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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, David H. Wilson, Sr
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.

Signature of Holding Company Director and Official

06/26/18
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 2496269
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2017
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

PSB Holding Corp
Legal Title of Holding Company

P.O. Box 219
(Mailing Address of the Holding Company) Street / P.O. Box

Preston	MD	21655
City	State	Zip Code

312 Main Street
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Tandy Morgan	EVP/CFO
Name	Title

410 673-2401
Area Code / Phone Number / Extension

410 673-1660
Area Code / FAX Number

tmorgan@psbinc.net
E-mail Address

www.providentstatebank.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),
1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

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

N/A
Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

PSB Holding Corp. Inc.
FR Y-6 - Annual Report of Bank Holding Companies
Item 1. Annual Report to Shareholders
December 31, 2017

Not available as of submission date.
Annual report will be forwarded as soon as practicable.

PSB Holding Corp.
FR Y-6 - Annual Report of Bank Holding Companies
Item 2b. Branch Listing
December 31, 2017

Submitted early via email on March 22, 2018

Results: A list of branches for your depository institution: PROVIDENT STATE BANK, INC. (ID_RSSD: 169327).
This depository institution is held by PSB HOLDING CORP. (2496269) of PRESTON, MD.
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)	169327	PROVIDENT STATE BANK, INC.	312 MAIN STREET	PRESTON	MD	21655	CAROLINE	UNITED STATES	Not Required	Not Required	PROVIDENT STATE BANK, INC.	169327	
OK		Full Service	2644556	CAMBRIDGE BRANCH	301 CRUSADER ROAD	CAMBRIDGE	MD	21613	DORCHESTER	UNITED STATES	Not Required	Not Required	PROVIDENT STATE BANK, INC.	169327	
OK		Full Service	245623	DENTON BRANCH	209 FRANKLIN STREET	DENTON	MD	21629	CAROLINE	UNITED STATES	Not Required	Not Required	PROVIDENT STATE BANK, INC.	169327	
OK		Full Service	3677805	EASTON BRANCH	8133 ELLIOTT RD	EASTON	MD	21601	TALBOT	UNITED STATES	Not Required	Not Required	PROVIDENT STATE BANK, INC.	169327	
OK		Full Service	5147124	HARRISON STREET - EASTON BRANCH	142 N. HARRISON ST	EASTON	MD	21601	TALBOT	UNITED STATES	Not Required	Not Required	PROVIDENT STATE BANK, INC.	169327	
OK		Full Service	2437879	FEDERALSBURG BRANCH	325 BLOOMINGDALE AVENUE	FEDERALSBURG	MD	21632	CAROLINE	UNITED STATES	Not Required	Not Required	PROVIDENT STATE BANK, INC.	169327	
OK		Full Service	2942618	RIDGELY BRANCH	1 WEST BELLE STREET	RIDGELY	MD	21660	CAROLINE	UNITED STATES	Not Required	Not Required	PROVIDENT STATE BANK, INC.	169327	
OK		Full Service	246125	SECRETARY BRANCH	141 MAIN STREET	SECRETARY	MD	21664	DORCHESTER	UNITED STATES	Not Required	Not Required	PROVIDENT STATE BANK, INC.	169327	

PSB Holding Corp, Inc
FR Y-6 - Annual Report of Bank Holding Companies
Item 2a. Organization Chart
December 31, 2017

PSB Holding Corp.- No LEI
Preston, MD
State of Incorporation: Maryland

Provident State Bank, Inc. – LEI: 549300IIUZTJI9AHIA30
Preston, MD
State nonmember bank 100% owned
State of Incorporation: Maryland

PSB Holding Corp
FR Y-6 - Annual Report of Bank Holding Companies
Item 3. Shareholders with 5% or more interest
December 31, 2017

Item 3.1

Name and Address	Relationship to Company	Stock Ownership Number of Shares	Stock Ownership Percent of Class
CEDE & Company New York, NY, USA U.S. Corporation	none	112,904	19.87%
Linda F. Prager Preston, MD, USA U.S. Citizen	Former Director	47,132	8.29%
David H. Wilson Sr Preston, MD, USA U.S. Citizen	Chairman of the Board	36,265	6.38%

Item 3.2 None

PSB Holding Corp
FR Y-6 - Annual Report of Bank Holding Companies
Item 4 - Insiders
December 31, 2017

(1) Name and Address	(2) Principal Occupation if not with Holding Company	(3a) Title or Position with Holding Company	(3b) Title or Position with Subsidiary Companies	(3c) Title or Positions with Other Companies	(4a) Stock Ownership in HC Number	(4a) Stock Ownership in HC Percent of Class	(4b) Stock Ownership in Subsidiaries	(4c) >25% Ownership in Other Companies Company Name	(4c) % Owned
Executive Officers									
David E. Brock Ocean City, MD, USA	n/a	President	n/a	n/a	5,445	0.9582%	n/a	None	
Melissa M. Quirk Preston, MD, USA	n/a	Executive Vice President / COO	President of PSB Chief Operating Officer	Advisory Board (chairperson): Maryland Financial Bank Director (vice-chairperson): MACHA	497	0.0875%	n/a	None	
Gregory W. Johnson Hebron, MD, USA	n/a	CEO	Chief Executive Officer of PSB	Member: JST Properties, LLC Vice Chairman: Donnie Williams Foundation	3,945	0.6942%		JST Properties, LLC	33%
Tandy J. Morgan Denton, MD, USA	n/a	CFO	Exec. Vice President / CFO of PSB	n/a	100	0.0176%	n/a	None	
Karen L. Holloman Easton, MD, USA	n/a	Secretary	Secretary of PSB	n/a	-	0.0000%	n/a	None	

