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FRB RICHMOND

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, F. ALAN SMITH
Name of the Holding Company Director and Official

CHAIRMAN
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.

F. Alan Smith
Signature of Holding Company Director and Official

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 3706684
C.I.

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

December 31, 2017
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

AB&T FINANCIAL CORPORATION
Legal Title of Holding Company

P.O. BOX 1099
(Mailing Address of the Holding Company) Street / P.O. Box

GASTONIA	NC	28053
City	State	Zip Code

292 W. MAIN AVE, GASTONIA, NC 28052
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

ROGER MOBLEY	CFO
Name	Title

704-648-0185
Area Code / Phone Number / Extension

704-867-6155
Area Code / FAX Number

roger.mobley@alliancebankandtrust.com
E-mail Address

www.alliancebanknc.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."

Results: A list of branches for your holding company: AB&T FINANCIAL CORPORATION (3706684) of GASTONIA, NC.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

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

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

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

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	3276543	ALLIANCE BANK & TRUST COMPANY	292 WEST MAIN AVENUE	GASTONIA	NC	28052	GASTON	UNITED STATES	Not Required	Not Required	ALLIANCE BANK & TRUST COMPANY	3276543	
OK		Full Service	3928749	GASTONIA BRANCH	2227 UNION ROAD	GASTONIA	NC	28054	GASTON	UNITED STATES	Not Required	Not Required	ALLIANCE BANK & TRUST COMPANY	3276543	
OK		Full Service	3928767	KINGS MOUNTAIN BRANCH	209 SOUTH BATTLEGROUND AVENUE	KINGS MOUNTAIN	NC	28086	CLEVELAND	UNITED STATES	Not Required	Not Required	ALLIANCE BANK & TRUST COMPANY	3276543	
OK		Full Service	3680971	SHELBY BRANCH	412 S DEKALB STREET	SHELBY	NC	28150	CLEVELAND	UNITED STATES	Not Required	Not Required	ALLIANCE BANK & TRUST COMPANY	3276543	

ITEM 1. – ANNUAL REPORT TO SHAREHOLDERS

There was no Annual Report to Shareholders of AB&T Financial Corporation prepared for the year ended December 31, 2017. Reports on Consolidated Financial Statements are included.

ITEM 2a – ORGANIZATIONAL CHART

As of December 31, 2017, the Company owns all the issued and outstanding shares of capital stock of Alliance Bank & Trust (the "Bank") located in Gastonia, North Carolina. The Company has no other subsidiaries. The Bank has no other subsidiaries.
The organizational chart is below:

AB&T Financial Corporation
NO LEI
Gastonia, North Carolina
State of Incorporation – North Carolina
↓
Owns 100% of
↓
Alliance Bank & Trust Company
NO LEI
Gastonia, North Carolina
State of Incorporation – North Carolina

ITEM 2b – DOMESTIC BRANCH LISTING

Attached is a copy of the Domestic Branch Listing

ITEM 3 - SECURITIES HOLDERS

(1)(a)(b)(c) and (2)(a)(b)(c)

Form FR Y-6 AB&T Financial Corporation Fiscal Year Ending December 31, 2017					
Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12/31/2017			**Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12/31/2017**		
(1)(a) Name City, State, Country	**(1)(b) Country or Citizenship Or Incorporation**	**(1)(c) Number and Percentage of Each Class of Voting Securities**	**(2)(a) Name City, State, Country**	**(2)(b) Country or Citizenship Or Incorporation**	**(2)(c) Number and Percentage of Each Class of Voting Securities**
Byron DeFoor Chattanooga, TN, USA	USA	17,971,603 – 57.19% Common Stock	NA	NA	NA
CEDE & Co New York, NY, USA	USA	2,163,435 – 6.88% Common Stock	NA	NA	NA
Charles L. Yates Gastonia, NC, USA	USA	1,996,150 – 6.35% Common Stock	NA	NA	NA
Roger Dale Bingham & Patricia A. Bingham Kings Mtn, NC USA	USA	1,875,000 – 5.97% Common Stock	NA	NA	NA

ITEM 4 - INSIDERS

(1), (2), (3) (a) (b) (c), and (4) (a) (b) (c)

Form FR Y-6 AB&T Financial Corporation Fiscal Year Ending December 31, 2017							
(1) Name, City, State, Country	**(2) Principal Occupation if other than with Bank Holding Company**	**(3)(a) Title & Position with Bank Holding Company**	**(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)**	**(3)(c) Title & Position with Other Businesses (include names of other businesses)**	**(4)(a) Percentage of Voting Shares in Bank Holding Company**	**(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)**	**(4)(c) List name of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)**
Daniel M. Boyd Gastonia, NC USA	President – (Alliance Bank & Trust)	President	President & CEO (Alliance Bank & Trust)	NA	0%	NA	NA
Don J. Harrison Mt. Pleasant, SC, USA	Director – (Alliance Bank & Trust)	Director	Director (Alliance Bank & Trust)	NA	.16%	NA	NA
F. Alan Smith Cleveland, TN, USA	Private equity advisor/investor, Chattanooga, TN	Chairman	Chairman (Alliance Bank & Trust)	NA	0%	NA	NA
Craig D. Taylor Chattanooga, TN, USA	Director of Operations, Contemporary Healthcare Capital, LLC, Chattanooga, TN	Vice Chairman	Vice Chairman (Alliance Bank & Trust)	NA	0%	NA	NA
David W. White Shelby, NC, USA	President, White Investments of Shelby, LLC	Director	Director (Alliance Bank & Trust)	President – White and Son Construction Co.	1.57%	NA	White Investments of Shelby – 100% White and Son Construction – 100%
Roger A. Mobley, Charlotte, NC, USA	CFO – (Alliance Bank & Trust)	CFO	CFO – (Alliance Bank & Trust)	NA	0.0%	NA	NA
Byron DeFoor Chattanooga, TN, USA	Contemporary Healthcare Capital – Majority owner	NA	NA	See attached	57.19%	NA	See attached
Carl J. Stewart, Jr., Esq Gastonia, NC, USA	Attorney at Law	Director	Director (Alliance Bank & Trust)	NA	.18%	NA	NA

Byron De Foor

NOTE H - INVESTMENT IN CONTEMPORARY FUNDS

Contemporary Healthcare Capital (Byron owns 51% of this entity)

NOTE I - INVESTMENT IN S-CORPORATION

Byron owns a fifty percent ownership in Sunland & Associates, Inc. which owns interest in several nursing homes. The following is a listing of Sunland & Associate's percentage of ownership, value and debt. The values are based upon recent appraisals and estimates of current earnings.

Company

Leewood Healthcare Center (Sunland owns 50% of this entity)
7411 Shallowford Rd Land (Sunland owns 100% of this entity)

NOTE E - INVESTMENT IN SENIOR HOUSING LIMITED LIABILITY COMPANIES

Company	Ownership
Grace Healthcare of Abingdon	98%
Fredrick Villa Nursing & Rehab	2%
Jacaranda Manor	99%
Leawood Healthcare Center	50%
Raintree Manor	99%
Riveridge Manor	99%
Riverview Manor	99%
Soddy Daisy Health Care Center	99%
Royal Palm Healthcare & Rehab	100%
Cordova Property Investment	97%
Grace Healthcare of Douglas	97%
Grace Healthcare of Franklin	97%
Grace Healthcare of Glenwood Springs	97%
Grace Healthcare of Lake Wales	92%
Oneida Nursing Center	51%
Paonia Care and Rehab Center	97%
Grace Healthcare of Phoenix	100%
Pioneer Healthcare Center	97%
Grace Healthcare of River Falls	91%
Grace Healthcare of Tucker	97%
Grace Healthcare of Whites Creek	97%
Tri County Healthcare Center	97%
Oak Park Convalescent Center	80%
Rheem Valley Convalescent Center	80%
Manitowoc Nursing & Rehab	99%
Villa Pines Nursing & Rehab	51%
Nazareth Health & Rehab	72%
Braddock Heights Property (Vindabona)	98%
Renaissance Marquis Retirement	80%
Renaissance ALF	33%
Sienardville Nursing Center	33%
Asheville Property Investment	72%
Durham Property Investment	72%
Winston Salem Property Investment	72%
Benton Property Investment	75%
Maumelle Property Investment	75%
Velden Community Living Center	75%
Liberty Community Living Center	75%
Abingdon Property Investment	80%

