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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, Jim Engel
Name of the Holding Company Director and Official

President/CEO
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 <u>*and*</u> *individual consent to public release of all details in the report concerning that individual.*

Signature of Holding Company Director and Official
James P Engel

3/13/18
Date of Signature

For holding companies <u>*not*</u> *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 4566232
C.I.

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

12/31/2017
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Aquesta Financial Holdings, Inc.
Legal Title of Holding Company

PO Box 700
(Mailing Address of the Holding Company) Street / P.O. Box

Cornelius	North Carolina	28031
City	State	Zip Code

19510 Jetton Road, Cornelius, NC 28031
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Emily Smith	VP/Assistant Controller
Name	Title

704-439-1419
Area Code / Phone Number / Extension

704-439-1401
Area Code / FAX Number

esmith@aquestabank.com
E-mail Address

www.aquesta.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."

Aquesta Financial Holdings, Inc.

Aquesta Financial Holdings, Inc.
Cornelius, NC
Incorporated in Nevada

No LEI

100%

Aquesta Bank Inc
Cornelius, NC
Incorporated in North Carolina

LEI **5493006GBLIRNKHYD764**

100%

Aquesta Insurance Services Inc
Cornelius, NC
Incorporated in North Carolina

No LEI

Report Item 2b: Domestic Branch Listing

Aquesta Bank (Main Office)
Opened August 1, 2006
19510 Jetton Road
Cornelius, North Carolina 28031
Full Service Branch

Aquesta Bank (Davidson Branch)
Opened December 3, 2007
568 Jetton Street Suite 100
Davidson, North Carolina 28036
Full Service Branch

Aquesta Bank (Williamson Branch)
Opened December 21, 2009
837 Williamson Road
Mooresville, North Carolina 28117
Full Service Branch

Aquesta Bank (Brawley Branch)
Opened May 25, 2011
1078 Brawley School Road
Mooresville, North Carolina 28117
Full Service Branch

Aquesta Bank (Downtown Cornelius Branch)
Opened June 19, 2014/Closed November 15, 2016
20121-A North Main Street
Cornelius, North Carolina 28031
Full Service Branch

Aquesta Bank (Northcross Branch)
Opened September 24, 2014
9906 Knockando Lane
Huntersville, North Carolina 28078
Full Service Branch

Aquesta Bank (South Park Branch)
Opened July 13, 2015
4519 Sharon Road
Charlotte, North Carolina 28211
Full Service Branch

Aquesta Bank (Wilmington Branch)
Opened June 13, 2016
901 Military Cutoff Rd
Wilmington, North Carolina 28405
Full Service Branch

Results: A list of branches for your depository institution: AQUESTA BANK (ID_RSSD: 3446636).
This depository institution is held by AQUESTA FINANCIAL HOLDINGS, INC. (4566232) of CORNELIUS, 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)	3446636	AQUESTA BANK	19510 JETTON ROAD	CORNELIUS	NC	28031	MECKLENBURG	UNITED STATES	Not Required	Not Required	AQUESTA BANK	3446636	
OK		Full Service	4446857	SHARON ROAD BRANCH	4519 SHARON ROAD	CHARLOTTE	NC	28211	MECKLENBURG	UNITED STATES	Not Required	Not Required	AQUESTA BANK	3446636	
OK		Full Service	4392507	DAVIDSON BRANCH	568 JETTON STREET, SUITE 100	DAVIDSON	NC	28036	MECKLENBURG	UNITED STATES	Not Required	Not Required	AQUESTA BANK	3446636	
OK		Full Service	4760263	NORTHCROSS BRANCH	9906 KNOCKANDO LANE	HUNTERSVILLE	NC	28078	MECKLENBURG	UNITED STATES	Not Required	Not Required	AQUESTA BANK	3446636	
OK		Full Service	4392525	BRAWLEY SCHOOL ROAD BRANCH	1078 BRAWLEY SCHOOL ROAD	MOORESVILLE	NC	28117	IREDELL	UNITED STATES	Not Required	Not Required	AQUESTA BANK	3446636	
OK		Full Service	4392516	WILLIAMSON ROAD BRANCH	837 WILLIAMSON ROAD	MOORESVILLE	NC	28117	IREDELL	UNITED STATES	Not Required	Not Required	AQUESTA BANK	3446636	
OK		Full Service	5013706	WILMINGTON BRANCH	901 MILITARY CUTOFF ROAD	WILMINGTON	NC	28405	NEW HANOVER	UNITED STATES	Not Required	Not Required	AQUESTA BANK	3446636	

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Report Item 3: Security Holders
(1)(a)(b)(c) and (2)(a)(b)©

Certain security holdings with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending December 31, 2017:

(1)(a) Name City, State, Country	(1)(b) County of Citizenship or Incorporation	(1)© Number of Each Class of Voting	Percentage of Each Class of Voting
Jim Engel Cornelius, NC USA	USA	272,987	8.25% of Common Stock

Security holders not listed in 3(1)(a) through 3 (1)© that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ended December 31, 2017:

None

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

(1) Name City, State Country	(2) Principal Occupation if Other than Holding Co	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with subsidiaries (include name of subsidiaries)	(3)© Title & Position with other businesses (include name of other businesses)	(4) (a) Percentage of Voting Shares in Holding Company	(4) (b) Percentage of Voting Shares in Subsidiaries (incl names of subs)	(4)© List of names of other companies if 25% or more of voting securities are held (list names of cos and % of voting securities held
Jim Engel Cornelius, NC USA	n/a	Director & President & CEO	Director - Aquesta Bank President & CEO - Aquesta Bank Director - Aquesta Insurance Services	n/a	8.25%	none	none
Paul Dougovito Chattanooga, TN USA	Bank Consultant	Director	Director - AquestaBank	Home Loan Investment Bank - Director	2.42%	none	none
Charles Knox Cornelius, NC USA	Commercial Real Estate Broker & Developer	Director	Director - AquestaBank	Knox Group, Inc. - President Knox Group Industrial #2, LLC - Member/Manager A.I. Industrial Properties, LLC - Member/Manager KCK South Main, LLC - Member/Manager KM-PPK, LLC - Member/Manager Fox Partners, LLC - Member/Manager	0.43%	none	Knox Group, Inc. - 100% Knox Group Industrial #2, LLC - 40% KM-PPK, LLC -50% 1213 West Morehead Street, LLC - 33.3%
Ginger Griffin Cornelius, NC USA	Marketing Firm Owner	Director	Director - Aquesta Insurance Services	Ginger Griffin Marketing & Design - Owner	1.57%	none	Ginger Griffin Marketing & Design - 100%
Craig Larsen Mooresville, NC USA	Owner Anti-Aging Center	Director (Chairman)	Director - Aquesta Bank	Revita Holdings LLC - CEO	0.87%	none	Revita Holdings LLC - 100%
Jim Borders Cornelius, NC USA	Owner AC Controls Co.	Director (Vice Chairman)	Director - Aquesta Insurance Services	AC Controls Co. - President JB Associates - Partner JBSB Holding - Partner Borders Real Propoerties - Partner JQF Properties - Partner	0.87%	none	AC Controls Co. - 50% JB Associates - 100% JBSB Holding - 100% Borders Real Propoerties - 100% JQF Properties - 100%
Kristin Couch Mooresville, NC USA	n/a	Vice President & Secretary	CFO and Director of HR - Aquesta Bank	n/a	0.10%	none	none

AQUESTA
FINANCIAL HOLDINGS, INC.

Consolidated Financial Statements

December 31, 2017 and 2016
(with Independent Auditor's Report thereon)

Porter
Keadle
Moore

CPAs | Advisors | www.pkm.com

AQUESTA
FINANCIAL HOLDINGS, INC.

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AQUESTA
FINANCIAL HOLDINGS, INC.

May 1, 2018

Dear Shareholders:

We are pleased to provide you with the 2017 annual report of Aquesta Financial Holdings, Inc. and its subsidiaries. Aquesta recently celebrated its 11th anniversary and we are proud of how well we have performed over the last decade. We are dedicated to our clients, shareholders, employees and our local communities. Aquesta is one of the top bank growth stories in the country with significant organic – not merger – loan and deposit growth. Our growth is generated by lending in our original focus area near Lake Norman as well as more recently expanding our presence in Charlotte and Wilmington. We are growing profits too. We are pleased to provide a fair return to shareholders that allows for investments for future growth and future profits.

2017 continued to be a year of exceptional growth for Aquesta. Both loan and deposit growth outpaced the local economic growth resulting in Aquesta capturing a larger market share. Aquesta's growth and asset quality in 2017:

- Total assets increased $55.5 million or 15.7%
- Total gross loans increased $54.5 million or 21.7%
- Total core deposits increased $38.6 million or 18.8%
- Total shareholder's equity increased $2.5 million or 9.3%
- Book value per share increased to $7.48 per share from $6.91 per share
- Nonperforming assets to total assets of <0.01%

Aquesta had another year of very good earnings with pre-tax income of $3.5 million (an increase of 7.1%) resulting in income to shareholders of $0.48 per share. This is primarily due to loan and deposit growth along with excellent credit quality. During the year, we paid our 6th consecutive cash dividend as well as our 3rd stock split.

We have grown to 7 full service branches in the Lake Norman, Charlotte and Wilmington areas of North Carolina. We also have loan production offices in Greenville and Charleston, South Carolina. And we are continuing to expand! We recently announced a new branch located at Rea Farms in south Charlotte. We anticipate this branch will open in early 2019. And, based on recent merger announcements, Aquesta is the second largest bank headquartered in the Charlotte area – but a bit behind Bank of America's $2 trillion in assets.

We believe that each new Aquesta customer is a potential future ambassador for our bank. As shareholders, you too can help with the success of Aquesta and your investment by using our services, providing us feedback and telling your friends and family about your positive experiences. Please do not hesitate to call us about your banking or insurance needs. We are here to help. Thank you for your support. BANK NEAR. GO FAR.