(1) Name and Address	(2) Principal Occupation if not with Holding Company	(3a) Title or Position with Holding Company	(3b) Title or Position with Subsidiary Companies	(3c) Title or Positions with Other Companies	(4a) Stock Ownership in HC Number	Percent of Class		(4b) Stock Ownership in Subsidiaries	(4c) >25% Ownership in Other Companies Company Name	% Owned
Directors										
David H. Wilson, Sr. Preston, MD, USA	Automotive dealer	Chairman of the Board	Chairman for PSB	President: Preston Automotive Group Partner: MM&M Partners LLC	36,265	6.3818%	(1)	n/a	1st Town 1st State Holdings ADB Leasing, Inc. ADBM Landholdings, LLC ADBM Properties, Inc. ADBM Properties, LLC ADBMD Funding LLC ADBMD Landholdings LLC ADBMD Route 1 LLC Cro-Wil Properties LLC DHW Funding, LLC DHW Reinsurance DHWSR Funding LLC iFrog Digital LLC Millsboro Auto Mart II Millsboro Auto Mart, Inc. Pittsville Motors, Inc. Preston Auto Body Preston Ford, Inc. Preston Mazda Preston Mngt Group Preston Nissan Boulevard Auto Sales Inc Dodge Jeep Ram LLC Millsboro Chrysler Preston Hyundai, Inc. 38 Rt. 18 Partners LLC DHW Landholdings LLC Frog Beach LLC Frog Lake LLC MM&M Partners LLC PDK Investments LLC Safehouse LLC Harmony Road LLC	100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 76% 51% 51% 51% 50% 50% 50% 50% 33% 33% 33% 25%
Keith A. McMahan Denton, MD, USA	Sales/supplier of propane and petroleum	Vice -Chairman of the Board	Vice Chairman for PSB	Chairman: Tri-Gas & Oil Co., Inc. Member: M & L Truck Service LLC Tri-Gas Roll Off Services LLC Breeding's Roll-Off Service LLC Board Member: Beracah Homes	10,697	1.8824%	(2)	n/a	Breeding's Roll-Off Service LLC Tri-Gas Roll Off Services LLC Marshy Hope Properties, LLC Tri-Gas & Oil Holding Co., Inc. M & L Truck Service LLC McMahan Properties LLC Paradise Farms LLC Plymouth Place Prop LLC	100% 100% 70% 70% 50% 50% 50% 50%
E. Stephen Whelan Easton, MD, USA	Developer	Secretary	Secretary for PSB	Owner: E. S. Whelan & Companies	7,224	1.2713%		n/a	E. S. Whelan & Companies	100%
William W. Duncan Easton, MD, USA	Non-profit	Director	Director for PSB	President: Mid-Shore Community Foundation	270	0.0475%		n/a	n/a	
John D. Ireland Cordova, MD, USA	CPA	Director	Director for PSB	Vice President: C&E Holdings, Inc. Magnolia Bluff, Inc. Managing Member: Accounting Strategies Group, LLC	1,072	0.1886%	(3)	n/a	ASG, LLC Preston Strategies, LLC 1000 Gay Street, LLC	100% 100% 33%

(1) Name and Address	(2) Principal Occupation if not with Holding Company	(3a) Title or Position with Holding Company	(3b) Title or Position with Subsidiary Companies	(3c) Title or Positions with Other Companies	(4a) Stock Ownership in HC Number	Percent of Class		(4b) Stock Ownership in Subsidiaries	(4c) >25% Ownership in Other Companies Company Name	% Owned
				Member: ASG, LLC Preston Strategies, LLC Payroll Strategies, LLC Treasurer: Grand National Waterfowl Assoc Grand National Educational Trust						
P Douglas Marshall, Jr. Delmar, MD, USA	Auctioneer	Director	Director for PSB	President: Marshall Auction & Marketing Co Inc Managing Member: Heron Ponds Development Co Heron Ponds Expansion LLC Heron Ponds Recreation LLC Member: Blue Hen Rental Co Oak Ridge Village LLC Old Racetrack Road LLC Partner: Shore Properties LLC	57	0.0100%			Blue Hen Rental Co CDE Properties LLC Marshall Auction & Marketing Co Inc Oak Ridge Village LLC Heron Ponds Development Co Heron Ponds Expansion LLC Heron Ponds Recreation LLC Marshall Home & Land Co LLC Old Racetrack Road LLC Shore Properties LLC	100% 100% 100% 100% 50% 50% 50% 50% 50% 50%
Dwight H. Miller Salisbury, MD, USA	Commercial Construction	Director	Director for PSB	President: GGI Builders, Inc.	-	0.0000%	(4)		GGI Builders, Inc Riverview Commons LLC Windsor Development LLC Plaza Properties LLC	33% 33% 33% 25%
Russell E. Stevens, Jr. Hurlock, MD, USA	Farmer	Director	Director for PSB	President: Cherry Lane Farm, Inc. R.C. Farms ST. WA. Properties, Inc. Stevens Farm, LLC	11,708	2.0603%	(5)	n/a	Cherry Lane Farm, Inc. R.C. Farms ST. WA Properties, Inc. Stevens Farm, LLC	100% 100% 100% 100%
Geoffrey A. Turner Easton, MD, USA	Transportation	Director	Director for PSB	Owner: Choptank Transport	8,951	1.5752%		n/a	Choptank Transport Hunting Creek Self Storage	100% 33%
Gregory M. Whitten East New Market, MD, USA	Insurance sales	Director	Director for PSB	Owner: Whitten Insurance Agency Partner: MM&M Partners LLC	8,118	1.4286%	(6)	n/a	Greg Whitten Insurance Agency Inc MM&M Partners LLC Safehouse LLC	100% 33% 33%
William Kenneth Wood Denton, MD, USA	Well drilling	Director	Director for PSB	President: Lifetime Well Drilling, Inc. K&B Rentals Longshot Stables	1,365	0.2402%		n/a	Lifetime Well Drilling, Inc. K&B Rentals Lifetime Wells International Longshot Stables	94% 50% 50% 50%
Principal Securities Holders CEDE & Co. New York, NY, USA	n/a	n/a	n/a	n/a	112,904	19.8686%		n/a	n/a	

(1) Name and Address	(2) Principal Occupation if not with Holding Company	(3a) Title or Position with Holding Company	(3b) Title or Position with Subsidiary Companies	(3c) Title or Positions with Other Companies	(4a) Stock Ownership in HC Number	(4a) Stock Ownership in HC Percent of Class	(4b) Stock Ownership in Subsidiaries	(4c) >25% Ownership in Other Companies Company Name	(4c) % Owned
					568,253	Total shares o/s			

Notes:
Item 3. All directors of the Holding Company are also directors of Provident State Bank (PSB).
Item 4. There is only one class of stock in PSB Holding Corp.
Item 4b. The Holding Company owns 100% of the stock of Provident State Bank.

Stock Ownership:
1. Includes 2,347 shares held by Mr. Wilson's spouse and son, and 20,895 shares held by a companies that are 100% owned by Mr. Wilson and 562 shares held by a company that Mr. Wilson owns a majority of.
2. Includes 2,060 shares held by Mr. McMahan's spouse and 320 shares held by his sister.
3. Mr. Ireland also owns 1,620 shares of stock through a third-party brokerage.
4. Mr. Miller owns 1,125 share of stock through a third-party brokerage.
5. Includes 2,001 shares held for Mr. Stevens' sister and 3,252 shares for his spouse. Also includes 320 shares held by Mr. Stevens' grandchildren and 200 shares for adult children.
6. Includes 240 shares held for Mr. Whitten's spouse.

PSB HOLDING CORP

PSB HOLDING CORP.
AND
SUBSIDIARY

Annual Report 2017

We Treat You Like Family

PSB

PSB HOLDING CORP

To Our Stockholders:

We are pleased to announce Provident State Bank's 2017 operating results and strategic accomplishments. Total assets reached a record $407.8 million at December 31, 2017, representing an increase of $40.8 million, or 11.1%, compared to December 31, 2016. As of December 31, 2017, loans, net of the allowance for loan losses, and deposits increased by $38.5 million and $17.2 million, respectively.