NOTE F - INVESTMENT IN OTHER HEALTHCARE FACILITIES

Company	Ownership
Veranda Property Investment	50%
Sacramento Investments	100%
Grace Healthcare	100%
Total Value, Debt and Equity	

NOTE G - INTEREST IN REAL ESTATE/OTHER ASSETS

Company	Ownership
Meadows Investments III	70%
Sunland Corporate Center	100%
Annandale Property	100%
500 River Street	50%
DeFoor Brothers Development	50%
Waterside Property Investment	50%
Napier Associates, GP	50%
Lifestyle Way Property Investment	50%
The Gold Building	73%
Gunbarrel Partners, GP	20%
Chattanooga Hotel Property (Embassy)	50%
PBO Development	50%
Maplehurst Apartments	17%
Promontory Investments	100%
Vero Property Investment	100%
Sunland Aviation	100%
50+ Racing	100%
Eighth Street Partners	100%
Citipark Investors	100%
Pioneer Investors	100%

AB&T Financial Corporation

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2017 and 2016

	Page

elliott davis

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
AB&T Financial Corporation

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of AB&T Financial Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AB&T Financial Corporation and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, PLLC

Charlotte, North Carolina
March 29, 2018

AB&T Financial Corporation

Consolidated Balance Sheets

As of December 31, 2017 and 2016

	2017	2016
Assets		
Cash and due from banks	$ 16,003,013	$ 18,544,257
Time deposits with other banks	245,000	245,000
Investments:		
Securities available-for-sale	21,214,675	14,529,143
Nonmarketable equity securities	174,380	790,980
Total investments	21,389,055	15,320,123
Loans receivable	100,850,987	106,893,351
Less allowance for loan losses	(1,356,091)	(1,784,687)
Loans, net	99,494,896	105,108,664
Premises, furniture and equipment, net	3,376,064	3,512,380
Accrued interest receivable	404,954	346,427
Other real estate owned	-	35,419
Other assets	1,389,717	326,478
Total assets	$ 142,302,699	$ 143,438,748
Liabilities		
Deposits:		
Noninterest-bearing transaction accounts	$ 36,133,827	$ 30,978,718
Interest-bearing transaction accounts	7,983,323	7,007,834
Savings and money market	61,518,991	53,671,761
Time deposits $100,000 and over	13,851,350	17,742,852
Other time deposits	8,381,905	7,953,875
Total deposits	127,869,396	117,355,040
Advances from the Federal Home Loan Bank	-	12,500,000
Repurchase agreements	3,268,398	3,239,704
Accrued interest payable	9,821	19,197
Other liabilities	138,626	228,731
Total liabilities	131,286,241	133,342,672
Commitments and contingencies (Note 11, 13 and 20)		
Shareholders' Equity		
Preferred stock, no par value; 1,000,000 shares authorized; no shares issues or outstanding	-	-
Common stock, no par value 35,000,000 shares authorized; 31,415,058 shares issued and outstanding	13,128,046	13,128,046
Warrants	136,850	136,850
Capital surplus	22,061,139	22,034,647
Retained deficit	(24,161,284)	(25,026,657)
Accumulated other comprehensive loss	(148,293)	(176,810)
Total shareholders' equity	11,016,458	10,096,076
Total liabilities and shareholders' equity	$ 142,302,699	$ 143,438,748

See Notes to Consolidated Financial Statements

AB&T Financial Corporation

Consolidated Statements of Operations

For the years ended December 31, 2017 and 2016

	2017	2016
Interest income:		
Loans, including fees	$ 5,290,742	$ 5,563,897
Securities available-for-sale, taxable and nonmarketable equity securities	267,384	175,402
Federal funds sold	-	23
Time deposits with other banks	175,368	73,884
Total interest income	5,733,494	5,813,206
Interest expense:		
Time deposits $100,000 and over	162,347	242,200
Other deposits	338,472	290,613
Federal Home Loan Bank advances	66,853	81,468
Other borrowings	28,233	9,608
Total interest expense	595,905	623,889
Net interest income	5,137,589	5,189,317
Provision for loan losses	-	-
Net interest income after provision for loan losses	5,137,589	5,189,317
Noninterest income:		
Service charges on deposit accounts	191,213	209,843
Gain on sale of loans	23,891	-
Other	98,400	99,859
Total noninterest income	313,504	309,702
Noninterest expenses:		
Salaries and employee benefits	2,639,347	2,603,366
Net occupancy	178,819	188,253
Furniture and equipment	200,172	189,657
FDIC Insurance premiums	178,001	292,656
Net (gains) losses on other real estate	(3,684)	119,263
Loss on sale of available-for-sale securities	-	31,598
Loss on write down of other assets	-	50,971
Other operating	1,772,271	1,607,517
Total noninterest expense	4,964,926	5,083,281
Income before income taxes	486,167	415,738
Income tax benefit	(353,164)	-
Net income	$ 839,331	$ 415,738
Income per common share		
Basic	$ .03	$ .01
Diluted	$ .03	$ .01
Average shares outstanding		
Basic	31,415,058	31,415,058
Diluted	31,415,058	31,415,058

See Notes to Consolidated Financial Statements

AB&T Financial Corporation

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

	2017	2016
Net income	$ 839,331	$ 415,738
Other comprehensive income		
Unrealized holding losses arising during the period	(23,437)	(73,811)
Tax effect	77,996	-
Reclassification adjustment for realized losses included in net income	-	31,598
Other comprehensive income (loss), net of tax	54,559	(42,213)
Comprehensive Income	$ 893,890	$ 373,525

See Notes to Consolidated Financial Statements

AB&T Financial Corporation

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2017 and 2016

	Common Stock Shares	Common Stock Amounts	Preferred Stock Shares	Preferred Stock Amount	Warrants	Capital Surplus	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2015	31,415,058	$ 13,128,046	-	$ -	$ 136,850	$ 22,019,145	$ (25,442,395)	$ (134,597)	$ 9,707,049
Net income	-	-	-	-	-	-	415,738	-	415,738
Stock compensation expense	-	-	-	-	-	15,502	-	-	15,502
Other comprehensive loss	-	-	-	-	-	-	-	(42,213)	(42,213)
Balance, December 31, 2016	31,415,058	13,128,046	-	-	136,850	22,034,647	(25,026,657)	(176,810)	10,096,076
Net income	-	-	-	-	-	-	839,331	-	839,331
Stock compensation expense	-	-	-	-	-	26,492	-	-	26,492
Effect of Tax Cut and Jobs Act	-	-	-	-	-	-	26,042	(26,042)	-
Other comprehensive income	-	-	-	-	-	-	-	54,559	54,559
Balance, December 31, 2017	31,415,058	$ 13,128,046	-	$ -	$ 136,850	$ 22,061,139	$ (24,161,284)	$ (148,293)	$ 11,016,458

See Notes to Consolidated Financial Statements

AB&T Financial Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net Income	$ 839,331	$ 415,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	183,352	188,525
Discount accretion and premium amortization	302,720	375,907
Net (gains) losses on other real estate	(3,684)	119,263
Loss on sale of securities available-for-sale	-	31,598
Gain on sale of loans	23,891	-
Loss on write down of other assets	-	50,971
Deferred income taxes	(353,164)	-
Stock compensation expense	26,492	15,502
(Increase) decrease in accrued interest receivable	(58,527)	28,449
(Decrease) increase in accrued interest payable	(9,376)	5,681
Increase in other assets	(632,079)	(191,375)
(Decrease) increase in other liabilities	(90,105)	59,643
Net cash provided by operating activities	228,851	1,099,902
Cash flows from investing activities:		
Purchases of time deposits with other banks	-	(245,000)
Proceeds from sale of securities available-for-sale	828,408	3,485,142
Calls, paydowns, and maturities of securities available-for-sale	1,979,901	2,749,034
Purchases of securities available-for-sale	(9,819,998)	(3,037,163)
Proceeds from sale of nonmarketable equity securities	616,600	421,700
Purchases of nonmarketable equity securities	-	(297,500)
Net change in loans receivable	5,183,486	5,985,381
Purchases of premises, furniture and equipment	(47,036)	(72,800)
Proceeds from sale of loans	406,391	-
Proceeds from sale of other real estate	39,103	2,073,908
Net cash (used by) provided by investing activities	(813,145)	11,062,702
Cash flows from financing activities:		
Net increase in deposits	10,514,356	1,908,355
Repayment of advances from the Federal Home Loan Bank, net	(12,500,000)	(2,500,000)
Proceeds from repurchase agreements	28,694	308,114
Net cash used by financing activities	(1,956,950)	(283,531)
Net (decrease) increase in cash and cash equivalents	(2,541,244)	11,879,073
Cash and cash equivalents, beginning of year	18,544,257	6,665,184
Cash and cash equivalents, end of year	$ 16,003,013	$ 18,544,257

