantially all such lending is located in our target markets, Wake and Franklin counties. Residential mortgages must meet loan-to-value, debt ratio, and other underwriting guidelines. Local economic conditions, including labor markets, play a significant role in the risk characteristics associated with residential lending.

Commercial real estate lending is also a financing segment for the Association. The majority of our commercial real estate loans are owner occupied by small business owners. These loans are underwritten based upon the cash flow potential of the borrower as well as the appraised value of collateral property. Underwriting for this type of lending is often driven by knowledge of the customer base, the reputation and history of the business, as well as the numerical debt coverage ratios. Commercial real estate mortgages are typically larger loans and may be more adversely affected by local economic conditions and resulting fluctuations in real estate values. However, the properties securing the Association's commercial real estate loans are varied and management monitors the performing status of such loans on a regular basis. As a general rule, the Association avoids financing certain special purpose real estate loans, such as mortgages on restaurants or hotels, to mitigate the risks in the portfolio. Because commercial real estate loans by nature have higher credit risk factors and the Company's commercial real estate loans have individually higher balances than other types of loans within its portfolio, the Company has elected to utilize credit quality factors that apportion a greater percentage of its loan loss allowance to commercial real estate loans.

The Association originates loans to custom builders that are secured by non-owner occupied properties. These loans are typically made to borrowers who are well known to the Association, are active in the community and the construction industry, and have a proven track record of successfully managing such ventures. Construction loans are underwritten using independent appraisal reviews, analysis of cost estimates, and examination of the borrower's financial position. In addition, construction loans are typically based upon estimates of cost and value associated with a completed project, and those estimates may vary from initial projections. Construction loans also involve the disbursement of funds as the project progresses and repayment is normally contingent upon the success and sale of the completed project. In certain instances, the construction loan involves lesser risk if the project is a presale or will ultimately be occupied by a borrower who intends to permanently finance the project through the Association. Construction loans are closely monitored by on-site inspections and are typically considered to have a higher credit risk than other types of real estate loans due to the ultimate repayment being sensitive to interest rate movements, the volatility of residential real estate markets and the general economy, and the availability of permanent financing.

The Association also originates land loans to both speculative investors and owners who have held tracts of land for considerable periods of time. Land loans involve a greater degree of risk because the collateral for these types of loans is highly sensitive to the health of both the general economy and the local real estate markets. Speculative investors in land often have a short term perspective with an intent to hold the property for resale. Because land prices are often volatile, the financial strength of the borrower irrespective of the collateral value becomes more critical, as does the purpose of the land loan. Loans to land owners that have held the property for years and intend to do so for the foreseeable future are somewhat less risky than loans made to purchase land by investors whose intent is to develop or resale the property. The Association's underwriting standards for land allow for little deviation from stated policies and often the Association limits or suspends this type of lending depending on economic and market risk factors outstanding at the time.

The Association originates consumer loans in the form of home equity credits. To monitor and manage consumer loan risk, policies and procedures are developed and modified as needed. These controls, coupled with relatively small loan amounts spread across many individual borrowers, minimizes risk.

The loan credit quality indicators for construction, land, and commercial real estate loans are developed through the review of individual borrowers on an ongoing basis. Each of these borrowers with an exposure greater than $750,000 is evaluated at least annually and more frequently if the credit relationship becomes troubled. The indicators represent the ratings for loans as of the dates presented based upon the most recent assessment performed. The credit quality indicators are defined as follows:

- Unclassified/Pass: An unclassified loan is not adversely classified because it does not display any of the characteristics for adverse classification.
- Special Mention: A special mention asset has potential weaknesses that deserve Management's close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or the loan's collateral position in the future. Special Mention assets are not adversely classified and do not warrant adverse classification.

- Substandard: A substandard asset is inadequately protected by the current net worth, paying capacity, or the collateral pledged. Substandard assets generally have well defined weaknesses that jeopardize the orderly liquidation of the debt with the distinct possibility of loss if the deficiencies are not corrected.