The Bank's profitability and stock performance were strong in 2017 with net income of $2.0 million, compared to $1.4 million for 2016. This represented a year to year increase of 44.8% and a **record** achievement in our Bank's history. Book value per share increased to $59.11 as of December 31, 2017, and earnings per share increased to $3.55 for 2017, compared to $2.82 for 2016. As of a result of higher earnings, dividends per share increased to $0.30 in 2017, compared to $0.20 in 2016.

In 2017, several strategic goals were accomplished. In September, the Bank transitioned to a new core operating system that will allow us to offer state of the art technology to our customers and gain substantial operating efficiencies. The Bank opened its eighth branch, located on Harrison Street in Easton's beautiful downtown district. The new branch has shown promising results within the first six months of operation. The Bank's plans for a Salisbury branch are final with an anticipated opening in early 2019.

While we are thrilled with the performance of our community Bank, we regret to announce the retirement of Mr. David Nagel from our Board of Directors. Mr. Nagel served the Bank for forty+ years and his business acumen and local knowledge will be missed. We are grateful to Mr. Nagel for his many contributions, vision, and stewardship.

We welcome the addition of W.W. "Buck" Duncan and Geoff Turner to the Board of Directors. Mr. Duncan currently serves as the President of the Mid-Shore Community Foundation and previously served as President and CEO of St. Michaels Bank and Talbot Bank. Mr. Turner is President and CEO of Choptank Transport, a leading transportation freight broker headquartered in Preston, Maryland.

We would like to take this opportunity to thank our employees, advisory board members, and directors for their loyalty and hard work to achieve these outstanding financial results. We would also like to thank our stockholders, the owners of our community Bank, for their financial support and confidence. In 2018, we will continue to balance growth and profitability in order to maximize stockholder value.

David H. Wilson, Sr. Chairman of the Board	Gregory W. Johnson Chief Executive Officer	Melissa A. Quirk Executive Vice President

PSB Holding Corp. and Subsidiary

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DHG
DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

The Board of Directors
PSB Holding Corp. and Subsidiary
Preston, Maryland

We have audited the accompanying consolidated financial statements of PSB Holding Corp. and Subsidiary (the "Company") which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PSB Holding Corp. and Subsidiary 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.

Dixon Hughes Goodman LLP

Baltimore, Maryland
March 16, 2018

PSB Holding Corp. and Subsidiary
Consolidated Balance Sheets
December 31, 2017 and 2016

		2017		2016
Assets				
Cash and due from banks	$	9,173,311	$	17,154,977
Federal funds sold		787,729		289,308
Total cash and cash equivalents		9,961,040		17,444,285
Investment securities available for sale, at fair value		46,772,158		41,251,489
Loans held for sale		1,061,107		1,365,587
Loans, less allowance for loan losses of $3,060,394 (2017) and $2,727,193 (2016)		332,002,264		293,473,907
Restricted stock investments		2,142,998		1,540,400
Premises and equipment		7,835,970		7,411,014
Bank owned life insurance		5,065,192		-
Accrued interest receivable		1,219,224		1,153,527
Foreclosed real estate, net		-		945,860
Deferred income taxes		962,904		1,547,838
Income taxes receivable		-		323,768
Other assets		777,567		516,333
Total assets	$	407,800,424	$	366,974,008
Liabilities and Stockholders' Equity				
Deposits:				
Noninterest-bearing	$	92,520,400	$	85,289,771
Interest-bearing		229,456,568		219,495,269
Total deposits		321,976,968		304,785,040
Securities sold under agreements to repurchase and borrowed funds		11,458,694		4,881,752
Advances from FHLB		39,389,441		25,570,864
Accrued interest payable		188,414		132,180
Income tax payable		817,435		-
Other liabilities		1,050,905		875,466
Total liabilities		374,881,857		336,245,302
Stockholders' equity:				
Common stock, par value $10 per share; authorized 2,000,000 shares in 2017 and 2016; issued and outstanding 568,253 shares at December 31, 2017 and 2016		5,682,530		5,682,530
Additional paid-in capital		5,740,648		5,740,648
Retained earnings		22,165,797		20,210,725
Accumulated other comprehensive loss		(670,408)		(905,197)
Total stockholders' equity		32,918,567		30,728,706
Total liabilities and stockholders' equity	$	407,800,424	$	366,974,008
Book value per share	$	57.93	$	54.08

The accompanying notes are an integral part of these consolidated financial statements.

PSB Holding Corp. and Subsidiary
Consolidated Statements of Income and Comprehensive Income
December 31, 2017 and 2016

	2017	2016
Interest and dividend income		
Loans, including fees	$ 14,980,970	$ 13,049,689
Interest and dividends:		
Taxable securities	432,277	383,969
State and municipal securities:		
Exempt from federal and state income tax	328,997	334,665
Exempt from state income tax	193,016	151,496
Federal funds sold and deposits with other banks	102,486	20,113
Total interest income	16,037,746	13,939,932
Interest expense		
Deposits	1,445,532	1,103,691
Borrowed funds	763,011	606,437
Total interest expense	2,208,543	1,710,128
Net interest income	13,829,203	12,229,804
Provision for loan losses	915,000	1,435,000
Net interest income after provision for loan losses	12,914,203	10,794,804
Noninterest income		
Service charges on deposit accounts	2,002,127	1,593,448
Gain on sale of loans	923,737	403,969
Gain on sale of foreclosed real estate	226,799	16,343
Gain on sale of securities, net	26,441	146,525
Other noninterest income	118,550	132,458
Total noninterest income	3,297,654	2,292,743
Noninterest expense		
Salaries and employee benefits	6,920,199	5,816,472
Occupancy, net	881,771	754,945
Data processing, software	662,232	644,853
ATM and debit card costs	433,927	394,103
Furniture and equipment	422,209	377,151
Data processing conversion costs	383,242	50,000
Electronic banking	378,009	405,753
Professional fees	340,323	298,238
Deposit insurance	294,195	287,196
Director and advisory board fees	210,292	201,688
Foreclosed real estate expenses	186,469	624,005
Loan expenses	67,206	186,322
Other operating expense	1,346,758	1,072,895
Total noninterest expense	12,526,832	11,113,621
Income before income taxes	3,685,025	1,973,926
Income taxes	1,669,780	581,722
Net income	$ 2,015,245	$ 1,392,204

The accompanying notes are an integral part of these consolidated financial statements.

PSB Holding Corp. and Subsidiary
Consolidated Statements of Income and Comprehensive Income (Continued)
December 31, 2017 and 2016

	2017	2016
Comprehensive income:		
Net income	**$ 2,015,245**	$ 1,392,204
Other comprehensive income, net of tax:		
Net unrealized gain (loss) on securities available for sale	**546,902**	(691,326)
Tax effect of net unrealized gain (loss) on securities available for sale	**(185,947)**	235,051
Reclassification adjustment for net gain included in net income	**(26,441)**	(146,525)
Tax effect of reclassification adjustment for net gain included in net income	**10,576**	58,610
Other comprehensive income (loss), net of tax	**345,090**	(544,190)
Comprehensive income	**$ 2,360,335**	$ 848,014

	2017	2016
Net income per common share:		
Basic and diluted:		
Net income	**$ 2,015,245**	$ 1,392,204
Weighted average common shares outstanding	**568,253**	494,002
Basic and diluted net income per common share	**$ 3.55**	$ 2.82

The accompanying notes are an integral part of these consolidated financial statements.