See Notes to Consolidated Financial Statements

AB&T Financial Corporation

Consolidated Statements of Cash Flows, Continued
For the years ended December 31, 2017 and 2016

	2017	2016
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 605,281	$ 618,208
Noncash investing and financing activities:		
Change in unrealized losses on securities available-for-sale, net of tax	$ (23,437)	$ (42,213)
Reclassification of accumulated other comprehensive income due to change in tax rate	$ 26,042	$ -

See Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization:

AB&T Financial Corporation (the "Company"), was incorporated under the laws of the State of North Carolina on June 25, 2007. On May 14, 2008, the Company became the sole shareholder of Alliance Bank & Trust Company (the "Bank"). Alliance Bank & Trust Company is a state-chartered bank, which was organized and incorporated under the laws of the State of North Carolina in September 2004. The Bank is not a member of the Federal Reserve System. The Bank commenced operations on September 8, 2004. The Company and the Bank are collectively referred to as the "Company" unless otherwise noted. On May 29, 2015, the Company completed a capital raise transaction involving a strategic investor. The investor held approximately 57 percent of the outstanding shares of the Company as of December 31, 2015, which triggered a change in control during the year.

The Bank is headquartered in Gastonia, North Carolina and currently conducts business in two North Carolina counties through four full service branch offices. The principal business activity of the Bank is to provide commercial banking services to domestic markets, principally in Gaston and Cleveland counties. As a state-chartered bank, the Bank is subject to regulation by the North Carolina Office of the Commissioner of Banks and the Federal Deposit Insurance Corporation. The Company is also regulated, supervised and examined by the Federal Reserve. The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions.

Several subsidiary corporations were formed in 2012 for the purpose of holding and managing Other Real Estate Owned (OREO), and are wholly owned subsidiaries of the Bank.

Management's estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

Concentrations of credit risk:

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

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in Gaston and Cleveland Counties in North Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

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

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

Time deposits with other banks:

Time deposits with other banks include the Bank's investments in certificates of deposit with a maturity date greater than 90 days. Because the maturity date is greater than 90 days, these time deposits are not included in cash and cash equivalents.

Securities available-for-sale:

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

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

Nonmarketable equity securities:

Nonmarketable equity securities include the cost of the Company's investment in the stock of Federal Home Loan Bank (FHLB) and Community Bankers Bank. These stocks have no quoted market value and no ready market for them exists. Investment in the Federal Home Loan Bank is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to collateralize such borrowings. At December 31, 2017 and 2016, the Company's investment in Federal Home Loan Bank stock was $129,200 and $745,800, respectively. Investment in Community Bankers Bank was and $45,180 at December 31, 2017 and 2016.

Loans receivable:

Loans are stated at their unpaid principal balance adjusted for any charge-offs and the allowance for loan loss reserve. Interest income is computed using the simple interest method and is recorded in the period earned.

When serious doubt exists as to the collectability of a loan or when a loan becomes contractually 90 days past due as to principal or interest, interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest. When interest accruals are discontinued, income earned but not collected is reversed. When facts and circumstances indicate the borrower is able to meet required payments, the loan is returned to accrual status.

The Company identifies impaired loans through its normal internal loan review process. Loans on the Company's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether all outstanding principal and interest are expected to be collected at their contractual terms. Loans are not considered impaired if a minimal payment delay occurs and all amounts due, including accrued interest at the contractual interest rate for the period of delay, are expected to be collected consistent with the contract. At December 31, 2017 and 2016, the recorded investment in loans in impaired status totaled $4,464,159 and $5,938,591, respectively.

Allowance for loan losses:

An allowance for loan losses is maintained at a level deemed appropriate by management to provide adequately for known and inherent losses in the loan portfolio. The allowance is based upon past loan loss experience, current economic conditions that may affect the borrowers' ability to pay, and the underlying collateral value of the loans. Loans which are deemed to be uncollectible are charged off and deducted from the allowance. The provision for loan losses and recoveries of loans previously charged off are added 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 the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

Allowance for loan losses, continued:

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

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration of all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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

Premises, furniture and equipment:

Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings of 40 years and furniture and equipment of 5 to 10 years. Leasehold improvements are amortized over the life of the leases. The cost of assets sold or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and the resulting gains or losses are reflected in the income statement when incurred. Maintenance and repairs are charged to other operating expense. The costs of major renewals and improvements are capitalized.

Other real estate owned:

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is initially recorded at fair value and then carried at the lower of cost (principal balance of the former loan plus costs of improvements) or estimated fair value. Any write-downs at the dates of foreclosure are charged to the allowance for loan losses. Expenses to maintain such assets and subsequent valuation write downs are included in other expenses. Gains and losses on disposal are included in noninterest income or expense.

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

Income taxes:

Income taxes are the sum of amounts currently payable to taxing authorities and the net changes in income taxes payable or refundable in future years. Income taxes deferred to future years are determined utilizing a liability approach. This method gives consideration to the future tax consequences associated with differences between financial accounting and tax bases of certain assets and liabilities which are principally the allowance for loan losses, depreciable premises, furniture and equipment, and the net operating loss carryforward. The Bank believes its loss position over the last few years may adversely impact its ability to recognize the full benefit of its deferred tax asset. Therefore, the Bank currently has placed a valuation allowance on its deferred tax asset. The Bank believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Bank's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded.

The Bank had adopted ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" which is considered a change in accounting principle. Because the required adjustment of deferred taxes is required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (commonly referred to as "stranded" tax effects) would not reflect the appropriate tax rate. Adoption of this ASU eliminates the "stranded" tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017. The Bank has reclassified "stranded" tax effects totaling $26,042 from accumulated other comprehensive loss to retained deficit and these reclassified amounts are reflected in the accompanying balance sheets, statements of operations, statements of comprehensive income, statements of changes in shareholders' equity, and statements of cash flows.

Advertising expense:

Advertising and public relations costs are expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expended in the period in which the direct mailings are sent. Advertising costs of $8,745 and $5,919 were included in the Company's other operating expenses for 2017 and 2016, respectively.

Stock-based compensation:

Compensation expense is recognized as salaries and benefits in the consolidated statement of operations. In calculating the compensation expense for stock options, the fair value of options granted is estimated as of the date granted using the Black-Scholes option pricing model. There were 140,000 and 690,000 options granted in 2017 and 2016, respectively.

Income per share:

Basic income per share represents income available to shareholders divided by the weighted-average number of common shares outstanding during the period. Dilutive earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and warrants and are determined using the treasury stock method.

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

Statement of cash flows:

For purposes of reporting cash flows in the consolidated financial statements, the Company considers certain highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks and federal funds sold. Generally, federal funds are sold for one- day periods.

Comprehensive income:

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on investment securities available-for-sale, net of taxes. Comprehensive income is presented in the consolidated statements of shareholders' equity and in a separate statement of comprehensive income.

Off-balance sheet financial instruments:

In the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the consolidated financial statements when they become payable by the customer.

Recent accounting pronouncements:

The following accounting standards may affect the future financial reporting by AB&T Financial Corporation:

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2015, the FASB amended the Income Taxes topic of the Accounting Standards Codification simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments will be effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, with early adoption permitted as of the beginning of an interim or annual reporting period. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

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

Recent accounting pronouncements, continued:

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

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

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

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

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2017, and interim periods within annual reporting periods beginning after December 15, 2018. The Company does not expect these amendments to have a material effect on its financial statements.