The following table shows all loans classified by credit quality indicators for the years ended September 30, 2017 and 2016:

For Year Ended September 30, 2017:	Unclassified	Special Mention	Substandard	Total
Single family, one-to-four units	$ 26,238,750	$ -	$ 51,300	$ 26,290,050
Multifamily, residential	389,800	-	-	389,800
Commercial real estate	5,784,350	-	-	5,784,350
Churches	4,014,950	-	-	4,014,950
Land	5,529,750	-	318,300	5,848,050
Residential construction	9,787,550	-	-	9,787,550
Equity line mortgages	3,612,100	-	-	3,612,100
Loans on deposit accounts	377,700	-	-	377,700
	$ 55,734,950	$ -	$ 369,600	$ 56,104,550

For Year Ended September 30, 2016:	Unclassified	Special Mention	Substandard	Total
Single family, one-to-four units	$ 25,655,250	$ 502,750	$ 151,450	$ 26,309,450
Multifamily, residential	535,600	-	-	535,600
Commercial real estate	6,808,700	-	-	6,808,700
Churches	4,469,700	-	-	4,469,700
Land	6,036,300	-	152,000	6,188,300
Residential construction	7,794,800	-	-	7,794,800
Equity line mortgages	3,095,600	-	66,650	3,162,250
Loans on deposit accounts	228,850	-	-	228,850
	$ 54,624,800	$ 502,750	$ 370,100	$ 55,497,650

The Association does not accrue interest on loans past due 90 days or more and interest on certain other loans where collection is in doubt. Such interest is removed from income through the establishment of a reserve for uncollected interest. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal amounts due. At September 30, 2017 and 2016 reserves for uncollected interest totaling $-0- and $4,700 were established on loans of $-0- and $117,500, respectively. There were no accruing loans past due more than 90 days at September 30, 2017 and 2016.

The following is a breakdown of nonaccrual loans by class of loans as of September 30, 2017 and 2016:

	2017	2016
Single family, one-to-four units	$ -	$ -
Multifamily, residential	-	-
Commercial real estate	-	-
Churches	-	-
Land	-	117,500
Residential construction	-	-
Equity line mortgages	-	-
Loans on savings accounts	-	-
	$ -	$ 117,500

When a loan becomes uncollectible, the loan will be charged down or charged off against the allowance for loan losses. Mortgage loans are charged-off or written down to fair value when a loan becomes troubled and it is doubtful that the collateral value is sufficient to cover the outstanding principal. The determination is made prior to foreclosure when a loss confirming event occurs, such as a bankruptcy, or at the date of foreclosure when the Association takes control of the collateral property.

The following table provides an aged analysis of all outstanding loans by loan class at September 30, 2017 and 2016:

At September 30, 2017:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Accruing
Single family, 1-4 units	$ 51,300	$ -	$ 51,300	$ 26,238,750	$ 26,290,050	$ -
Multifamily, residential	-	-	-	389,800	389,800	-
Commercial real estate	-	-	-	5,784,350	5,784,350	-
Churches	-	-	-	4,014,950	4,014,950	-
Land	328,050	-	328,050	5,520,000	5,848,050	-
Residential construction	-	-	-	9,787,550	9,787,550	-
Equity line mortgages	-	-	-	3,612,100	3,612,100	-
Loans on deposits	-	-	-	377,700	377,700	-
	$ 379,350	$ -	$ 379,350	$ 55,725,200	$ 56,104,550	$ -

At September 30, 2016:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Accruing
Single family, 1-4 units	$ 348,250	$ -	$ 348,250	$ 25,961,200	$ 26,309,450	$ -
Multifamily, residential	-	-	-	535,600	535,600	-
Commercial real estate	-	-	-	6,808,700	6,808,700	-
Churches	-	-	-	4,469,700	4,469,700	-
Land	152,000	-	152,000	6,036,300	6,188,300	-
Residential construction	-	-	-	7,794,800	7,794,800	-
Equity line mortgages	66,650	-	66,650	3,095,600	3,162,250	-
Loans on deposits	-	-	-	228,850	228,850	-
	$ 566,900	$ -	$ 566,900	$ 54,930,750	$ 55,497,650	$ -

A loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement unless the delinquency is considered temporary. An allowance is recorded if the present value of the loan's future cash flows, discounted using the loan's effective interest rate, is less than the carrying value of the loan. An impaired loan can also be valued at its fair value in the market place or on the basis of its underlying collateral if the loan is primarily collateral dependent. If foreclosure is imminent, and the loan is collateral dependent, the loan is valued based upon the fair value of the underlying collateral. Impaired loans, or portions thereof, are charged off when deemed uncollectable. The following table shows an analysis of impaired loans by loan class as of September 30, 2017 and 2016:

September 30, 2017:

	Recorded Investment	Unpaid Principal Balance	Recorded Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance:					
Single family, 1-4 units	$ 51,300	$ 51,300	$ -	$ 60,600	$ 3,900
Multifamily, residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Churches	-	-	-	-	-
Land	318,300	318,300	-	320,800	18,050
Residential construction	-	-	-	-	-
Equity line mortgages	-	-	-	-	-
Loans on deposits	-	-	-	-	-
	$ 369,600	$ 369,600	$ -	$ 381,400	$ 21,950

September 30, 2017:	Recorded Investment	Unpaid Principal Balance	Recorded Allowance	Average Recorded Investment	Interest Income Recognized
With a specific allowance:					
Single family, 1-to-4 units	$ -	$ -	$ -	$ -	$ -
Multifamily, residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Churches	-	-	-	-	-
Land	-	-	-	-	-
Residential construction	-	-	-	-	-
Equity line mortgages	-	-	-	-	-
Loans on deposits	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
Total:					
Single family, 1-to-4 units	$ 51,300	$ 51,300	$ -	$ 60,600	$ 3,900
Multifamily, residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Churches	-	-	-	-	-
Land	318,300	318,300	-	320,800	18,050
Residential construction	-	-	-	-	-
Equity line mortgages	-	-	-	-	-
Loans on deposits	-	-	-	-	-
	$ 369,600	$ 369,600	$ -	$ 381,400	$ 21,950

September 30, 2016:	Recorded Investment	Unpaid Principal Balance	Recorded Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance:					
Single family, 1-4 units	$ -	$ -	$ -	$ -	$ -
Multifamily, residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Churches	-	-	-	-	-
Land	117,500	117,500	-	120,800	10,800
Residential construction	-	-	-	-	-
Equity line mortgages	-	-	-	-	-
Loans on deposits	-	-	-	-	-
	$ 117,500	$ 117,500	$ -	$ 120,800	$ 10,800
With a specific allowance:					
Single family, 1-to-4 units	$ -	$ -	$ -	$ -	$ -
Multifamily, residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Churches	-	-	-	-	-
Land	-	-	-	-	-
Residential construction	-	-	-	-	-
Equity line mortgages	-	-	-	-	-
Loans on deposits	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -

September 30, 2016:	Recorded Investment	Unpaid Principal Balance	Recorded Allowance	Average Recorded Investment	Interest Income Recognized
Total:					
Single family, 1-to-4 units	$ -	$ -	$ -	$ -	$ -
Multifamily, residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Churches	-	-	-	-	-
Land	117,500	117,500	-	120,800	10,800
Residential construction	-	-	-	-	-
Equity line mortgages	-	-	-	-	-
Loans on deposits	-	-	-	-	-
	$ 117,500	$ 117,500	$ -	$ 120,800	$ 10,800

There were no loans considered troubled debt restructurings in 2017 or 2016.