PSB Holding Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
December 31, 2017 and 2016

	Common stock		Additional paid-in	Retained	Accumulated other comprehensive	Total Stockholders'
	Shares	Par value	capital	earnings	income (loss)	Equity
Balance, January 1, 2016	450,272	$4,502,720	$1,677,480	$ 18,932,173	$ (361,007)	$ 24,751,366
Net income	-	-	-	1,392,204	-	1,392,204
Proceeds of issuance of shares of common stock at $44.50 per share, net of issuance costs	117,981	1,179,810	4,063,168	-	-	5,242,978
Other comprehensive loss	-	-	-	-	(544,190)	(544,190)
Cash dividend, $.20 per share	-	-	-	(113,652)	-	(113,652)
Balance, December 31, 2016	568,253	5,682,530	5,740,648	20,210,725	(905,197)	30,728,706
Net income	-	-	-	2,015,245	-	2,015,245
Other comprehensive income	-	-	-	-	345,090	345,090
Reclassification of tax effect of adjustment to deferred tax asset for tax reform				110,301	(110,301)	-
Cash dividend, $.30 per share	-	-	-	(170,474)	-	(170,474)
Balance, December 31, 2017	568,253	$5,682,530	$5,740,648	$ 22,165,797	$ (670,408)	$ 32,918,567

The accompanying notes are an integral part of these consolidated financial statements.

PSB Holding Corp. and Subsidiary
Consolidated Statements of Cash Flows
December 31, 2017 and 2016

	2017	2016
Reconciliation of net income to net cash provided by operating activities:		
Net income	**$ 2,015,245**	$ 1,392,204
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and accretion of discounts, net	**298,907**	355,965
Depreciation and amortization	**468,590**	430,642
Provision for loan losses	**915,000**	1,435,000
Provision for loss on foreclosed real estate	**148,644**	519,233
Gains on sales of foreclosed real estate	**(226,799)**	(16,343)
Deferred income tax expense	**360,145**	109,146
Gains on sales of investment securities available for sale	**(53,743)**	(146,525)
Other-than-temporary loss on restricted stock investments	**27,302**	-
Gains on sales of residential mortgage loans originated for sale	**(923,737)**	(403,969)
Proceeds from sales of residential mortgage loans originated for sale	**26,938,684**	14,508,747
Disbursements for residential mortgage loans originated for sale	**(25,710,467)**	(15,470,365)
Loss on property disposals	**109,038**	84,206
Net change in operating assets and liabilities:		
Increase in accrued interest receivable	**(65,697)**	(129,454)
Increase (decrease) in income taxes payable, net of receivable	**1,141,203**	(281,079)
Increase (decrease) in accrued interest payable	**56,234**	(86)
Increase in bank-owned life insurance	**(65,192)**	-
(Increase) decrease in other assets	**(248,706)**	93,918
Increase in other liabilities	**175,439**	43,601
Net cash provided by operating activities	**5,360,090**	2,524,841
Cash flows used in investing activities:		
Proceeds from sales and maturities of investment securities	**13,127,589**	23,382,590
Proceeds from sales of foreclosed real estate	**1,356,161**	1,437,242
Proceeds from sales of property and equipment	**650,433**	-
Purchase of bank-owned life insurance	**(5,000,000)**	-
Purchase of investment securities available for sale	**(18,323,542)**	(18,652,751)
Loan disbursements in excess of principal payments	**(39,758,703)**	(53,327,258)
Additions to foreclosed real estate	**(16,800)**	(69,817)
Purchase of premises and equipment	**(1,665,546)**	(963,004)
Purchase of Federal Home Loan Bank stock	**(629,900)**	(430,700)
Net cash used in investing activities	**(50,260,308)**	(48,623,698)

The accompanying notes are an integral part of these consolidated financial statements.

PSB Holding Corp. and Subsidiary
Consolidated Statements of Cash Flows (Continued)
December 31, 2017 and 2016

	2017	2016
Cash flows provided by financing activities:		
Net increase in time deposit accounts	$ 19,611,601	$ 11,920,687
Net (decrease) increase in other deposit accounts	(2,419,673)	24,455,445
Net decrease in securities sold under agreements to repurchase	(303,848)	(1,023,094)
Advances from FHLB, net of payments	13,818,577	9,570,864
Net proceeds from issuance of long-term debt	3,880,790	-
Proceeds from issuance of other borrowings	3,000,000	-
Repayment of other borrowings	-	(103,811)
Net proceeds from issuance of bank stock	-	5,242,978
Dividends paid	(170,474)	(113,652)
Net cash provided by financing activities	37,416,973	49,949,417
Net (decrease) increase in cash and cash equivalents	(7,483,245)	3,850,560
Cash and cash equivalents at beginning of year	17,444,285	13,593,725
Cash and cash equivalents at end of year	$ 9,961,040	$ 17,444,285
Supplemental information:		
Interest paid on deposits and borrowings	$ 2,152,309	$ 1,710,214
Income taxes paid	492,812	847,589
Noncash investing activity:		
Transfers of loans to foreclosed real estate	315,346	235,756

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the accompanying consolidated financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the financial services industry. The following is a description of the more significant of these policies.

Organization

PSB Holding Corp. (the "Company"), a Maryland corporation, is the holding company for Provident State Bank, Inc. (the "Bank"), a Maryland chartered stock commercial bank. The Bank operates on Maryland's eastern shore, principally in Caroline, Dorchester, and Talbot counties. The Bank is also expanding into Wicomico County, as it opened a loan office in Salisbury, Maryland in October 2015. The Bank offers deposit services and loans to individuals, small businesses, associations, and government entities. Other services include direct deposit of payroll and social security checks, automatic drafts from accounts, automated teller machine services, online banking and bill payment, debit cards, safe deposit boxes, mobile banking, and cash management services.

In April 2016, the Bank purchased select assets of Mortgage Department Services, LLC ("MDS"), a mortgage processing center in Owings Mills, MD, for the sum of $25,000. Several key officers and employees also transferred from MDS to the Bank for the purpose of developing a mortgage loan division. The new division, PSB Mortgage, originates fixed rate mortgage loans for the purpose of selling them into the secondary market.

Principles of consolidation

The consolidated financial statements of PSB Holding Corp. include the accounts of its wholly-owned subsidiary, Provident State Bank, Inc. Intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. These estimates and assumptions may affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Material estimates that are particularly susceptible to change in the near-term relate to the determination of the allowance for loan losses (the "allowance") and other than temporary impairment of investment securities. In determining the adequacy of the allowance, management prepares a detailed analysis on a regular basis, considering current delinquencies and future additions that may be necessary based on changes in economic conditions. Management believes that the allowance is sufficient to address the losses inherent in the current loan portfolio.