Best regards,

Jim Engel
Jim Engel
President & Chief Executive Officer

Craig Larsen
Chairman of the Board

AQUESTA FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2017 and 2016

		2017	2016
Assets			
Cash and due from banks	$	11,077,105	8,964,830
Interest-bearing deposits in banks and federal funds sold		1,651,000	976,000
Cash and cash equivalents		12,728,105	9,940,830
Investment securities held-to-maturity		-	13,931,128
Investment securities available-for-sale		61,869,093	51,206,164
Other investments		3,158,200	2,439,600
Loans, net		302,495,878	248,157,565
Premises and equipment, net		13,443,645	12,368,077
Goodwill		895,456	686,533
Intangible assets, net		1,677,770	1,751,027
Other real estate owned		-	1,539,230
Bank owned life insurance		6,068,678	5,926,306
Accrued interest receivable		1,181,192	1,055,583
Other assets		5,062,187	4,106,914
Total assets	$	408,580,204	353,108,957
Liabilities and Stockholders' Equity			
Liabilities:			
Deposits:			
Non-interest bearing demand	$	95,130,853	77,978,013
NOW		17,078,041	19,140,199
Money market and savings		131,696,631	108,183,855
Time deposits		61,183,055	64,004,360
Total deposits		305,088,580	269,306,427
Federal Home Loan Bank advances		66,900,000	49,200,000
Other borrowed funds		4,271,893	3,806,495
Accrued interest payable		76,610	54,223
Other liabilities		2,513,002	3,538,821
Total liabilities		378,850,085	325,905,966
Commitments			
Stockholders' equity:			
Common stock, $.01 par value; 10,000,000 shares authorized; 3,972,760 and 3,936,377 shares issued and outstanding, respectively		39,727	39,365
Additional paid-in capital		25,822,159	25,496,799
Unearned compensation		(259,065)	(103,262)
Retained earnings		6,523,537	4,616,386
Accumulated other comprehensive loss		(2,396,239)	(2,846,297)
Total stockholders' equity		29,730,119	27,202,991
Total liabilities and stockholders' equity	$	408,580,204	353,108,957

See accompanying notes to consolidated financial statements.

AQUESTA FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2017 and 2016

	2017	2016
Net earnings	$ 1,899,189	2,155,398
Other comprehensive income:		
Unrealized holding gain/(loss) on investment securities available-for-sale	462,948	(532,120)
Tax effect	(185,179)	212,848
Reclassification of gains recognized in net earnings	(37,464)	(178,204)
Tax effect	14,986	71,282
Reclassification for other than temporary impairment losses on securities available-for-sale	332,797	-
Tax effect	(133,119)	-
Unrealized holding gain on derivatives	305,646	329,236
Tax effect	(122,258)	(131,694)
Gains on calls recognized in other comprehensive income related to available-for-sale securities previously transferred to held-to-maturity	85,136	390,941
Amount amortized from other comprehensive income related to available-for-sale securities previously transferred to held-to-maturity	(1,656)	(71,196)
Amount transferred from held-to-maturity transferred to available-for-sale	132,844	-
Other comprehensive income	854,681	91,093
Comprehensive income	$ 2,753,870	2,246,491

See accompanying notes to consolidated financial statements.

AQUESTA FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Net earnings	$	1,899,189	2,155,398
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization		1,109,225	887,315
Amortization of intangible assets		406,244	356,556
Provision for loan losses		170,000	260,000
Deferred income tax expense (benefit)		621,393	(73,056)
Equity compensation expense		169,919	65,369
Gain on sale of securities		(37,464)	(178,204)
Other than temporary impairment losses		332,797	-
Loss on sales and write-downs of other real estate owned		33,360	243,384
Gain on acquisition		-	(115,776)
Change in (net of effect of business combinations):			
Accrued interest receivable		(125,609)	(85,886)
Other assets		(2,369,371)	(261,455)
Accrued interest payable		22,387	29,075
Other liabilities		(720,174)	245,586
Net cash provided by operating activities		1,511,896	3,528,306
Cash flows from investing activities (net of effect of business combinations):			
Proceeds from maturities/calls/paydowns of investment securities available-for-sale		6,211,566	9,593,292
Proceeds from maturities/calls/paydowns of investment securities held-to-maturity		1,449,184	8,761,976
Proceeds from sales of investment securities available-for-sale		5,614,920	29,619,513
Proceeds from sales of investment securities held-to-maturity		529,235	824,000
Purchases of investment securities available-for-sale		(10,157,076)	(48,901,611)
Purchases of investment securities held-to-maturity		-	-
Change in loans, net		(54,508,313)	(56,815,818)
Proceeds from the sale of other real estate owned		30,870	591,974
Purchases of premises and equipment		(135,387)	(2,205,751)
Purchases of other investments		(718,600)	(493,700)
Cash paid for acquisition		(350,000)	(274,989)
Cash paid for non-compete agreements		-	(650,000)
Net cash used in investing activities		(52,033,601)	(59,951,114)
Cash flows from financing activities (net of effect of business combinations):			
Change in deposits, net		35,782,153	57,412,934
Dividends on common stock		(396,661)	(344,437)
Sale of common stock		-	1,834,840
Stock issuance costs		-	(118,897)
Exercise of stock options		-	59,000
Change in other borrowings		2,077,888	1,659,324
Net change in federal funds purchased		(1,854,400)	(11,710,500)
Net change in Federal Home Loan Bank advances		17,700,000	9,000,000
Net cash provided by financing activities		53,308,980	57,792,264
Net change in cash and cash equivalents		2,787,275	1,369,456
Cash and cash equivalents at beginning of the year		9,940,830	8,571,374
Cash and cash equivalents at end of the year	$	12,728,105	9,940,830

(1) Organization and Operations

Aquesta Bank (the "Bank") was incorporated on June 12, 2006 and began banking operations on August 1, 2006. The Bank is engaged in commercial banking in the Charlotte region of North Carolina, principally Mecklenburg County and has seven banking branches. The Bank operates under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks. The Bank undergoes periodic examinations by those regulatory authorities. Aquesta Financial Holdings, Inc. (the "Company") was incorporated on August 8, 2013 and acquired the Bank on April 1, 2014. In addition, the Bank offers property, casualty and health insurance products through Aquesta Insurance Services, Inc. ("Aquesta Insurance Services"). Aquesta Insurance Services has three insurance agency branches in North Carolina and one insurance branch in South Carolina. On March 31, 2016, Aquesta Insurance Services moved from a wholly-owned subsidiary of the Bank, to a wholly-owned subsidiary of the Company.