Note 4. Related Party Loans

Shareholders of the Company with 10% or more ownership and officers and directors, including their families and companies of which they are principal owners, are considered to be related parties. In management's opinion, these loans and transactions were in the ordinary course of business and on the same terms as those for comparable loans and transactions with non-related parties. Loan transactions with related parties during the years ended September 30, 2017 and 2016 were as follows:

	2017	2016
Beginning balance	$ 261,050	$ 713,200
New loans	63,000	-
Repayments	(127,650)	(452,150)
Ending balance	$ 196,400	$ 261,050
Maximum balance during the year	$ 267,100	$ 713,200

Note 5. Property and Equipment

Property and equipment at September 30, 2017 and 2016 are summarized as follows:

	2017	2016
Land	$ 20,950	$ 20,950
Office buildings and improvements	608,800	608,800
Furniture and fixtures	343,550	335,600
	973,300	965,350
Less accumulated depreciation	(779,800)	(751,200)
	$ 193,500	$ 214,150

Note 6. Foreclosed Real Estate

The change in the allowance for loss on foreclosed real estate follows for years ended September 30, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ 54,500	$ 54,500
Provision for loss	-	-
Charge-offs	(54,500)	-
Balance, end of year	$ -	$ 54,500

The Company incurred $7,150 and $49,750 in expense associated with holding foreclosed assets during 2017 and 2016, respectively. In addition, the Company recognized net gains of $850 and $53,800 from the disposal of $265,500 and $57,000 in foreclosed assets during 2017 and 2016 respectively. In addition to the recognized gains, the Company recorded $355,950 in a deferred gain on the sale of a foreclosed property during 2014 that was financed by the Company. The deferred gain is being recognized proportionally as principal is collected on the outstanding loan. Amortized gains totaled $8,550 and $8,600 in 2017 and 2016, respectively.

Note 7. Bank Owned Life Insurance

The Company has entered into Life Insurance Endorsement Method Split Dollar Agreements with certain current and past employees of the Association. Under the agreement, upon death of the insured individual, the Company first recovers the cash surrender value of the contract and then shares the remaining death benefits from the insurance contracts, which are written through two different carriers, with the designated beneficiaries of the insured individual. The death benefit to the insured individual is limited to $25,000 each. The Company, as owner of the policies, reserves the right to terminate the agreements at any time and retains an interest in the life insurance proceeds and a 100% interest in the cash surrender value of the policies. The Company paid an initial single premium of $1.0 million which is accounted for as cash surrender value and reported as "Bank owned life insurance" in the Company's consolidated statement of financial condition. Increases in the surrender value of the policies are accounted for as other non-interest income. For 2017 and 2016 the increase amounted to $45,650 and $45,250, respectively.

Note 8. Deposits

Deposits at September 30, 2017 and 2016 consisted of:		2017		2016
Passbook accounts	$	2,975,600	$	2,695,400
MMDA accounts		27,523,500		24,350,750
NOW accounts		4,052,850		3,855,500
Certificate of deposit accounts		42,725,150		46,024,050
Noninterest-bearing accounts		4,123,700		4,293,900
	$	81,400,800	$	81,219,600

Certificate of deposit accounts mature as follows at September 30, 2017:	Matures:		
	2018	$	20,867,750
	2019		5,979,900
	2020		4,330,500
	2021		5,311,100
	2022		6,235,900
		$	42,725,150

Certificate of deposit accounts at September 30, 2017 with a minimum denomination of $250,000 mature as follows:

Maturity Period:		
Within three months	$	805,600
After three months but within six months		271,000
After six months but within twelve months		1,060,700
After twelve months		2,752,800
	$	4,890,100

Note 9. Employees and Directors Benefit Plans

The Association has a 401k plan which covers substantially all employees. The Association matches employee contributions up to 10% and pays the administrative cost of the Plan. Employer contributions to the Plan amounted to $85,250 and $76,900 during 2017 and 2016, respectively. Administrative Plan expense amounted to $6,350 and $5,750 during 2017 and 2016, respectively.