Investment securities are evaluated periodically to determine if a decline in value is other than temporary. The term "other than temporary" means that the prospects for a near-term recovery are not necessarily favorable, or that there is a lack of evidence to support fair values equal to or greater than the carrying value of the investment. Management reviews the reasons for the decline in value, as well as the magnitude and duration of the decline, to predict whether the loss in value will be recovered or is other than temporary. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

1. Summary of Significant Accounting Policies (Continued)

Investment securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities that management has the intent and ability to hold to maturity are recorded at amortized cost, which is original cost adjusted for amortization of premiums and accretion of discounts to maturity, or over the expected life of mortgage-backed securities. Securities that may be sold before maturity are classified as available for sale and carried at fair value. Unrealized gains and losses, net of the related tax effect, are excluded from income and reported in stockholders' equity as an item of other comprehensive income until realized. Premiums are amortized and discounts are accreted using the level yield method. Gains and losses on disposal are determined using the specific-identification basis. Purchases and sales of securities are recorded on a trade-date basis.

Declines in the fair value of individual securities below their cost that are determined to be other than temporary result in write-downs of the individual security to its fair value. Factors affecting this evaluation include the downgrading of the security by a rating agency, a significant interruption in principal and interest payments, the potential requirement to sell a security, or the belief that management does not have the intent or ability to hold the security for a period of time sufficient to allow for any anticipated recovery in value.

Cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks with original maturities less than 90 days and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Premises and equipment

Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line and accelerated methods over the estimated useful lives of the assets.

Loans held for sale

The Bank engages in sales of residential mortgage loans that are originated by the Bank. Loans held for sale are carried at the lower of aggregate cost or fair value. Fair value is derived from secondary market quotations for similar instruments. Gains and losses on sales of these loans are recorded as a component of noninterest income in the Consolidated Statements of Income.

When servicing rights are retained to collect and remit principal and interest payments, manage escrow account matters and handle borrower relationships on mortgage loans sold, resulting service fee income is included in noninterest income. The Bank's current practice is to sell loans on a servicing released basis, and, therefore, it has no intangible asset recorded for the value of such servicing at either December 31, 2017 or December 31, 2016.

PSB Mortgage is a division of the Bank through which fixed rate residential mortgage loans are originated and subsequently sold into the secondary market. These loans are carried at the lower of aggregate cost or fair value. Loans classified as held for sale totaled $1,061,107 at December 31, 2017 and $1,365,587 at December 31, 2016. The Bank recognized gains on sales of loans of $923,737 in 2017 and $403,969 in 2016.

The Bank enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e. rate lock commitment). Such rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. The period of time between the issuance of a loan commitment and closing and sale of the loan generally ranges from 15 to 60 days. The Bank protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Bank commits to sell a loan at a premium at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan.

1. Summary of Significant Accounting Policies (Continued)

For purposes of calculating the fair value of rate lock commitments, the Bank estimates loan closing and investor delivery rate based on historical experience. The measurement of the estimated fair value of the rate lock commitments is presented as realized and unrealized gains from mortgage banking activities with the corresponding balance sheet amount presented as part of other assets.

Loans and Allowance for loan losses

Loans are stated at the amount of unpaid principal adjusted for unearned income and deferred costs and the allowance for loan losses. The Bank defers loan origination and commitment fees and certain loan origination costs. The net amounts deferred are amortized as an adjustment of the related loan yields over the contractual lives of the loans, primarily using the interest method.

Interest on loans is accrued at the contractual rate on the principal amount outstanding. The accrual of interest is generally discontinued when any portion of the principal or interest is ninety days past due. Principal and interest payments received during a period of nonaccrual are recorded on a cash basis entirely to principal. Loans are generally returned to accrual status after the borrower has been current for six consecutive months, and the borrower demonstrates the ability to pay and remain current.

The Bank maintains an allowance that is adequate to provide for probable loan losses based on management's review and analysis of the loan portfolio. For significant problem loans, management's review consists of an evaluation of the financial strengths of the borrowers and guarantors, the related collateral, and the effects of economic conditions. The Bank uses a loan grading system where all loans are graded based on management's evaluation of the risk associated with each loan. Based on the loan grading, a factor is applied to the loan balance to provide for potential losses. The overall evaluation of the adequacy of the total allowance is based on an analysis of historical loan loss ratios, loan charge-offs, delinquency trends, and previous collection experience, along with an assessment of the effects of external economic conditions.

Loan losses are charged to the allowance when management believes that collectability is unlikely. Collections of loans previously charged off are added to the allowance at the time of recovery.

Foreclosed real estate

Real estate properties acquired in satisfaction of loans are reported in foreclosed real estate. At the time of foreclosure, the real estate is recorded at fair value less estimated costs to sell, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically obtained by management and the assets are adjusted to the lower of cost or estimated fair value, less selling costs. Gains and losses on sales of foreclosed real estate (if any), subsequent write-downs in the value of the property and operating expenses are included in noninterest expense.

Per share data

Earnings per common share are determined by dividing net income by the weighted average number of shares outstanding. The weighted average number of shares outstanding was 568,523 for the year ended December 31, 2017 and 494,002 for the year ended December 31, 2016.

Advertising

Advertising costs are expensed as incurred and included in noninterest expenses.

Income taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided for the temporary differences between financial and taxable income. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

1. Summary of Significant Accounting Policies (Continued)

The Company utilizes statutory requirements for its income tax accounting and avoids risks associated with potentially problematic tax positions that may incur challenge upon audit where an adverse outcome is more likely than not. Therefore, no provisions are made for either uncertain tax provisions nor accompanying potential tax penalties and interest for underpayments of income taxes in the Company's tax reserves.

The Company's income tax returns for the last three years are subject to examination and adjustment by tax authorities.

Subsequent events

Subsequent events have been evaluated for potential recognition and/or disclosure through March 16, 2017, which is the date these consolidated financial statements were available to be issued.

2. Correspondent Bank Relationships

The Bank occasionally carries balances with other banks that exceed the standard federally insured limit. The balances carried in excess of the limit, including unsecured federal funds sold, were $6,531,249 in 2017 and $14,297,069 in 2016. Regulation D of the Federal Reserve Act requires banks to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

3. Lines of Credit

The Bank has secured lines of credit of $5,000,000 and unsecured lines of credit of $10,000,000 in overnight federal funds or term loans from other banks, and a secured line from the Federal Home Loan Bank of Atlanta (the "FHLB") equal to 20% of the Bank's total assets. At December 31, 2017, approximately $60,654,809 was available for future borrowing from the FHLB. The Bank had available collateral, however, to support $53,808,427 of additional FHLB borrowing.

4. Related Party Transactions

The executive officers and directors of the Bank enter into loan transactions with the Bank in the ordinary course of business. The terms of these transactions are substantially the same, including interest rates and collateral, as comparable loans made to unrelated borrowers.