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

Recent accounting pronouncements, continued:

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

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

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

In January 2017, the FASB issued guidance to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendment to the Business Combinations Topic is intended to address concerns that the existing definition of a business has been applied too broadly and has resulted in many transactions being recorded as business acquisitions that in substance are more akin to asset acquisitions. The guidance will be effective for the Company for reporting periods beginning after December 15, 2017. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2017, the FASB amended the Goodwill and Other Topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2017, the FASB amended the Other Income Topic of the Accounting Standards Codification to clarify the scope of the guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

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

Recent accounting pronouncements, continued:

In March 2017, the FASB amended the requirements in the Receivables—Nonrefundable Fees and Other Costs Topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Company for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2018, the FASB issued (2018-02), Income Statement (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act. The amendments will be effective for the Company for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company adopted this amendment in 2017 and accordingly reclassified $26,042 between accumulated other comprehensive loss and retained deficit.

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

Risks and uncertainties:

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

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

Reclassifications:

Certain captions and amounts in the 2016 consolidated financial statements were reclassified to conform to the 2017 presentation.

Note 2. Regulatory Actions

Effective February 1, 2012, the Bank stipulated to the issuance of a Consent Order (the "Order") issued by the Federal Deposit Insurance Corporation (FDIC) and the North Carolina Commissioner of Banks (the "Commissioner"). Under the terms of the Order, the Bank was required, among other things, to do the following: increase Board participation in the affairs of the Bank and establish a program to oversee compliance with the Order; ensure that the Bank· has and retains qualified management and develop a written management plan based upon the findings of an independent third party management assessment; achieve and maintain (i) a total risk-based capital ratio of at least 11 percent, and (ii) a Tier 1 leverage ratio of at least 8 percent; chargeoff all assets classified as "Loss" and 50 percent of those assets classified as "Doubtful;" develop a comprehensive policy for determining the adequacy of the Bank's ALLL; formulate a plan to reduce the risk exposure for each asset or relationship in excess of $250,000 classified as "Substandard" or "Doubtful;" refrain from extending credit to any borrower whose extension of credit has been, in whole or in part, charged-off or classified as "Loss" or "Doubtful" and is uncollected; refrain from extending credit to any borrower who has a loan or other extension of credit from the Bank that has been classified as "Substandard;" perform a risk segmentation analysis on and develop a written plan to systematically reduce and monitor the Bank's concentration of credit in revolving 1–4 family residential property loans; review and revise its loan review and grading system; review and revise the Bank's strategic plan and comprehensive budget; review and revise its liquidity, contingent funding and asset liability management plan; develop and implement a written policy for interest rate management; and eliminate and/or correct all violations of rules and regulations noted by the Bank's regulators. As of December 31, 2016, the Company was in compliance with the provisions of the Order, with the exception of one item related to capital requirements. On July 26, 2017, the FDIC terminated the Order.

On April 24, 2012, the Federal Reserve notified the Company that the Company would be operating under several restrictions imposed on it by the Federal Reserve. These restrictions included appointment of new directors or changes in the appointment of any senior executive officers, paying dividends, common or preferred, and incurring debt. As of December 31, 2016, the Company was in compliance with all provisions of the agreement with the Federal Reserve. On September 13, 2017, the Federal Reserve terminated the enforcement action.

Effective June 30, 2017, the Bank entered into a Memorandum of Understanding (MOU) with the FDIC and the Commissioner. Under the terms of the MOU, the Bank is required, among other things, to do the following: prepare and submit annual budgets; maintain an adequate allowance for loan and lease losses; maintain a Tier 1 Leverage ratio of at least 8 percent and a Total Capital ratio of at least 10 percent; not pay any dividends without prior written consent; within 60 days, review and revise the Bank Secrecy Act program to address weaknesses identified; take steps necessary to correct all contraventions of statements of policy and violations of laws, rule, and regulation cited; and furnish progress reports within thirty days, following the end of each calendar quarter. As of December 31, 2017, the Bank was in compliance with all provisions of the MOU, with the exception of one item related to capital requirements.

Note 3. Cash and Due from Banks

The Company is required to maintain cash balances with its correspondent banks to cover all cash letter transactions. At December 31, 2017 and 2016, the requirement was met by the cash balance in the vault.

Note 4. Investment Securities

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

	Amortized Cost	Gross unrealized Gains	Gross unrealized Losses	Estimated Fair Value
December 31, 2017				
U.S. agency securities	$ 10,557,133	$ 28,712	$ 137,283	$ 10,448,562
Mortgage-backed securities	10,857,789	34	91,710	10,766,113
Total	$ 21,414,922	$ 28,746	$ 228,993	$ 21,214,675

	Amortized Cost	Gross unrealized Gains	Gross unrealized Losses	Estimated Fair Value
December 31, 2016				
U.S. agency securities	$ 12,724,313	$ 10,209	$ 173,714	$ 12,560,808
Mortgage-backed securities	1,981,640	419	13,724	1,968,335
Total	$ 14,705,953	$ 10,628	$ 187,438	$ 14,529,143

The following is a summary of maturities of securities available-for-sale as of December 31, 2017. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	Security Available-for-Sale Cost	Security Available-for-Sale Fair Value
Due in one year or less	$ 99,487	$ 99,491
Due after one year but within five years	16,057,515	15,952,157
Due after five years but within ten years	3,983,367	3,878,112
Due after ten years	1,274,553	1,284,915
Total	$ 21,414,922	$ 21,214,675

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016:

December 31, 2017	Less than Twelve Months		Twelve months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	$ 2,813,477	$ 22,703	$ 5,589,724	$ 114,580	$ 8,403,201	$ 137,283
Mortgage-backed securities	5,252,552	79,583	721,725	12,127	5,974,277	91,710
Total	$ 8,066,029	$ 102,286	$ 6,311,449	$ 126,707	$14,377,478	$ 228,993

Note 4. Investment Securities, Continued

	December 31, 2016					
	Less than Twelve Months		Twelve months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	$ 2,899,995	$ 81,365	$ 7,096,138	$ 92,349	$ 9,996,133	$ 173,714
Mortgage-backed securities	893,496	6,288	476,196	7,436	1,369,692	13,724
Total	$ 3,793,491	$ 87,653	$ 7,572,334	$ 99,785	$11,365,825	$ 187,438

Securities classified as available-for-sale are recorded at fair market value. There were 15 securities totaling $6,311,449 in a continuous loss position for 12 months or more at December 31, 2017. There were 15 securities totaling $7,572,334 in a continuous loss position for 12 months or more as of December 31, 2016. Of the securities in an unrealized loss position as of December 31, 2017, the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost. The Company believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary.

For the year ended December 31, 2017 proceeds from the sale of available-for-sale securities totaled $828,408 resulting in no gross gains or losses. For the year ended December 31, 2016 proceeds from the sale of available-for-sale securities totaled $3,485,142 resulting in gross losses of $31,598.

There were no investments pledged to the FHLB as of December 31, 2017. Investments with a carrying value of $6.3 million were pledged to the FHLB as of December 31, 2016.

Investments with a carrying value of $3.3 million and $2.4 million were pledged to secure repurchase orders as of December 31, 2017 and 2016, respectively.

Note 5. Loans Receivable

Major classifications of loans receivable at December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Real estate - Construction	$ 8,141,951	$ 9,987,022
Real estate - Commercial	54,716,321	50,502,705
Real estate - Residential (1)	25,776,603	32,112,037
Commercial and Industrial	11,752,566	13,766,412
Consumer and Other	463,546	525,175
Total gross loans	100,850,987	106,893,351
Less allowance for loan losses	(1,356,091)	(1,784,687)
Loans receivable, net	$ 99,494,896	$ 105,108,664

(1) Includes $7,196,359 and $11,737,294 in purchased home equity lines of credit as of December 31, 2017 and 2016, respectively.