The Association has a non-qualified noncontributory retirement plan covering its directors. Under the plan agreement, upon retirement and having reached the age of 65, directors will receive an undiscounted lump sum payment equal to $50,000. Expense is accrued over the expected service years for each director up to the age of 65. Other stipulations and limitations based on years of service, death and disability, change of control, and early termination apply. Expense associated with the plan amounted to $5,450 and $5,500 in 2017 and 2016, respectively. At September 30, 2017, the Association had accrued $286,050 for this retirement plan obligation and the liability is reported in "accounts payable and accrued expenses" in the consolidated statement of financial condition.

Note 10. Employee Stock Ownership Plan

The Association has an Employee Stock Ownership Plan ("ESOP") to benefit substantially all employees. As a part of the Association's initial public offering in April 1996, the ESOP purchased 41,200 shares of common stock with the proceeds from a loan received from a third party financial institution. The Association made quarterly contributions to the ESOP in amounts sufficient to allow the ESOP to make its scheduled principal and interest payments on the note. The note matured in March 2003. The Association recorded expense based upon the fair value of the shares allocated to plan participants each year. The difference between the cash contributions and the amount expensed was credited or charged to additional paid-in capital. Because all remaining shares under the plan were allocated to participants during 2003, the Company's current expense is only associated with administration of the plan and amounted to $1,500 and $2,500 for 2017 and 2016, respectively.

The ESOP has a put option which requires the Company to repurchase its common stock from participants in the ESOP who elect to receive cash in exchange for their common stock. The Company records a liability for the maximum possible cash obligation to redeem the shares, which is the fair value of such shares. The liability for the put option at September 30, 2017 was $190,600 based upon the market price of the Company's shares at that time. The liability for the put option will fluctuate based upon the fair value of the shares with the resulting increase or decrease reflected as change to retained earnings.

Shares of the Company held by the ESOP at September 30, 2017 and 2016 are as follows:

	2017	2016
Shares originally held by the ESOP	41,200	41,200
Shares released to retired participants	(30,565)	(25,866)
Shares released for allocation and outstanding at year end	10,635	15,334
Fair value of outstanding ESOP shares	$ 190,600	$ 253,000

Note 11. Income Taxes

At September 30, 2017 and 2016 retained earnings contain $1,434,000 in tax related bad debt reserves for which no deferred income taxes have been provided because the Association does not intend to use the reserves for purposes other than to absorb losses. The balance represents the Association's bad debt reserves at September 30, 1988 and the unrecorded deferred income taxes amount to $516,250. If amounts which qualified as bad debt deductions are used for purposes other than to absorb losses or adjustments arising from the carryback of net operating losses, income taxes may be imposed at then existing rates.

Deferred income taxes consist of the following components as of September 30, 2017 and 2016:

	2017	2016
Deferred tax assets:		
Loan loss allowances	$ 505,600	$ 536,200
Health insurance accrual	85,400	80,300
Retirement plan accrual	45,000	43,050
Deferred gain on sale of foreclosed assets	117,600	120,650
Other	-	21,300
	753,600	801,500
Deferred tax liabilities:		
Excess accumulated tax depreciation	11,200	14,650
Unrealized net appreciation, investments	6,700	3,900
	17,900	18,550
Deferred tax assets, net	$ 735,700	$ 782,950

It is management's opinion that realization of the net deferred tax asset is more likely than not based on the Company's history of taxable income and estimates of future taxable income.

Income tax expense differs from the federal statutory rate of 34% as follows:

	2017	2016
Statutory federal income tax rate	34.00 %	34.00 %
State income taxes, net of federal benefit	2.92	2.86
Nontaxable income from bank owned life insurance	(1.02)	(0.85)
Other changes	0.29	1.57
Effective tax rate	36.19 %	37.58 %

Note 12. Capital

Concurrent with the reorganization in 1996, the Association established a liquidation account equal to its net worth as reflected in its statement of financial condition used in its final offering circular. The liquidation account is maintained for the benefit of eligible deposit account holders and supplemental eligible deposit account holders who continue to maintain their deposit accounts in the Association after the reorganization. Only in the event of a complete liquidation will eligible deposit account holders and supplemental eligible deposit account holders be entitled to receive a liquidation distribution from the liquidation account adjusted for transactions since the reorganization.