A summary of these loans is as follows:

	2017	2016
Balance, beginning of year	**$ 4,211,885**	$ 4,755,997
Additions	**1,320,690**	1,151,012
Reductions	**(1,055,334)**	(1,695,124)
Balance, end of year	**$ 4,477,241**	$ 4,211,885

The directors of the Company are local business people and, as such, have occasion to conduct routine business transactions with the Bank. Several properties owned by the Bank use heating oil purchased from a local gas and oil company controlled by a director of the Company. Total purchases from the company have amounted to $5,848 and $8,784 for the years ended December 31, 2017 and 2016, respectively.

4. Related Party Transactions (Continued)

The Bank partnered with a marketing firm in 2016, for which a director is CEO and founding partner, for rebranding and digital advertising services. Payments to the firm totaled $36,000 for 2017 and $23,000 for 2016.

After performing all necessary due diligence, the Bank evaluated several 401(k) providers and moved the Provident State Bank 401(k) Plan from the previous provider to a national insurance/investment broker in 2016. The local office is owned and operated by a director of the Company. The director and his staff are providing retirement services to employees of the Bank through one-on-one consultations and 401(k) on-line software products. There is no direct expense to the Bank related to the maintenance of the 401(k) plan.

A branch located in Cambridge, Maryland, is leased from a partnership owned by two directors of the Company. Lease payments and property taxes remitted by the Bank totaled $51,131 in 2017 and $42,525 in 2016.

A second branch located in Easton, Maryland, opened for business in 2017, is leased from a limited liability company owned exclusively by a director of the Company. Lease payments and property taxes remitted by the Bank for this location totaled $99,000 in 2017 and $52,056 in 2016. This branch required reconstruction and remodeling work. After reviewing multiple bids, the contractor selected to do the work is one for which the one of the Company's directors serves as President. The total cost of the reconstruction paid to the company in 2017 was $741,810.

The Bank also extends credit to its employees in the normal course of business. Total loans to employees, excluding officers, totaled $1,559,312 at December 31, 2017 and $1,646,507 at December 31, 2016. The majority of these loans were secured by real estate in the form of home equity lines of credit, mortgage loans and farm mortgages.

Deposit balances held by directors and officers totaled $2,436,514 at December 31, 2017 and $3,155,517 at December 31, 2016. Employee deposits totaled $524,637 and $968,156 at December 31, 2017 and December 31 2016, respectively.

5. Investment Securities

The amortized cost and estimated fair value of investment securities available for sale are summarized as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Fair Value
December 31, 2017				
Available for sale:				
State and municipal	**$ 13,971,908**	**$ 36,750**	**$ 220,645**	**$ 13,788,013**
Corporate debt	**1,229,083**	**-**	**729**	**1,228,354**
Small business administration	**6,576,236**	**8,736**	**87,144**	**6,497,828**
Mortgage-backed	**25,919,886**	**364**	**662,287**	**25,257,963**
	$ 47,697,113	**$ 45,850**	**$ 970,805**	**$ 46,772,158**
December 31, 2016				
Available for sale:				
State and municipal	$ 15,933,044	$ 83,318	$ 544,374	$ 15,471,988
Corporate debt	1,291,169	-	395,130	896,039
Small business administration	2,412,228	12,190	73,628	2,350,790
Mortgage-backed	23,109,883	5,300	582,511	22,532,672
	$ 42,746,324	$ 100,808	$ 1,595,643	$ 41,251,489

5. Investment Securities (Continued)

Investment securities with unrealized losses for continuous periods of less than 12 months and 12 months or longer follows:

	Number of Securities	Less than 12 months Fair Value	Less than 12 months Gross unrealized	12 months or longer Fair Value	12 months or longer Gross unrealized	Total Fair Value	Total Gross unrealized
As of December 31, 2017:							
State and municipal	21	$ 3,991,349	$ 39,999	$ 6,455,173	$ 180,646	$ 10,446,522	$ 220,645
Corporate debt	2	-	-	1,228,354	729	1,228,354	729
Small business administration	5	5,011,636	38,066	1,180,153	49,078	6,191,789	87,144
Mortgage-backed	27	9,063,383	157,094	16,188,335	505,193	25,251,718	662,287
	55	**$ 18,066,368**	**$ 235,159**	**$ 25,052,015**	**$ 735,646**	**$ 43,118,383**	**$ 970,805**
As of December 31, 2016:							
State and municipal	21	$ 10,978,003	$ 544,374	$ -	$ -	$ 10,978,003	$ 544,374
Corporate debt	2	-	-	896,040	395,130	896,040	395,130
Small business administration	2	569,720	1,383	1,375,990	72,245	1,945,710	73,628
Mortgage-backed	22	13,600,159	344,341	7,004,947	238,170	20,605,106	582,511
	47	**$ 25,147,882**	**$ 890,098**	**$ 9,276,977**	**$ 705,545**	**$ 34,424,859**	**$ 1,595,643**

At December 31, 2017, the Bank owned $25,257,963 in mortgage-backed securities. This portfolio is composed of only the most senior tranches of GNMA, FHLMC and FNMA collateralized mortgage obligations ($18,598,217) or GNMA, FHLMC and FNMA mortgage backed securities ($6,659,746), which are backed by the full faith and credit of the U.S. government. At December 31, 2017, the Bank also held $6,497,828 in small business administration ("SBA") securitized loan pools, which are also backed by the full faith and credit of the U.S. government. Unrealized losses in the mortgage-backed and SBA portfolios are caused by changes in interest rates and are not considered to be credit related, as the cash flows of these investments are back by the full faith and credit of the U.S. government. The SBA portfolio is less susceptible to changes in rates as most of these securities carry heavy prepayment penalties. The Bank has both the intent and the ability to hold these securities for an adequate period of time, which may be to maturity, to allow for any anticipated recovery in fair value. Management believes that it is more likely than not that the Bank will not have to sell these securities prior to recovery.

The Bank owned $13,788,013 in state and municipal securities, all of which were rated A or better, at December 31, 2017. Management continuously monitors the status of these securities.

The corporate debt represents two preferred term securities, which are pool trust preferred securities issued by banks, thrifts, insurance companies, and real estate trusts. The reported fair value of $1,228,354 at December 31, 2017 is determined using current bid prices. The Bank purchased these securities for income, or cash flow purposes. Cash flow projections provided by a third party analyst indicate that all cash flows will be received by the maturity dates of the securities.

By definition, issuers of preferred term securities may defer interest and principal payments to investors for a period of five years. During this time, the interest due to investors is added to the principal balance, increasing the total interest paid over the life of the security. This is known as making "Payments in Kind," or "piking". The Bank began receiving this type of payment on both securities in 2009. The securities were put into nonaccrual status in 2010 and all interest previously accrued was reversed. Both of these securities have resumed the payment of principal and interest on the tranches held by the Bank. The Bank is still holding the securities on nonaccrual status, however, so all payments received are being applied to the principal balance. Both of these corporate debt securities were sold subsequent to December 31, 2017 for approximately their face value.