Note 5. Loans Receivable, Continued

The following is an aging analysis of our loan portfolio at December 31, 2017:

	30 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans	Nonaccrual
Real estate - Construction	$ -	$ -	$ -	$ 8,141,951	8,141,951	$ 265,409
Real estate - Commercial	45,444	-	45,444	54,670,877	54,716,321	1,665,412
Real estate - Residential	578,275	-	578,275	25,198,328	25,776,603	302,131
Commercial and Industrial	350,000	-	350,000	11,402,566	11,752,566	-
Consumer and Other	-	-	-	463,546	463,546	-
Total	$ 973,719	$ -	$ 973,719	$ 99,877,268	$100,850,987	$ 2,232,952

The following is an aging analysis of our loan portfolio at December 31, 2016:

	30 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans	Nonaccrual
Real estate - Construction	$ 551,306	$ 126,615	$ 677,921	$ 9,309,101	$ 9,987,022	$ 552,600
Real estate - Commercial	-	-	-	50,502,705	50,502,705	1,817,049
Real estate - Residential	-	-	-	32,112,037	32,112,037	510,273
Commercial and Industrial	-	-	-	13,766,412	13,766,412	-
Consumer and Other	-	-	-	525,175	525,175	-
Total	$ 551,306	$ 126,615	$ 677,921	$106,215,430	$106,893,351	$ 2,879,922

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2017:

	Real Estate			Commercial and Industrial	Consumer and Other	Total
	Construction	Commercial	Residential			
Allowances for Loan Losses:						
Beginning Balance:	$ 149,959	$ 518,927	$ 997,573	$ 60,755	$ 57,473	$ 1,784,687
Provision	-	-	-	-	-	-
Recoveries	10,606	135,252	58,269	5,376	1,729	211,232
Charge-offs	-	(183,796)	(445,397)	-	(10,635)	(639,828)
Ending Balance	$ 160,565	$ 470,383	$ 610,445	$ 66,131	$ 48,567	$ 1,356,091
Ending Balances:						
Individually evaluated for impairment	$ 18,743	$ 220,571	$ 97,580	$ -	$ -	$ 336,894
Collectively evaluated for impairment	141,822	249,812	512,865	66,131	48,567	1,019,197
Ending Balance	$ 160,565	$ 470,383	$ 610,445	$ 66,131	$ 48,567	$ 1,356,091
Loans Receivable:						
Ending Balances:						
Individually evaluated for impairment	$ 399,987	$ 3,635,429	$ 428,743	$ -	$ -	$ 4,464,159
Collectively evaluated for impairment	7,741,964	51,080,892	25,347,860	11,752,566	463,546	96,386,828
Ending Balance	$ 8,141,951	$ 54,716,321	$ 25,776,603	$ 11,752,566	$ 463,546	$100,850,987

Note 5. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2016:

	Real Estate			Commercial	Consumer	
	Construction	Commercial	Residential	and Industrial	and Other	Total
Allowances for Loan Losses:						
Beginning Balance:	$ 140,788	$ 898,901	$ 994,788	$ 55,421	$ 60,539	$ 2,150,437
Provision	-	-	-	-	-	-
Recoveries	9,171	156,242	91,006	5,334	6,650	268,403
Charge-offs	-	(536,216)	(88,221)	-	(9,716)	(634,153)
Ending Balance	$ 149,959	$ 518,927	$ 997,573	$ 60,755	$ 57,473	$ 1,784,687
Ending Balances:						
Individually evaluated for impairment	$ 32,221	$ 248,047	$ 44,239	$ -	$ -	$ 324,507
Collectively evaluated for impairment	117,738	270,880	953,334	60,755	57,473	1,460,180
Ending Balance	$ 149,959	$ 518,927	$ 997,573	$ 60,755	$ 57,473	$ 1,784,687
Loans Receivable:						
Ending Balances:						
Individually evaluated for impairment	$ 751,202	$ 4,210,492	$ 711,117	$ 265,780	$ -	$ 5,938,591
Collectively evaluated for impairment	9,235,820	46,292,213	31,400,920	13,500,632	525,175	100,954,760
Ending Balance	$ 9,987,022	$ 50,502,705	$ 32,112,037	$ 13,766,412	$ 525,175	$106,893,351

Credit quality indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $250 thousand or $1 million, depending on loan type, and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis with the most recent analysis performed at December 31, 2017. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention, while still adequately protected by the borrower's capital adequacy and payment capability, exhibit distinct weakening trends and/or elevated levels of exposure to external conditions. If left unchecked or uncorrected, these potential weaknesses may result in deteriorated prospects of repayment. These exposures require management's close attention so as to avoid becoming undue or unwarranted credit exposures.

Substandard. Loans classified as substandard are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Note 5. Loans Receivable, Continued

Credit quality indicators, continued:

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimated loss is deferred until its more exact status may be determined.

Loss. Loans classified as loss are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Losses are taken in the period in which they surface as uncollectible.

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

The following table lists the loan grades used by the Bank as credit quality indicators and the balance in each category at December 31, 2017:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate - Construction	$ 7,870,899	$ 5,643	$ 265,409	$ -	$ -	$ 8,141,951
Real estate - Commercial	50,305,918	1,966,617	2,443,786	-	-	54,716,321
Real estate - Residential	24,278,000	1,143,045	355,558	-	-	25,776,603
Commercial and Industrial	11,161,378	591,188	-	-	-	11,752,566
Consumer and Other	463,546	-	-	-	-	463,546
Total	$ 94,079,741	$ 3,706,493	$ 3,064,753	$ -	$ -	$ 100,850,987

The following table lists the loan grades used by the Bank as credit quality indicators and the balance in each category at December 31, 2016:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate - Construction	$ 9,366,906	$ 7,143	$ 612,973	$ -	$ -	$ 9,987,022
Real estate - Commercial	45,326,388	2,325,637	2,850,680	-	-	50,502,705
Real estate - Residential	29,678,521	1,815,957	617,559	-	-	32,112,037
Commercial and Industrial	13,766,412	-	-	-	-	13,766,412
Consumer and Other	525,175	-	-	-	-	525,175
Total	$ 98,663,402	$ 4,148,737	$ 4,081,212	$ -	$ -	$ 106,893,351

Note 5. Loans Receivable, Continued

Credit quality indicators, continued:

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2017:

	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate - Construction	$ 317,476	$ 271,053	$ -	$ 445,584	$ 37,139
Real estate - Commercial	2,842,151	2,529,055	-	2,623,550	348,792
Real estate - Residential	428,636	275,501	-	385,437	141,961
Commercial and industrial	-	-	-	-	-
Consumer and other	-	-	-	-	-
With an allowance recorded:					
Real estate - Construction	128,934	128,934	18,743	120,638	-
Real estate - Commercial	1,106,374	1,106,374	220,571	1,012,979	-
Real estate - Residential	153,424	153,242	97,580	104,452	-
Commercial and industrial	-	-	-	-	-
Consumer and other	-	-	-	-	-
	$ 4,976,995	$ 4,464,159	$ 336,894	$ 4,692,640	$ 527,892

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2016:

	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate - Construction	$ 652,516	$ 620,116	$ -	$ 630,748	$ 24,765
Real estate - Commercial	5,083,327	3,176,861	-	3,350,970	241,935
Real estate - Residential	751,924	606,262	-	632,341	120,609
Commercial and industrial	265,780	265,780	-	280,682	-
Consumer and other	-	-	-	-	-
With an allowance recorded:					
Real estate – Construction	131,086	131,086	32,221	132,291	-
Real estate – Commercial	1,033,631	1,033,631	248,047	1,043,679	-
Real estate – Residential	105,022	104,855	44,239	108,580	193
Commercial and industrial	-	-	-	-	-
Consumer and other	-	-	-	-	-
	$ 8,023,286	$ 5,938,591	$ 324,507	$ 6,179,291	$ 387,502

Note 5. Loans Receivable, Continued

Troubled debt restructurings:

At December 31, 2017 there were $3.3 million in loans classified as troubled debt restructurings compared to $3.1 million as of December 31, 2016. Of these, $1.4 million and $1.7 million were accruing interest as of December 31, 2017 and 2016, respectively.