Dividends paid by the Association to the Company subsequent to the reorganization cannot be paid from this liquidation account. Subject to applicable law, the Boards of Directors of the Company and the Association may each provide for the payment of dividends. Future declarations of cash dividends, if any, by the Company may depend upon dividend payments by the Association to the Company. Subject to regulations promulgated by the OCC, the Association will not be permitted to pay dividends on its common stock if its net worth would be reduced below the amount required for the liquidation account or its minimum regulatory capital requirements. In addition, as an institution which is considered well capitalized under the OCC's Prompt Corrective Action regulations, the Association may pay a cash dividend to the Company, with prior notification to the OCC and the Federal Reserve, if the total amount of all capital distributions (including the proposed distribution) for the applicable calendar year does not exceed the Association's net income for the year plus retained net income (net income minus capital distributions) for the preceding two years. However, the OCC and the Federal Reserve retain the right to deny any capital distribution if it raises safety and soundness concerns.

The Company and the Association are subject to the capital requirements established by the Federal Reserve and the OCC. Under federal regulatory prompt corrective action (PCA) regulations, the Company and the Association are considered well capitalized if their ratio of total capital to risk-weighted assets is at least 10%, their ratio of Tier 1 capital to risk-weighted assets is at least 8.0%, their ratio of common equity Tier 1 capital to risk-weighted assets is at least 6.5%, and their ratio of core capital (Tier 1) to total average assets is at least 5.0%. Both the Company and the Association met all of the above PCA requirements and are considered well capitalized. Beginning in 2016, regulations were added to increase capital requirements by adding conservation buffers to the existing minimum capital levels which are separate from the prompt corrective action regulations. These conservation buffer regulations phase in the added capital levels over a four year period through 2019 and limit dividends, other capital distributions, and officer bonuses if the minimum levels are not met. The Company's capital requirements and ratios are presented below:

In Thousands	Actual		Minimum Requirements: To Meet Conservation Buffers		To Meet PCA Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2017						
Tier 1 Leverage Ratio	$ 24,069	22.55%	$ 4,269	4.000%	$ 5,336	5.000%
Common Equity Tier 1 Ratio (Risk Based)	$ 24,069	41.78%	$ 3,313	5.750%	$ 3,745	6.500%
Tier 1 Capital Ratio (Risk Based)	$ 24,069	41.78%	$ 4,177	7.250%	$ 4,609	8.000%
Total Capital Ratio (Risk Based)	$ 24,798	43.04%	$ 5,329	9.250%	$ 5,761	10.000%
2016						
Tier 1 Leverage Ratio	$ 23,481	22.15%	$ 4,241	4.000%	$ 5,301	5.000%
Common Equity Tier 1 Ratio (Risk Based)	$ 23,481	41.44%	$ 2,904	5.125%	$ 3,683	6.500%
Tier 1 Capital Ratio (Risk Based)	$ 23,481	41.44%	$ 3,753	6.625%	$ 4,532	8.000%
Total Capital Ratio (Risk Based)	$ 24,199	42.71%	$ 4,887	8.625%	$ 5,666	10.000%

The Company has an ongoing stock repurchase program authorizing the Company to repurchase its common stock, limited only by the regulatory requirements described above and the available cash held solely by Wake Forest Bancshares, Inc. At September 30, 2017 the Company was able to purchase up to an additional $835,500 of its outstanding common stock. The repurchases are made through its transfer agent or registered broker-dealers from shareholders in open market purchases at the discretion of management. The Company intends to hold the shares repurchased as treasury shares, and may utilize such shares to fund stock benefit plans or for any other general corporate purpose as permitted by applicable law. Through September 30, 2017, the Company had repurchased 117,166 shares of its common stock. The program continues until terminated by the Board of Directors.