5. Investment Securities (Continued)

The amortized cost and estimated fair value of investment securities available for sale, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

December 31, 2017	Amortized cost	Fair value
Maturing		
Within one year	$ 201,737	$ 201,676
Over one to five years	1,088,628	1,090,405
Over five through ten years	2,938,568	2,887,612
Over ten years	10,972,058	10,836,674
In monthly installments		
Small business administration	6,576,236	6,497,828
Mortgage-backed	25,919,886	25,257,963
	$ 47,697,113	$ 46,772,158

Securities are pledged to secure deposits of state agency accounts, local, county and municipality accounts, debtor-in-possession accounts, as well as to provide collateral for securities sold under agreements to repurchase. Total pledged securities follow:

	2017	2016
Amortized cost	**$ 14,792,048**	$ 17,322,582
Fair value	**14,404,482**	16,813,363

In 2017, realized gains on sales of securities available for sale were $53,743. Total proceeds from sales in 2017 were $6,608,934. In 2016, realized gains on sales of securities available for sale were $146,525. Total proceeds from sales in 2016 were $18,142,636. During 2017, an other-than-temporary-loss was recorded on an equity security in the amount of $27,302. See Note 8 for further information.

6. Loans and Allowance for Loan Losses

The Bank lends to customers primarily located in the Delmarva region. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region. The Bank has divided its loan portfolio into five segments: construction and land development, residential mortgage, commercial and agricultural mortgage, commercial and agricultural, and consumer. Most loans are originated in the Bank's primary lending area of Caroline, Dorchester, Talbot and Wicomico counties, so exposure to credit risk is significantly affected by the economic condition of this market area.

The Bank has a portfolio of residential mortgage loans comprised of conventional single family loans (83%) and revolving home equity lines of credit (17%). Conventional single family loans generally carry adjustable rates of interest that reprice every three to seven years and amortize over periods of fifteen to thirty years. The Bank does not sell any of these loans in the secondary market. Home equity lines of credit represent second and third liens on primary and secondary residences. These loans are generally extended for terms of thirty years, with a ten-year draw period and a twenty-year repayment period. Interest payments are indexed to the prime rate of interest.

Commercial real estate lending includes lending for commercial properties secured by commercial or retail property, raw land and farm land. Most of these loans are for periods of 36 to 60 months and are originated in amounts of less than $500,000. Most of the loans carry variable rates of interest, which protect

6. Loans and Allowance for Loan Losses (Continued)

the Bank in the event that interest rates begin to rise. The portfolio is also well secured by local real estate property, providing the Bank sufficient collateral should the borrower experience financial difficulty.

Construction and land development lending represents extensions of credit to hold residential land and construct one-to-four family residences. Loan proceeds on construction loans are advanced according to a predetermined schedule according to stage of completion. The terms of residential mortgage construction loans are generally for periods of one year or less, while land loans are originated for longer periods.

The Bank offers commercial loans and lines of credit to local businesses and farms within its lending area. Interest rates on commercial lines of credit are generally variable with embedded rate floors and no interest rate ceilings. The commercial loans are generally fixed rate loans secured largely by business assets, accounts receivables or inventory. Because payments on these loans and lines are often dependent on the successful operation or management of the underlying business, repayment of these loans and lines may be more sensitive to adverse conditions in the local economy. The Bank seeks to minimize these risks in a variety of ways, including close monitoring of the borrower's financial position.

The Bank offers consumer loans in the local community, including automobile loans, deposit account loans, personal lines of credit, and other consumer loans. These loans are generally originated for terms of up to five years at fixed interest rates. Consumer loans generally carry higher interest rates than mortgage loans because of their higher risk. Repayment is dependent on the borrower's continuing financial stability, and thus is more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

Loans are stated at the amount of unpaid principal reduced by deferred origination fees and the allowance for loan losses. Deferred origination fees consist of commitment and origination fees, net of origination costs. The loan portfolio of the Bank is summarized as follows:

	2017	2016
Real estate loans:		
Residential	**$120,962,831**	$112,630,438
Commercial and agricultural	**140,658,468**	122,168,578
Construction and land development	**36,667,683**	29,338,436
Commercial and agricultural loans	**31,036,186**	26,870,891
Consumer loans	**4,977,166**	4,408,418
	334,302,334	295,416,761
Net deferred origination costs	**760,324**	784,339
Allowance for loan losses	**(3,060,394)**	(2,727,193)
	$332,002,264	$293,473,907

Qualifying one-to-four family residential real estate loans and home equity lines of credit have been pledged as collateral for advances under a line of credit from the FHLB.

6. Loans and Allowance for Loan Losses (Continued)

The repricing distribution of the loan portfolio follows:

	2017	2016
Nonaccrual loans	**$ 3,247,181**	$ 4,056,997
Immediately	**42,017,170**	22,282,880
Within one year	**35,147,748**	20,022,624
Over one to five years	**152,537,824**	157,491,454
Over five years	**101,352,411**	91,562,806
	$334,302,334	$295,416,761

Concentrations of credit exist when a portfolio is heavily concentrated in one principal industry, loan category, or close geographical region. The Bank has a large percentage of real estate loans, but these vary in nature from farm loans to one-to-four family loans to commercial mortgages. Therefore, management does not believe that there is a concentration of credit in the loan portfolio that warrants additional attention.

The Bank has the following outstanding commitments, unused lines of credit, and letters of credit as of December 31:

	2017	2016
Commitments to extend credit	**$41,704,931**	$29,049,932
Unused home equity lines of credit	**17,932,437**	16,477,734
Unfunded loan commitments	**7,649,168**	6,593,650
Standby letters of credit	**3,762,935**	2,055,514
Other	**-**	249,556

Commitments to extend credit and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have interest fixed at current market rates, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because many of the commitments expire without being fully drawn.

Letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party.

Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank's exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of the commitment. Management is not aware of any material loss the Bank may incur by the funding of these commitments.

The Bank continually monitors the credit quality of its loan portfolio. The allowance for loan losses represents an estimate of the losses that are inherent in the loan portfolio. Management provides for credit losses through the establishment of the allowance by provisions charged against earnings. The Bank's objective is to ensure that the allowance is adequate to cover probable credit losses inherent in the loan portfolio at all times.

Loans are generally placed in nonaccrual status when they are past-due ninety days as to either principal or interest or when, in the opinion of management, the collection of all interest and/or principal is in doubt. A loan remains in nonaccrual status until the loan is current as to payment of both principal and interest for a consecutive six month period and the borrower demonstrates the ability to pay and remain current.

6. Loans and Allowance for Loan Losses (Continued)

Management may grant a waiver from nonaccrual status for a ninety-day past-due loan that is both well secured and in the process of collection.

A loan is considered to be impaired when, based on current information and events, management considers it unlikely that collection of all principal and interest will be received according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of delay in payment if the Bank expects to collect all amounts due, including past-due interest. The Bank considers a period of delay in payment to include delinquency up to ninety days.

In accordance with generally accepted accounting principles, the Bank measures impaired loans at (i) the present value of expected future cash flows discounted at the loan's effective interest rate; (ii) the observable market price; or (iii) the fair value of the collateral, less expenses of sale, if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, an impairment is recognized through a valuation allowance and a corresponding provision for loan losses.