During the year ended December 31, 2017, we modified two loans that were considered troubled debt restructurings. The interest rates were modified and the maturity dates were extended on these loans. Restructured loans must perform for six months prior to being returned to accrual status. The Bank only modifies loans that are considered troubled debt restructurings, as no such loans were modified in 2017 that were not considered troubled debt restructurings.

	For the Year Ended December 31, 2017		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Outstanding Recorded Investment
Real estate - Commercial	2	$ 1,367,759	$ 1,280,630

During the year ended December 31, 2016, we modified one loan that was considered to be a troubled debt restructuring. The maturity date was extended on the loan. Restructured loans must perform for six months prior to being returned to accrual status. The Bank only modifies loans that are considered troubled debt restructurings, as no such loans were modified in 2016 that were not considered troubled debt restructurings.

	For the Year Ended December 31, 2016		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Outstanding Recorded Investment
Real estate - Residential	1	$ 80,865	$ 80,865

There were no loans that had previously been restructured, which defaulted during the years ended December 31, 2017 or 2016.

Note 5. Loans Receivable, Continued

Troubled debt restructurings, continued:

In the determination of the allowance for loan losses, all troubled debt restructurings are reviewed to ensure that one of the three proper valuation methods (fair market value of the collateral, present value of cash flows, or observable market price) is adhered to. All nonaccrual loans are written down to their corresponding collateral value. All troubled debt restructuring loans still accruing interest, where the loan balance exceeds the present value of cash flow, will have a specific allocation. All troubled debt restructuring loans are considered impaired. Under ASC 310-10, a loan is impaired when it is probable that the bank will be unable to collect all amounts due including both principal and interest according to the contractual terms of the loan agreement.

Note 6. Premises, Furniture and Equipment

Premises, furniture and equipment consisted of the following at December 31, 2017 and 2016:

	2017	2016
Buildings	$ 2,907,093	$ 2,907,093
Land	1,022,587	1,022,587
Leasehold and land improvements	104,450	104,450
Furniture and equipment	977,847	938,311
Software	513,055	505,555
	5,525,032	5,477,996
Less, accumulated depreciation	(2,148,968)	(1,965,616)
Premises, furniture and equipment, net	$ 3,376,064	$ 3,512,380

Depreciation expense for the years ended December 31, 2017 and 2016 was $183,352 and $188,525, respectively.

Note 7. Other Real Estate Owned

The following summarizes the activity in other real estate owned for the years ended December 31, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ 35,419	$ 2,228,590
Additions	-	-
Sales		
Proceeds from sales	(39,103)	(2,073,908)
Gain (loss) on sales	3,684	(66,632)
Write downs	-	(52,631)
Balance, end of year	$ -	$ 35,419

Note 8. Deposits

The aggregate amount of time deposits in denominations that meet or exceed the FDIC Insurance limit of $250,000 or more at December 31, 2017 and 2016 was $4,064,545 and $4,227,724, respectively.

At December 31, 2017, the scheduled maturities of certificates of deposit and individual retirement accounts were as follows:

2018	$ 12,130,977
2019	6,206,045
2020	2,027,112
2021	1,172,461
2022	696,660
	$ 22,233,255

Note 9. Advances from the Federal Home Loan Bank

Advances from the Federal Home Loan Bank consisted of the following at December 31, 2017 and 2016, respectively:

Description	Interest Rate	2017	2016
Fixed rate advances maturing:			
March 24, 2017	0.68%	$ -	$ 3,500,000
February 27, 2017	0.66%	-	4,500,000
January 25, 2017	0.49%	-	4,500,000
		$ -	$ 12,500,000

Note 10. Income Taxes

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017.

The company recognized the income tax effects of the 2017 Tax Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides guidance for the application of ASC Topic 740, Income Taxes, in the reporting period in which the 2017 Tax Act was signed into law. As such, the company's financial results reflect the income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is complete and provisional amounts for those specific income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is incomplete but a reasonable estimate could be determined. The company did not identify items for which the income tax effects of the 2017 Tax Act have not been completed and a reasonable estimate could not be determined as of December 31, 2017.

Income tax expense for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Current portion		
Federal	$ -	$ -
State	-	-
Total current	-	-
Deferred income tax expense	708,293	186,456
Change in valuation allowance	(1,061,457)	(186,456)
Income tax benefit	$ (353,164)	$ -

The gross amounts of deferred tax assets and deferred tax liabilities are as follows at December 31, 2017 and 2016:

	2017	2016
Deferred tax assets:		
Allowance for loan losses	$ 15,826	$ 45,386
Nonaccrual interest on loans	4,072	6,377
Net operating loss carryforward	813,199	1,510,622
Other real estate owned	-	2,831
Unrealized loss on securities	51,954	63,616
Other	1,635	2,121
Total deferred tax assets	886,686	1,630,953
Less valuation allowance	(379,206)	(1,440,663)
Net deferred tax assets	507,480	190,290
Deferred tax liabilities:		
Accumulated depreciation	66,052	103,441
Other	10,268	86,849
Total deferred tax liabilities	76,320	190,290
Net deferred tax asset	$ 431,160	$ -

Note 10. Income Taxes, Continued

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net revised realizable value. At December 31, 2017 and 2016, the Company's gross deferred tax asset totaled $0.9 million and $1.6 million, respectively. Based on the Company's projections of future taxable income over the next three years, cumulative tax losses over the previous three years, limitations on future utilization of various deferred tax assets under Internal Revenue Code, and available tax planning strategies, the Company recorded a cumulative valuation allowance in the amount of $0.4 million and $1.4 million as of December 31, 2017 and 2016, respectively. The Company has net operating loss carryforwards of approximately $4.1 million which will begin to expire in 2036 if not utilized to offset taxable income prior to that date. The Company experienced a change in control in 2015 as a result of a capital raise, causing a limitation on the annual use of the net operating loss carryforwards. Utilization of the Company's net operating loss will be subject to substantial annual limitation due to the ownership change limitations set forth in Internal Revenue Code Section 382 and similar state provisions. The change in control reduced the deferred tax asset related to net operating loss carryforwards by $7.2 million.

The Company is subject to U.S. federal and North Carolina state income tax. Tax authorities in various jurisdictions may examine the Company. The Company and the Bank are generally not subject to federal and state income tax examinations for taxable years prior to 2014.

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and has concluded that it has no liability related to uncertain tax positions

The company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, the company's deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from 34 percent to 21 percent, resulting in a $457,373 increase in income tax expense for the year ended December 31, 2017 and a corresponding $457,373 decrease in net deferred tax assets as of December 31, 2017.

A reconciliation between the income tax expense (benefit) and the amount computed by applying the federal statutory rate of 34 percent to income before income taxes follows:

	2017	2016
Tax expense (benefit) at statutory rate	$ 165,297	$ 146,621
State income tax, net of federal income tax benefit	21,374	37,090
Impact of tax rate change	457,373	-
Change in valuation allowance	(1,061,457)	(186,456)
Other, net	64,249	2,745
Income tax benefit	$ (353,164)	$ -

Note 11. Leases

The Company leases a Kings Mountain branch location. The operating lease had an original term of two years and three months, expiring on March 31, 2010. The lease currently renews on a month-to-month basis. Under the terms of the lease, the monthly rental payment is $2,650 or $31,800 per year.

The total lease expense included in net occupancy expenses in the statement of operations for the years ended December 31, 2017 and 2016 was $31,800.

Note 12. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Bank. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. As of December 31, 2017 and 2016, the Company had related party loans totaling $2,355,782 and $2,083,712, respectively. During 2017, new related party loans issued and related party pay downs were $300,000 and $27,930, respectively.

Deposits by directors, officers and their related interests, as of December 31, 2017 and 2016 were $11,723,869 and $8,826,463, respectively.

Note 13. Commitments and Contingencies

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings which would have a material adverse effect on the financial position or operating results of the Company.

Note 14. Stock Compensation Plans

In 2005, the shareholders approved the Incentive Stock Option Plan (2005 Incentive Plan). The 2005 Incentive Plan provides for the granting of up to 267,755 stock options to purchase shares of the Company's common stock to officers and employees of the Company. The Company granted awards for a term of up to ten years from the effective date of the plan. On January 1, 2016, all outstanding options expired. At December 31, 2017 and 2016, 243,911 options had been granted under the Incentive Plan, of which zero remained outstanding and exercisable.