Note 13. Concentration of Credit Risk and Off-Balance-Sheet Risk

The Association 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 the undisbursed portion of construction loans. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statement of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Association has in particular classes of financial instruments. The Association's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Association uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

At September 30, 2017, the Association had outstanding loan commitments amounting to $1,469,650. The un-disbursed portion of construction loans amounted to $7,605,950 and unused lines of credit amounted to $6,114,250 at September 30, 2017. The Association evaluates each customer's credit worthiness on a case-by-case basis. 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 amount of collateral obtained, if deemed necessary by the Association upon extension of credit, is based on management's credit evaluation of the customer. Collateral held is the underlying real estate.

Note 14. Mutual Holding Company Financial Data

The MHC owns 55.9% of the Company and is registered as a savings and loan holding company and is subject to regulation, examination, and supervision by the Federal Reserve. A summary of the condensed financial statements of the MHC follows:

Wake Forest Bancorp, MHC
Condensed Balance Sheets
September 30, 2017 and 2016

		2017		2016
Assets:				
Cash and cash equivalents	$	136,600	$	192,350
Accrued dvidends receivable		38,100		38,100
Investment in Wake Forest Bancshares, Inc.		12,242,900		11,856,250
Refundable income taxes		2,000		2,300
Total assets	$	12,419,600	$	12,089,000
Liabilities:				
Accounts payable and accrued expenses	$	18,000	$	30,850
Equity:				
Capitalization by Wake Forest Federal		106,350		106,350
Equity in Wake Forest Bancshares, Inc.		3,854,700		3,854,700
Retained earnings		8,440,550		8,097,100
Total equity		12,401,600		12,058,150
Total liabilities and equity	$	12,419,600	$	12,089,000

Wake Forest Bancorp, MHC
Condensed Statements of Income
Years Ended September 30, 2017 and 2016

		2017		2016
Revenues:				
Interest income	$	800	$	850
Equity in earnings of subsidiary		539,050		543,450
Total income		539,850		544,300
Expenses:				
Accounting and tax expense		29,800		30,250
Director's fees		121,950		133,450
Other		44,650		44,100
Total expense		196,400		207,800
Net income	$	343,450	$	336,500

Wake Forest Bancorp, MHC
Condensed Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016

		2017		2016
Cash Flows from Operating Activities:				
Net income	$	343,450	$	336,500
Equity in earnings of Wake Forest Bancshares, Inc.		(539,050)		(543,450)
Cash dividends		152,400		152,400
(Increase) decrease in refundable income taxes		300		(850)
Decrease in accounts payable and accrued expenses		(12,850)		(27,300)
Net cash used in operating activities		(55,750)		(82,700)
Cash and cash equivalents- beginning		192,350		275,050
Cash and cash equivalents- ending	$	136,600	$	192,350

Note 15. Parent Company Only Financial Data

The condensed financial statements of Wake Forest Bancshares, Inc. for the periods indicated follows:

Wake Forest Bancshares, Inc.
Condensed Balance Sheets
September 30, 2017 and 2016

	2017	2016
Assets:		
Cash and cash equivalents	$ 835,500	$ 602,500
Accrued dividends receivable, Wake Forest Federal	68,200	68,750
Investment in Wake Forest Federal	23,240,000	22,878,900
Other assets	6,500	7,350
Total assets:	$ 24,150,200	$ 23,557,500
Liabilities and Equity:		
Accrued dividends payable	$ 68,200	$ 68,750
Common stock	12,550	12,550
Additional paid-in capital	14,510,850	14,510,850
Retained earnings	11,396,150	10,632,800
Treasury stock acquired	(1,837,550)	(1,667,450)
Total equity	24,082,000	23,488,750
Total liabilities and equity	$ 24,150,200	$ 23,557,500