(2) Summary of Significant Accounting Policies

Use of 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 the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of investment securities, and deferred taxes.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include amounts from cash, due from banks, interest-bearing deposits in banks and federal funds sold. Federal funds are generally sold for one-day periods and interest bearing deposits in banks are available on demand. A portion of cash on hand and on deposit with the Federal Reserve Bank was required to meet regulatory reserve requirements. At December 31, 2017 and 2016, the Bank's regulatory reserve requirement was $2,535,000 and $2,118,000, respectively, with the Federal Reserve Bank.

Investment Securities

Available-for-sale securities are reported at fair value and consist of debt instruments that are not classified as trading securities nor as held-to-maturity securities. Trading securities are both debt and equity securities which an entity intends to sell in the short term for a profit. Trading securities are reported at fair value. Held-to-maturity securities are reported at amortized cost and consist of debt securities and are not available-for-sale or trading. Unrealized holding gains and losses, net of applicable deferred income tax, on available-for-sale securities are reported as a net amount in other comprehensive income. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Other Investments

Other investments include equity securities which have no readily determined fair value. These investments are carried at cost.

(2) Summary of Significant Accounting Policies, continued

Income Taxes

The Company does not anticipate any increase or decrease in unrecognized tax benefits during the next twelve months that would result in a material change to its financial position. The Company's income tax returns for years ended after December 31, 2013 remain open for examination. The Company includes interest and penalties in the consolidated financial statements as a component of income tax expense. No interest or penalties are included in the Company's income tax expense for the years ended December 31, 2017 and 2016.

The Company has determined that it has no uncertain income tax positions as of December 31, 2017. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

Derivative Instruments and Hedging Activities

The Company's interest rate risk management strategy incorporates the use of derivative instruments to minimize fluctuations in net earnings that are caused by interest rate volatility. The Company's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that net interest income is not, on a material basis, adversely affected by movements in interest rates. The Company views this strategy as a prudent management of interest rate risk, such that net earnings is not exposed to undue risk presented by changes in interest rates.

In carrying out this part of its interest rate risk management strategy, the Company uses interest rate derivative contracts. The primary type of derivative contract used by the Company to manage interest rate risk is interest rate swaps. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date. The Company also utilizes interest rate caps which limit the Company's interest expense exposure to a maximum rate on a notional principal amount.

The Company classifies its derivative financial instruments as either (1) a hedge of an exposure to changes in the fair value of a recorded asset or liability ("fair value hedge"), (2) a hedge of an exposure to changes in the cash flows of a recognized asset, liability or forecasted transaction ("cash flow hedge"), or (3) derivatives not designated as accounting hedges. Changes in the fair value of derivatives not designated as hedges are recognized in current period earnings. Derivatives are reflected as gross assets and liabilities on the consolidated balance sheet.

The Company uses the long-haul method to assess hedge effectiveness. The Company documents, both at inception and over the life of the hedge, at least quarterly, its analysis of actual and expected hedge effectiveness. This analysis includes techniques such as regression analysis and hypothetical derivatives to demonstrate that the hedge has been, and is expected to be, highly effective in offsetting corresponding changes in the fair value or the cash flows of the hedged item. For a qualifying fair value hedge, changes in the value of derivatives that have been highly effective as hedges are recognized in current period earnings along with the corresponding changes in the fair value of the designated hedged item attributable to the risk being hedged. For a qualifying cash flow hedge, the portion of changes in the fair value of the derivatives that have been highly effective are recognized in other comprehensive income until the related cash flows from the hedged item are recognized in earnings.

For fair value hedges and cash flow hedges, ineffectiveness is recognized in the same income statement line as interest accruals on the hedged item to the extent that changes in the value of the derivative instruments do not perfectly offset changes in the value of the hedged items. If the hedge ceases to be highly effective, the Company discontinues hedge accounting and recognizes the changes in fair value in current period earnings. If a derivative that qualifies as a fair value or cash flow hedge is terminated or the designation removed, the realized or then unrealized gain or loss is recognized into income over the life of the hedged item (fair value hedge) or over the time when the hedged item was forecasted to impact earnings (cash flow hedge).

(2) Summary of Significant Accounting Policies, continued

Comprehensive Income, continued

The Company's only components of other comprehensive income are unrealized gains and losses on investment securities available-for-sale, unrealized gains and losses on investments held-to-maturity prior to reclassification from available-for-sale and unrealized gains and losses on derivatives, net of related income tax effects.