In 2005, the shareholders approved the Nonstatutory Stock Option Plan (Nonstatutory Plan). The Nonstatutory Plan provides for the granting of up to 267,755 stock options to purchase shares of the Company's common stock to Directors of the Company. The Company may grant awards for a term of up to ten years from the effective date of the Plan. Options may be exercised up to ten years after the date of grant. The per-share exercise price will be determined by the Board of Directors, except that the exercise price of a nonstatutory stock option may not be less than fair market value of the common stock on the grant date. At December 31, 2017, 243,911 options had been granted under the Nonstatutory Plan, of which 39,237 remained outstanding and exercisable.

Note 14. Stock Compensation Plans, Continued

In 2015, the shareholders approved the Incentive Stock Option Plan (2015 Plan). The 2015 Plan provides for the granting of up to 1,000,000 stock options to purchase shares of the Company's common stock to officers and employees of the Company. The Company may grant awards for a term of up to ten years from the effective date of the Plan. Options may be exercised up to ten years after the date of grant. The per-share exercise price will be determined by the Option Committee of the Board of Directors, except that the exercise price of an incentive stock option may not be less than fair market value of the common stock on the grant date. 140,000 options were granted during 2017 of which, zero were vested as of December 31, 2017. The options will vest equally over the next five years: 40,000 options will begin vesting on March 31, 2018, and 100,000 options will begin vesting on June 20, 2018. 690,000 options were granted during 2016 of which, 90,000 were forfeited during 2017. Of the remaining 600,000 options, 120,000 vested during 2017 with the remainder of the options vesting equally over the next four years.

A summary of the status of our stock option plans as of December 31, 2017 and 2016, and changes during the periods then ended are presented below.

	2017		2016	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	729,237	$ 0.71	204,304	$ 7.80
Granted	140,000	0.35	690,000	0.35
Exercised	-	-	-	-
Expired	-	-	(91,270)	7.80
Forfeited	(90,000)	0.35	(73,797)	7.80
Outstanding at end of year	779,237	$ 0.75	729,237	$ 0.71

As of December 31, 2017, 159,237 options with a weighted average exercise price of $1.99 are vested and fully exercisable. The remaining 620,000 options vest over the next five years with 148,000 vesting in each of the next four years and the remaining 28,000 vesting in year 2022.

The following table summarizes information about stock options outstanding under the Company's plans at December 31, 2017:

	Outstanding	Exercisable
Number of options	779,237	159,237
Weighted average remaining life	8.20	6.50
Weighted average exercise price	$ 0.75	$ 1.99
Compensation charged to pretax income	$ 26,492	$ -
Approximate future compensation of options	$ 123,650	$ -
Weighted average years remaining to recognize future compensation	3.42	0.92

Note 14. Stock Compensation Plans, Continued

The aggregate intrinsic value (the difference between the Company's closing stock price on the last trading day of 2017 and the exercise price, multiplied by the number of in-the-money options) for options outstanding and exercisable at December 31, 2017 amounted to $26,400. This amount represents what would have been received by the option holder had all option holders exercised their options on December 31, 2017. The intrinsic value changes are based on changes in the fair market value of the Company's stock.

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option pricing model with the following assumptions: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company's dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the options); the volatility factor is based on the historical volatility of the Company's stock (subject to adjustment if historical volatility is reasonably expected to differ from the past); the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations. These assumptions are summarized in Note 1 to these financial statements.

The weighted average fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Expected volatility	43.00%
Expected dividend	0.00%
Expected term	10 years
Discount Rate	1.90%

Note 15. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted- average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Due to the options granted as part of the 2005 Plan being "out of the money" and the options granted as part of the 2015 Plan having not yet vested, the dilutive common share equivalents at December 31, 2017 and 2016, respectively were antidilutive; therefore, basic earnings per share and diluted earnings per share were the same. Outstanding stock options and warrants were not considered in the dilutive earnings per share calculations as they had an anti-dilutive effect on earnings per share.

	2017	2016
Basic earnings per share computation:		
Net Income available to common shareholders	$ 839,331	$ 415,738
Average common shares outstanding - basic and diluted	31,415,058	31,415,058
Basic earnings per share	$ .03	$ .01
Diluted earnings per share	$ .03	$ .01

Note 16. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum ratios of Tier 1 and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0 percent to 100 percent. Tier 1 capital consists of common shareholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4 percent for Tier 1 and 8 percent for total risk-based capital.

The Company and the Bank are also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement of 3 percent. All others are subject to maintaining ratios 1 percent to 2 percent above the minimum.

In July 2013, the Federal Reserve and the FDIC approved revisions to their capital adequacy guidelines and prompt corrective action rules that implement the revised standards of the Basel Committee on Banking Supervision, commonly called "Basel III," and addressed relevant provisions of the Dodd-Frank Act. Basel III refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which became effective on January 1, 2015, and revise the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and the Bank are: (i) a new common equity Tier 1 capital ratio of 4.5 percent; (ii) a Tier 1 capital ratio of 6.0 percent (increased from 4.0 percent); (iii) a total capital ratio of 8.0 percent (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4.0 percent for all institutions. The rules eliminate the inclusion of certain instruments, such as preferred securities, from Tier 1 capital. Instruments issued prior to May 19, 2010 are grandfathered for companies with consolidated assets of $15 billion or less. The rules also establish a "capital conservation buffer" of 2.5 percent above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0 percent, (ii) a Tier 1 capital ratio of 8.5 percent, and (iii) a total capital ratio of 10.5 percent. The new capital conservation buffer requirement began phasing in during January 2016 at 0.625 percent of risk-weighted assets and increases by that amount each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that may be utilized for such actions.

Note 16. Regulatory Matters, Continued

In addition, the Bank is subject to heightened capital requirements under the MOU issued by the FDIC and the Commissioner. The MOU requires the Bank to maintain a leverage ratio (the ratio of Tier 1 capital to average assets) of at least 8 percent and a total risk-based capital ratio (the ratio of qualifying total capital to risk-weighted assets) of at least 10 percent. Under the Order, which was in effect as of December 31, 2016, the Bank was required to maintain a leverage ratio of at least 8 percent and a total risk-based capital ratio of at least 11 percent. No minimum Tier 1 capital to risk-weighted asset ratios were specified in the MOU or the Order. As of December 31, 2017 and 2016, the Bank failed to meet their leverage ratio requirement. Regardless of the Bank's capital ratios, it was unable to be classified as "well-capitalized" while operating under the Order with the FDIC. See Note 2 for additional information on the MOU and the Order.

The following table summarizes the capital amounts and ratios of the Company and the Bank and the regulatory minimum requirements at December 31, 2017 and 2016.

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
The Company						
Total capital (to risk-weighted assets)	$ 12,121	11.51%	$ 8,425	8.00%	N/A	N/A
Common equity tier 1 (to risk-weighted assets)	10,803	10.26%	4,739	4.50%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	10,803	10.26%	6,319	6.00%	N/A	N/A
Tier 1 capital (to average assets)	10,803	7.79%	5,546	4.00%	N/A	N/A
The Bank						
Total capital (to risk-weighted assets)	$ 12,121	11.51%	$ 8,425	8.00%	$ 10,532	10.00%
Common equity tier 1 (to risk-weighted assets)	10,803	10.26%	4,739	4.50%	6,844	6.50%
Tier 1 capital (to risk-weighted assets)	10,803	10.26%	6,319	6.00%	8,423	8.00%
Tier 1 capital (to average assets)	10,803	7.79%	5,546	4.00%	11,093	8.00%
December 31, 2016						
The Company						
Total capital (to risk-weighted assets)	$ 11,602	10.96%	$ 8,471	8.00%	N/A	N/A
Common equity tier 1 (to risk-weighted assets)	10,273	9.70%	4,765	4.50%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	10,273	9.70%	6,353	6.00%	N/A	N/A
Tier 1 capital (to average assets)	10,273	6.96%	5,901	4.00%	N/A	N/A
The Bank						
Total capital (to risk-weighted assets)	$ 11,602	10.96%	$ 8,471	8.00%	$ 11,648	11.00%
Common equity tier 1 (to risk-weighted assets)	10,273	9.70%	4,765	4.50%	6,884	6.50%
Tier 1 capital (to risk-weighted assets)	10,273	9.70%	6,353	6.00%	8,473	8.00%
Tier 1 capital (to average assets)	10,273	6.96%	5,901	4.00%	11,802	8.00%

Note 17. Unused Lines Of Credit

At December 31, 2017, the Company had lines of credit to purchase federal funds up to $3,300,000 from unrelated financial institutions. At December 31, 2017, the Company had no outstanding borrowings on these lines. Under the terms of the arrangements, the Company may borrow at mutually agreed-upon rates for periods varying from one to thirty days. The Company also has a line of credit to borrow funds from the Federal Home Loan Bank up to 15 percent of the Bank's total assets, which totaled $21,292,000 as of December 31, 2017. As of December 31, 2017 and 2016, the Bank had $0 and $12,500,000 in advances on this line, respectively.