Wake Forest Bancshares, Inc.
Condensed Statements of Income
For the Years Ended September 30, 2017 and 2016

	2017	2016
Interest income	$ 3,150	$ 1,400
Equity in earnings of Wake Forest Federal	967,500	981,500
Other expense	(900)	(400)
Net income	$ 969,750	$ 982,500

Wake Forest Bancshares, Inc.
Condensed Statement of Cash Flows
For the Years Ended September 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Net income	$ 969,750	$ 982,500
Equity in earnings of Wake Forest Federal	(967,500)	(981,500)
Dividends received from Wake Forest Federal	673,700	675,300
Decrease in accrued dividends receivable	550	200
Decrease (increase) in other assets	850	(3,000)
Net cash provided by operating activities	677,350	673,500
Cash Flows from Financing Activities:		
Treasury stock acquired	(170,100)	(49,500)
Decrease in accrued dividends payable	(550)	(200)
Dividends paid	(273,700)	(275,300)
Net cash used in financing activities	(444,350)	(325,000)
Increase in cash	233,000	348,500
Cash and cash equivalents- beginning	602,500	254,000
Cash and cash equivalents- ending	$ 835,500	$ 602,500

WAKE FOREST BANCSHARES, INC.
COMMON STOCK INFORMATION

The Company's stock (previously as Wake Forest Federal Savings & Loan Association) began trading on April 3, 1996. There are 1,136,782 shares of common stock outstanding (net of treasury shares) of which approximately 43% were held by individual stockholders at September 30, 2017. The MHC and the ESOP hold approximately 57%. There were approximately 145 stockholders of record (not held by brokers) as of September 30, 2017. The Company's stock is not actively traded, although the stock is quoted on the OTC Electronic Bulletin Board under the symbol "WAKE." The table below reflects the stock trading and dividend payment frequency of the Company's stock for the years ended September 30, 2017 and 2016, based upon information provided to management of the Company by certain securities firms effecting transactions in the Company's stock on an agency basis.

		Stock Price	
	Dividends	High	Low
2017			
First Quarter	$ 0.06	$ 16.95	$ 16.20
Second Quarter	0.06	19.45	16.78
Third Quarter	0.06	19.00	17.00
Fourth Quarter	0.06	17.92	17.75
2016			
First Quarter	$ 0.06	$ 15.99	$ 15.16
Second Quarter	0.06	16.00	15.45
Third Quarter	0.06	16.25	15.54
Fourth Quarter	0.06	16.99	16.25

Wake Forest Bancshares, Inc.
Corporate Information

OFFICERS

Renee H. Shaw
President, Chief Executive Officer

Carter S. Harrell
Senior Vice President, Secretary & Treasurer

Millie W. Hale
Vice President, Controller

Wanda R. Keith
Compliance Officer and Internal Auditor

Ann W. Caudle
Vice President

DIRECTORS

Anna O. Sumerlin
Chair of Board of Directors
Former CEO of the Company

Howard L. Brown
Former Owner Operator of Oil Distribution Company

Robert C. White
Former CEO of the Company and Partner in Accounting Firm

Sue E. Anthony
Owner Operator of Law Firm

John D. Lyon
Real Estate Management

Earl F. Shoaf
Owner Operator of Electric Utility Supply Company

Randy L. Bright
Funeral Director

Rodney M. Privette
Owner Operator of Insurance Agency

R. W. Wilkinson III
Vice Chair of the Board
Former Managing Officer of Wake Forest Federal

STOCK TRANSFER AGENT

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INDEPENDENT AUDITORS

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Raleigh, NC 27607

ANNUAL MEETING

The 2018 annual meeting of stockholders of Wake Forest Bancshares, Inc. will be held at 2:00 pm on Tuesday, February 20, 2018 at the Wake Forest Town Hall at 301 Brooks Street, Wake Forest, N.C.