(3) Business Combinations

On September 1, 2017, Aquesta Insurance Services acquired assets and a book of business from an insurance agency in Murrells Inlet, South Carolina. The total assets acquired were approximately $383,000, consisting of a book of business identified as an intangible asset to be amortized on a straight line basis over 15 years. No liabilities were assumed. Total purchase price at the date of acquisition was approximately $550,000. Approximately, $350,000 was paid upon closing the transaction and approximately $200,000 will be paid in equal installments annually over the next 3 years. As additional consideration for the acquired assets, approximately $42,000 is estimated to be paid out related the performance of the book of business, resulting in goodwill of approximately $208,000.

On January 15, 2016, Aquesta Insurance Services acquired a book of business from an insurance agency in Wilmington, North Carolina. The total assets acquired were approximately $391,000, consisting of a book of business identified as an intangible asset to be amortized on a straight line basis over 15 years. No liabilities were assumed. Total consideration paid was approximately $275,000, resulting in a bargain purchase gain of approximately $116,000. In addition to the acquisition, Aquesta Insurance Services entered into non-compete agreements totaling $650,000 with certain individuals for a period of three years. Approximately, $298,000 was paid upon closing the transaction and approximately $352,000 was paid on May 1, 2016. The cost of the non-compete agreements will be amortized ratably over the 3 year period on a straight line basis.

(4) Investment Securities

The amortized cost and estimated fair value of securities available-for-sale, with gross unrealized gains and losses, at December 31, 2017 and 2016 are as follows:

December 31, 2017:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency securities	$ 12,371,872	-	295,047	12,076,825
Mortgage-backed securities	45,971,685	27,286	914,559	45,084,412
Corporate shares	3,843,447	12,500	452,866	3,403,081
Foreign debt securities	1,005,146	-	21,751	983,395
Municipal bonds	328,393	-	7,013	321,380
Total	$ 63,520,543	39,786	1,691,236	61,869,093

December 31, 2016:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency securities	$ 13,017,298	-	374,684	12,642,614
Mortgage-backed securities	32,691,600	5,271	882,606	31,814,265
Preferred shares	500,000	10,400	-	510,400
Corporate shares	3,736,914	-	1,017,141	2,719,773
Foreign debt securities	1,377,262	-	81,644	1,295,618
Municipal bonds	2,292,820	666	69,992	2,223,494
Total	$ 53,615,894	16,337	2,426,067	51,206,164

(4) Investment Securities, continued

	2016	
Held-to-Maturity	Estimated Fair Value	Unrealized Losses
Unrealized loss for less than 12 months:		
U.S. Government agency securities	$ -	-
Mortgage-backed securities	5,746,671	151,511
Preferred shares	466,600	21,290
Corporate bonds	951,603	38,957
Foreign debt securities	-	-
Less than 12 months	7,164,874	211,758
Unrealized loss for greater than 12 months:		
U.S. Government agency securities	-	-
Mortgage-backed securities	-	-
Preferred shares	-	-
Corporate bonds	-	-
Foreign debt securities	919,023	16,323
Total more than 12 months	919,023	16,323
Total	$ 8,083,897	228,081

Management continuously evaluates unrealized losses in its investment securities portfolio. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The declines in fair value noted above were largely attributable to the increases in interest rates and not attributable to credit quality. Since the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these investments were not considered other-than-temporarily impaired.

Proceeds from the sales of investment securities totaled $6,144,155 and $30,443,513 in 2017 and 2016, respectively. The Company realized gross gains of $85,327 and $646,130 in 2017 and 2016, respectively. The Company realized gross losses of $47,863 and $467,926 in 2017 and 2016, respectively. As of December 31, 2017, the investment security portfolio had 51 securities that were in an unrealized loss position.

During 2017, the Bank determined the value of a corporate bond to be other-than-temporarily impaired. The determination was a result of the financial condition and performance of the corporation. As a result, the Company recorded a $332,797 non-cash other-than-temporary impairment on this security.

Securities with a fair value of approximately $20,602,000 and $22,314,000 were pledged to secure pubic deposits at December 31, 2017 and 2016, respectively.

(5) Loans, continued

December 31, 2016:

Allowance for loan losses:	1 – 4 Family Residential	Multi-family and Commercial	Construction	Home Equity Lines of Credit	Commercial and Industrial	Loans to Individuals	Overdrafts	Unallocated	Total
Balance at beginning of the period	$ 115,260	1,569,612	67,242	384,336	191,688	2,828	-	230,204	2,561,170
Provision for loan losses	(21,847)	198,560	220,282	(92,747)	57,703	(2,199)	-	(99,752)	260,000
Charge-offs	-	-	(255,411)	-	-	-	-	-	(255,411)
Recoveries	5,707	40,678	31,250	-	6,548	-	-	-	84,183
Ending balance	$ 99,120	1,808,850	63,363	291,589	255,939	629	-	130,452	2,649,942
Ending balance individually evaluated for impairment	$ 14,985	-	9,067	-	75,542	-	-	-	99,594
Ending balance collectively evaluated for impairment	84,135	1,808,850	54,296	291,589	180,397	629	-	130,452	2,550,348
	$ 99,120	1,808,850	63,363	291,589	255,939	629	-	130,452	2,649,942
Loans:									
Individually evaluated for impairment	$ 786,486	-	217,405	122,029	261,887	-	-	-	1,387,807
Collectively evaluated for impairment	16,497,025	157,564,841	12,099,900	26,751,312	36,844,139	102,569	58,763	-	249,918,549
	$17,283,511	157,564,841	12,317,305	26,873,341	37,106,026	102,569	58,763	-	251,306,356