Note 18. Shareholders' Equity

Preferred stock:

On January 23, 2009, the Company entered into a Letter Agreement with the United States Department of the Treasury (the "Treasury"), pursuant to which the Company issued and sold to the Treasury (1) 3,500 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Preferred Stock") and (2) a warrant to purchase 80,153 shares of the Company's common stock, $1.00 par value per share, for an aggregate purchase price of $3,500,000 in cash. The Preferred Stock qualifies as Tier 1 capital and pays cumulative dividends at a rate of 5 percent per annum for the first five years, and 9 percent per annum thereafter. The Company may redeem the Preferred Stock subject to consultation with the appropriate federal banking agency. The Preferred Stock is generally nonvoting. The warrant has a 10-year term and is immediately exercisable upon its issuance, with an initial per share exercise price of $6.55. The warrant has anti-dilution protections, registration rights, and certain other protections for the holder. Pursuant to the Purchase Agreement, the Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the Warrant.

The Series A Preferred Stock has a preference over the Company's common stock upon liquidation. Dividends on the preferred stock, if declared, are payable quarterly in arrears. The Company's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the Company fails to pay or set aside full dividends on the preferred stock for the latest completed dividend period.

At the request of the Federal Reserve Bank of Richmond, the Company deferred the quarterly dividend payment on the shares of Series A Preferred Stock issued to the U.S. Treasury pursuant to the Capital Purchase Program (CPP) commencing with the payment due May 15, 2011. This payment was the first dividend payment deferred. As part of the CPP, the Company entered into a letter agreement with the Treasury on January 23, 2009, which includes a Securities Purchase Agreement-Standard Terms. The Company also amended its articles of incorporation to set forth the terms of the Series A Preferred Stock. Under the Company's amended articles of incorporation, dividends compound if they accrue and are not paid. A failure to pay a total of six such dividends, whether or not consecutive, gives the Treasury the right to elect two directors to the Company's Board of Directors.

During 2013, the U.S. Department of the Treasury (Treasury) sold all of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "TARP Preferred Stock") that the Company issued to the Treasury in 2009, in connection with the Company's participation in the TARP Capital Purchase Program. Because of the Treasury having disposed of the Company's TARP Preferred Stock, the Company is no longer subject to many of the rules and regulations that were established in connection with the TARP Capital Purchase Program.

Note 18. Shareholders' Equity, Continued

Preferred stock, Continued:

In May 2015, in conjunction with the common stock capital raise, the Preferred Stock and all accumulated and unpaid dividends were converted to common stock at the price of $0.224 per common share for a total of 9,221,603 shares of common stock.

Common stock:

On December 18, 2014, the shareholders approved the amendment to the articles of incorporation to reduce the par value of common stock from $1.00 per share to no value per share.

On May 29, 2015, in the Company completed a private placement offering of 10,775,250 shares of newly issued common stock at a price of $0.40 per share to accredited investors.

On May 29, 2015, the Company completed a transaction with a strategic investor for $3,500,000 of newly issued common stock for a price of $0.40 per share (8,750,000 shares). In conjunction with the common stock purchase, the investor purchased all outstanding shares of Preferred Stock from third party investors and converted the Preferred Stock and all accumulated and unpaid dividends at the Preferred Stock's face value to common stock at a conversion rate of $0.224 per share of common stock. In total, the investor owns 17,971,603 shares. At December 31, 2017, the investor held approximately 57 percent of the outstanding shares of the Company.

Note 19. Restrictions on Dividends, Loans, or Advances

The Company's dividend payments will be made from dividends received from the Bank. The Bank, as a North Carolina banking corporation, may pay dividends only out of undivided profits as determined pursuant to North Carolina General Statutes. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such a limitation is in the public interest and is necessary to ensure financial soundness of the Bank.

Note 20. Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. 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. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities.

Note 20. Financial Instruments with Off-Balance Sheet Risk, Continued

Collateral held for commitments to extend credit and letters of credit varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

The following table summarizes the Company's off-balance sheet financial instruments whose contract amounts represent credit risk at December 31, 2017 and 2016:

	2017	2016
Commitments to extend credit	$ 13,530,331	$ 18,224,956
Letters of credit	499,900	256,900
	$ 14,030,231	$ 18,481,856

Note 21. Fair Value of Financial Instruments

ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasuries, other securities that are highly liquid and are actively traded in over-the-counter markets and money market funds.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bond, corporate debt securities, and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans. Our available-for-sale investments are valued using a pricing service through our bond record keeper, which we have verified with a third party.

Note 21. Fair Value of Financial Instruments, Continued

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly structured or long-term derivative contracts.

Assets measured at fair value on a recurring basis are as follows as of December 31, 2017:

	Fair Value Measurements at December 31, 2017			
	(Level 1)	(Level 2)	(Level 3)	Total
Available-for-sale investments				
U.S. agency securities	$ -	$ 10,285,364	$ 163,198	$ 10,448,562
Mortgage-backed	-	10,766,113	-	10,766,113
Total	$ -	$ 21,051,477	$ 163,198	$ 21,214,675

Assets measured at fair value on a recurring basis are as follows as of December 31, 2016:

	Fair Value Measurements at December 31, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
Available-for-sale investments				
U.S. agency securities	$ -	$ 12,392,909	$ 167,899	$ 12,560,808
Mortgage-backed	-	1,968,335	-	1,968,335
Total	$ -	$ 14,361,244	$ 167,899	$ 14,529,143

The table below presents reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2017 and 2016.

	2017
Balance, January 1, 2017	$ 167,899
Unrealized Loss	(4,701)
Balance, December 31, 2017	$ 163,198

	2016
Balance, January 1, 2016	$ 172,914
Unrealized Loss	(5,388)
Realized Gain	373
Balance, December 31, 2016	$ 167,899

Note 21. Fair Value of Financial Instruments, Continued

The Company had no liabilities carried at fair value or measured at fair value on a recurring basis at December 31, 2017 or 2016.

Assets measured at fair value on a non-recurring basis are as follows as of December 31, 2017:

	Fair Value Measurements at December 31, 2017			
	(Level 1)	(Level 2)	(Level 3)	Total
Impaired loans	$ -	$ -	$ 4,127,265	$ 4,127,265
Total	$ -	$ -	$ 4,127,265	$ 4,127,265

	Fair Value Measurements at December 31, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
Impaired loans	$ -	$ -	$ 5,614,084	$ 5,614,084
Other real estate owned	-	-	35,419	35,419
Total	$ -	$ -	$ 5,649,503	$ 5,649,503

The Company had no liabilities measured at fair value on a non-recurring basis at December 31, 2017 or 2016.

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2017 and 2016, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at December 31, 2017	Fair Value at December 31, 2016	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired Loans	$ 4,127,265	$ 5,614,084	Appraised Value/Discounted Cash Flows/Market Value of Note	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0 – 10%
Other Real Estate Owned	$ -	$ 35,419	Appraised Value/Comparable Sales/Other Estimates from Independent Sources	Discounts to reflect current market conditions and estimated costs to sell	6 – 10%

The Company is predominantly an asset based lender with real estate serving as collateral on a substantial majority of loans. Loans that are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which are updated annually, and adjusted downward for estimated selling costs.

Note 22. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 29, 2018, the date the consolidated financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.