The Bank individually assesses all nonaccrual loans and TDRs for potential impairment. A loan is considered impaired when, based on current events and circumstances it is probable that all amounts due, according to the contractual terms of the loan will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

Impaired loans as of December 31, 2017 and 2016, segregated by class of loans, were as follows:

December 31, 2017:	Unpaid Principal Balance [1]	Recorded Investment[2]	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without related allowance:					
Real estate loans:					
Multi-family and construction	$ 2,119	2,119	-	394,303	18,686
Other loans:					
Commercial and industrial	230,406	181,402	-	382,768	22,244
	232,525	183,521	-	777,071	40,930
Impaired loans with related allowance:					
Other loans:					
Commercial and industrial	157,326	157,326	5,094	187,366	8,782
	157,326	157,326	5,094	187,366	8,782
Total:					
Real estate loans:					
Multi-family and construction	2,119	2,119	-	394,303	18,686
Other loans:					
Commercial and industrial	387,732	338,728	5,094	570,134	31,026
	$ 389,851	340,847	5,094	964,437	49,712

(5) Loans, continued

Nonaccrual – includes loans where management has determined that full payment of principal and interest per the contract terms is in doubt.

The loans categorized by different risk categories based on relevant information about a borrower's ability to service their debt at December 31, 2017 and 2016 are as follows:

December 31, 2017:	Pass	Special Mention	Substandard Accruing	Nonaccrual	Total
Real estate loans:					
1 - 4 Family residential	$ 16,549,057	-	-	-	16,549,057
Multi-family and commercial	198,629,716	3,411,914	2,119	-	202,043,749
Construction	14,155,760	272,106	-	-	14,427,866
Home equity lines of credit	31,688,340	-	-	-	31,688,340
Total real estate loans	261,022,873	3,684,020	2,119	-	264,709,012
Other loans:					
Commercial and industrial	31,976,994	135,703	8,602,387	27,886	40,742,970
Loans to individuals	314,966	10,000	-	-	324,966
Overdrafts	15,899	-	-	-	15,899
Total other loans	32,307,859	145,703	8,602,387	27,886	41,083,835
Total	$ 293,330,732	3,829,723	8,604,506	27,886	305,792,847
December 31, 2016:					
Real estate loans:					
1 - 4 Family residential	$ 16,497,023	786,488	-	-	17,283,511
Multi-family and commercial	151,149,956	2,346,560	4,068,325	-	157,564,841
Construction	12,049,865	217,405	50,035	-	12,317,305
Home equity lines of credit	23,614,091	20,000	3,117,221	122,029	26,873,341
Total real estate loans	203,310,935	3,370,453	7,235,581	122,029	214,038,998
Other loans:					
Commercial and industrial	35,779,114	383,632	943,280	-	37,106,026
Loans to individuals	102,569	-	-	-	102,569
Overdrafts	58,763	-	-	-	58,763
Total other loans	35,940,446	383,632	943,280	-	37,267,358
Total	$ 239,251,381	3,754,085	8,178,861	122,029	251,306,356

At December 31, 2017, there was one loan with a recorded investment of $27,886 that was past due greater than 90 days and there were no accruing loans past due greater than 90 days. All loans as of 2016 were current and there were no accruing loans past due greater than 30 days.

Periodically, the Bank may engage in loan transactions with the Company and the Bank's directors and executive officers. Such loans are made in the ordinary course of business and on substantially the same terms and collateral as those for comparable transactions prevailing at the time and do not involve more than the normal risk of collectability or present other unfavorable features. The following is a summary of activity for related party loans for 2017:

Prior year balance	$	7,609,766
Advances		3,425,376
Repayments		(3,815,405)
	$	7,219,737

(7) Goodwill and Intangible Assets, continued

Following is a summary of accumulated amortization:

		Customer List Intangibles	Non-Compete Intangibles	Core Deposit Intangibles	Totals
Accumulated amortization at December 31, 2016	$	550,218	689,626	9,202	1,249,046
Current year amortization expense		113,544	287,165	5,535	406,244
Accumulated amortization at December 31, 2017	$	663,762	976,791	14,737	1,655,290

Estimated annual amortization expense for the years ending December 31 is as follows:

2018	$	420,950
2019		224,812
2020		133,785
2021		133,785
2022		133,785
Thereafter		630,653
	$	1,677,770

(8) Deposits

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2017 and 2016, was approximately $5,203,000 and $5,636,000, respectively.

At December 31, 2017, contractual maturities of time deposits are summarized as follows:

2018	$	48,288,232
2019		9,845,827
2020		1,643,815
2021		1,405,181
	$	61,183,055

At December 31, 2017 and 2016, deposits from directors, executive officers and their related interests aggregated approximately $4,412,000 and $3,060,000, respectively. These deposits were taken in the normal course of business at market interest rates.

(9) Borrowings

The Bank has established a credit line with the Federal Home Loan Bank (FHLB). The credit line is secured by a portion of the Bank's loan portfolio that qualifies under FHLB guidelines as eligible collateral. Total availability, based on approximately $147,972,000 of collateral pledged at December 31, 2017 was approximately $104,010,000, of which $66,900,000 was advanced. Total availability, based on approximately $119,015,000 of collateral pledged at December 31, 2016 was approximately $86,184,000, of which $49,200,000 was advanced. The FHLB borrowings have variable and fixed rate terms with a weighted average interest rate of .61% at December 31, 2017. Interest expense on FHLB advances was $1,201,944 and $928,014 in 2017 and 2016, respectively.

The Company had available lines of credit totaling $29,500,000 and $26,700,000 from correspondent banks excluding the Federal Home Loan Bank and the Federal Reserve Discount Window at December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Company had outstanding borrowings of approximately $3,968,000 and $3,696,000, respectively, with the Company's correspondent banks.

(10) Income Taxes, continued

The Company recorded a reclassification entry of approximately $405,000 between accumulated other comprehensive income and retained earnings in order to correct the stranded amount associated with the true up of the net deferred asset on available-for-sale securities. The reclassification entry is disclosed within the consolidated Statements of Changes in Stockholders' Equity.

The components of income tax expense (benefit) for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Current	$	589,042	1,200,516
Deferred		621,393	(73,056)
Rate reduction adjustment		404,623	-
Total income tax expense	$	1,615,058	1,127,460

The difference between income tax expense and the amount computed by applying the statutory federal income tax rate to earnings before taxes for the years ended December 31, 2017 and 2016 is as follows:

		2017	2016
Pretax income at statutory rate	$	1,194,844	1,116,171
State income tax expense, net		21,256	36,570
Other		(5,665)	(25,281)
Rate reduction adjustment		404,623	-
	$	1,615,058	1,127,460

The following summarizes the components of the net deferred tax asset, which is included as a component of other assets at December 31, 2017 and 2016:

		2017	2016
Deferred income tax assets:			
Unrealized loss on securities	$	383,353	1,696,407
Unrealized loss on derivatives		328,611	201,125
Allowance for loan losses		405,385	562,956
Net operating loss carryforward		14,733	13,621
Pre-opening costs and expenses		52,490	58,321
Other real estate owned		-	126,949
Stock-based compensation		169,399	251,076
Deferred compensation		98,842	99,403
Intangibles		176,685	230,057
Other		49,831	2,118
Total deferred income tax assets		1,679,329	3,242,033
Deferred income tax liabilities:			
Premises and equipment		618,323	283,981
Goodwill		105,641	141,243
SBA servicing asset		98,371	129,353
Other		13,969	28,506
Total deferred income tax liabilities		836,304	583,083
Net deferred income tax assets	$	843,025	2,658,950

The Company has a state net operating loss carryforward of approximately $949,000, which begins to expire in 2029 if not previously utilized.

(12) Leases

The Company leases buildings for several of its branches. The Davidson branch, located in Davidson, North Carolina is in the Davidson Commons shopping center and is leased until October 31, 2024. The Northcross branch is located in the Northcross Shopping Center in Huntersville, North Carolina. The building for Northcross is owned by the Company; however, the land is leased until April 30, 2034. The South Park branch is located across from SouthPark Mall in Charlotte, North Carolina. The building is leased until March 31, 2028. However, the landlord has the option to terminate the lease on September 30, 2021 due to the potential development plans in the business park. The Company believes the landlord will not exercise its option to terminate the lease at this time.

The Company has two leased office facilities for its four insurance agencies located in North Carolina and South Carolina. The Hempstead, North Carolina office lease expired in February 2018, and a new lease was entered into in Surf City, North Carolina that commenced on March 1, 2018 and expires on March 1, 2020. The Murrells Inlet, South Carolina office lease was entered into on September 1, 2017 and expires on August 31, 2020.

Minimum future rental payments under the Company's office facility leases are as follows:

2018	$	336,433
2019		326,041
2020		302,775
2021		294,410
2022		300,144
Thereafter		1,977,387
	$	3,537,190

Rental expense amounting to $200,077 and $265,587 during the years ended December 31, 2017 and 2016, respectively, is included in occupancy expense in the accompanying consolidated statements of earnings.

(13) Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation of the borrower. Collateral obtained varies but may include real estate, inventory, stocks, bonds, and certificates of deposit. In management's opinion, these commitments represent no more than normal lending risk to the Company and will be funded from normal sources of liquidity.

A summary of the contract amount of the Company's exposure to off-balance sheet risk as of December 31, 2017 and 2016 is as follows:

	2017	2016
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 49,174,635	19,316,399
Undisbursed lines of credit	23,877,731	10,745,758
Standby letters of credit	238,065	217,270

(14) Fair Value Measurements and Disclosures, continued

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allocation is established within the allowance for loan losses. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans in which an allowance is established based on one of the three impairment methods require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is utilized or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other Real Estate Owned

Other real estate properties are adjusted to fair value less estimated selling costs upon transfer of the loans to other real estate owned. Subsequently, other real estate properties are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral of management's estimation of the value of the collateral. When the fair value is based on an observable market price, the Company records the other real estate as nonrecurring Level 2. When the fair value is based on an appraised value, or when an appraised value is not available, the Company records the other real estate asset as nonrecurring Level 3.

Derivative Financial Instruments

For derivative financial instruments, fair value is estimated at the amount the Company would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gain or loss on the open contracts. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2016, the Company had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016 were as follows:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets (liabilities) measured at fair value on a recurring basis as of December 31, 2017 and 2016.

December 31, 2017:	Level 1	Level 2	Level 3	Total
U.S. government agency securities	$ -	12,076,825	-	12,076,825
Mortgage-backed securities	-	45,084,412	-	45,084,412
Corporate bonds	-	3,403,081	-	3,403,081
Foreign debt securities	-	983,395	-	983,395
Municipal bonds	-	321,380	-	321,380
	$ -	61,869,093	-	61,869,093
Fair value of derivatives:				
Derivative assets	$ -	56,357	-	56,357
Derivative liabilities	-	(1,516,299)	-	(1,516,299)
	$ -	(1,459,942)	-	(1,459,942)

(15) Employee and Director Benefit Plans, continued

Stock Option Plans

In October 2006, the Company's stockholders approved a Non-statutory Stock Option Plan ("the Director Plan") and an Incentive Stock Option Plan ("Employee Plan"). The maximum numbers of shares available for grant under the Director Plan and the Employee Plan are 364,606 each. Exercise prices for both plans are established at market value on the grant date. Under the plans, unissued options expired in August 2016.

Options granted become exercisable in accordance with the vesting schedule specified by the Board of Directors in the Plan agreements. A portion of the options granted under the Director Plan vest immediately and the balance vests over a three-year period with none vesting at the time of grant. The options granted under the Employee Plan vest over a five-year period with none vesting at the time of grant. All unexercised options expire 10 years after the date of grant.

Option related compensation costs recorded during the years ended December 31, 2017 and 2016 totaled $61,572 and $51,731, respectively. At December 31, 2017, there was approximately $133,000 of total unrecognized compensation cost related to outstanding stock options. This cost is expected to be recognized over a weighted average period of approximately two years.

A summary of the changes in the Company's option plans for the years ended December 31, 2017 and 2016 is as follows:

		Outstanding Options		
	Shares Available for Future Grants	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Balance at December 31, 2015	118,264	610,950	$ 6.02	7.47 years
Options granted*	(81,523)	123,289	$ 6.93	9.65 years
Options exercised	-	(16,354)	$ 4.92	-
Options forfeited	14,923	(14,923)	$ 5.75	8.02 years
Expiration of unissued options	(51,664)	-	-	-
Balance at December 31, 2016	-	702,962	$ 6.19	7.61 years
Options exercised	-	(12,082)	$ 5.90	-
Options forfeited	-	(18,112)		
Balance at December 31, 2017	-	672,768		
Exercisable at December 31, 2017		217,878		

*Includes 41,766 of options granted from former board members options

Options granted under the Director Plan in 2016 had a weighted average fair value of $1.43; determined as of the date of grant using the Black-Scholes option pricing model, assuming no dividends; expected volatility of 14.45%; risk-free interest rate of 1.19%: and expected lives of 6 years.

Options granted under the Employee Plan in 2016 had a weighted average fair value of $1.96; determined as of the date of grant using the Black-Scholes option pricing model, assuming no dividends; expected volatility between 18.26% and 19.39%; risk-free interest rate of 1.19% and 1.23%; and expected lives of 7 years.

Warrants

Organizers who personally guaranteed a portion of the Company's organizational line of credit were granted warrants to purchase shares of the Company's common stock. As part of the stock option and warrant exchange program, the Company's issued warrants are now exercisable for a period of ten years at an exercise price of $4.92 per share and were granted on a pro rata basis, based upon the dollar amount of a personal guarantee assumed by each organizer during the Company's organization. All organizers currently serve as directors of the Company. These warrants vested immediately. There were no new warrants granted or exercised in 2017 or 2016. As of December 31, 2017 and 2016 there were 172,800 warrants outstanding. The warrants have a 10 year term from the date of grant and expire in 2023.

Aquesta Financial Holdings, Inc. and Subsidiaries
Board of Directors and Executive Management

Aquesta Financial Holdings, Inc. Board of Directors

James Borders, Jr.
AC Control Company, Inc., President

Paul Dougovito
Banking Consultant

Jim Engel
Aquesta Bank, President and CEO

Ginger Griffin
Ginger Griffin Marketing and Design, Principal

Charles Knox, Jr.
The Knox Group
Commercial Real Estate Broker and Developer

Craig Larsen (Chairman)
REVITA Anti-Aging Center
Owner/CEO

Alison J. Smith
Smith Capital Inc., President

Aquesta Bank Board of Directors

Paul Dougovito
Banking Consultant

Jonathon Dressler
Dressler's Restaurant, Owner

Jim Engel
Aquesta Bank, President and CEO

J. David Goodrum
JD Goodrum Company Inc.,
President and General Manager

Carol Houle
Cognizant Technology Solutions
VP - Global Head of Digital Engineering Consulting

Paul Jaszewski
Anesthesiologist
Southeast Anesthesiology Consultants as CMC

Charles Knox, Jr. (Chairman)
The Knox Group,
Commercial Real Estate Broker and Developer

Craig Larsen
REVITA Anti-Aging Center
Owner/CEO

David Pickens
PSI Control Solutions, Inc
CEO and Majority Owner

Executive Aquesta Bank Officers

Jim Engel
President and Chief Executive Officer

Tim Beck
Chief Credit Officer

Kristin Couch
Chief Financial Officer

Carrie Hewitt
Chief Operating Officer

Trey Weir
Chief Banking Officer