In determining the appropriateness of the allowance, management assigns a grade to each of its loans. The internal grades are pass, special mention, substandard, and doubtful. Loans graded pass are high quality loans where the borrower exhibits a strong balance sheet position and good earnings and cash flow history. Loans graded pass are collectively evaluated for impairment. On a quarterly basis, management reviews all remaining loans to determine the appropriate credit quality grade for each loan. Loans graded special mention show potential weaknesses that deserve management's close attention. If these potential weaknesses are not corrected, they may result in deterioration of the loan in the Bank's credit position at some future date. Substandard loans are inadequately protected by the current credit position of the borrower or by the adequacy of collateral pledged, if any. Substandard loans have a well-defined weakness that could jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the weaknesses are not corrected. Substandard loans are evaluated for impairment if they are over ninety days past-due, in nonaccrual status or troubled debt restructurings. Loans graded as doubtful have all the weaknesses inherent in substandard loans with added weaknesses that make collection or recovery in full highly improbable. Doubtful loans are individually evaluated for impairment.

The following table shows credit quality indicators as of December 31, 2017.

	Real Estate					
	Residential	Commercial & Agricultural	Construction & Land Devel	Commercial & Agricultural	Consumer Loans	Total
Grade:						
Pass	**$117,050,541**	**$130,253,130**	**$36,124,467**	**$ 30,368,778**	**$ 4,829,784**	**$318,626,700**
Special mention	**1,877,660**	**4,129,579**	**23,876**	**411,566**	**42,439**	**6,485,120**
Substandard	**2,034,630**	**6,115,801**	**367,139**	**255,842**	**104,943**	**8,878,355**
Doubtful	-	**159,958**	**152,201**	-	-	**312,159**
	$120,962,831	**$140,658,468**	**$36,667,683**	**$ 31,036,186**	**$ 4,977,166**	**$334,302,334**

6. Loans and Allowance for Loan Losses (Continued)

The following table shows credit quality indicators as of December 31, 2016.

	Real Estate					
	Residential	Commercial & Agricultural	Construction & Land Devel	Commercial & Agricultural	Consumer Loans	Total
Grade:						
Pass	$109,545,224	$116,839,309	$28,201,227	$ 25,170,425	$ 4,344,278	$284,100,463
Special mention	530,428	2,841,109	-	1,670,466	7,370	5,049,373
Substandard	2,416,737	2,488,160	673,751	30,000	56,770	5,665,418
Doubtful	138,049	-	463,458	-	-	601,507
	$112,630,438	$122,168,578	$29,338,436	$ 26,870,891	$ 4,408,418	$295,416,761

The following table provides information on the activity in the allowance for loan losses by the respective loan portfolio segment for the year ended December 31, 2017.

	Real Estate						
	Residential	Commercial & Agricultural	Construction & Land Devel	Commercial & Agricultural	Consumer Loans	Unallocated	Total
Balance, beginning of year	$ 1,007,073	$ 856,043	$ 657,930	$ 82,240	$ 115,385	$ 8,522	$ 2,727,193
Provision for loan losses	196,576	477,653	142,111	(57,539)	109,440	46,759	915,000
Recoveries of loans previously charged-off	7,807	-	-	14,220	24,060	-	46,087
Loans charged -off	(276,169)	-	(311,257)	-	(40,460)	-	(627,886)
Balance, end of year	$ 935,287	$ 1,333,696	$ 488,784	$ 38,921	$ 208,425	$ 55,281	$ 3,060,394
Total loans	$120,962,831	$140,658,468	$ 36,667,683	$ 31,036,186	$ 4,977,166	$ -	$334,302,334
Allowance for loan losses to total loans	0.77%	0.95%	1.33%	0.13%	4.19%	0.00%	0.92%
Balance of loans individually evaluated for impairment	$ 1,596,085	$ 1,949,423	$ 800,409	$ -	$ 27,120	$ -	$ 4,373,037
Allowance for loans individually evaluated for impairment	$ 31,702	$ 20,000	$ 152,201	$ -	$ 27,120	$ -	$ 231,023
Allowance for impaired loans to impaired loans	1.99%	1.03%	19.02%	0.00%	100.00%	0.00%	5.28%
Balance of loans collectively evaluated for impairment	$119,366,746	$138,709,045	$ 35,867,274	$ 31,036,186	$ 4,950,046	$ -	$329,929,297
Allowance for loans collectively evaluated for impairment	$ 903,585	$ 1,313,696	$ 336,583	$ 38,921	$ 181,305	$ 55,281	$ 2,829,371
Collective allowance to collective loans ratio	0.76%	0.95%	0.94%	0.13%	3.66%	0.00%	0.86%

6. Loans and Allowance for Loan Losses (Continued)

The following table provides information on the activity in the allowance for loan losses by the respective loan portfolio segment for the year ended December 31, 2016.

	Real Estate						
	Residential	Commercial & Agricultural	Construction & Land Devel	Commercial & Agricultural	Consumer Loans	Unallocated	Total
Balance, beginning of year	$ 792,571	$ 975,527	$ 139,518	$ 82,035	$ 11,870	$ 184,158	$ 2,185,679
Provision for loan losses	597,370	(83,484)	843,182	205	253,363	(175,636)	1,435,000
Recoveries of loans previously charged-off	57,623	14,000	-	-	12,670	-	84,293
Loans charged -off	(440,491)	(50,000)	(324,770)	-	(162,518)	-	(977,779)
Balance, end of year	$ 1,007,073	$ 856,043	$ 657,930	$ 82,240	$ 115,385	$ 8,522	$ 2,727,193
Total loans	$112,630,438	$122,168,578	$29,338,436	$ 26,870,891	$ 4,408,418	$ -	$ 295,416,761
Allowance for loan losses to total loans	0.89%	0.70%	2.24%	0.31%	2.62%	0.00%	0.92%
Balance of loans individually evaluated for impairment	$ 2,133,988	$ 1,899,543	$ 1,113,458	$ -	$ 41,259	$ -	$ 5,188,248
Allowance for loans individually evaluated for impairment	$ 225,382	$ -	$ 463,458	$ -	$ 29,787	$ -	$ 718,627
Allowance for impaired loans to impaired loans	10.56%	0.00%	41.62%	0.00%	72.20%	0.00%	13.85%
Balance of loans collectively evaluated for impairment	$110,496,450	$120,269,035	$28,224,978	$ 26,870,891	$ 4,367,159	$ -	$ 290,228,513
Allowance for loans collectively evaluated for impairment	$ 781,691	$ 856,043	$ 194,472	$ 82,240	$ 85,598	$ 8,522	$ 2,008,566
Collective allowance to collective loans ratio	0.71%	0.71%	0.69%	0.31%	1.96%	0.00%	0.69%

6. Loans and Allowance for Loan Losses (Continued)

Aging of loans receivable, segregated by loan portfolio, is presented below as of December 31, 2017.

	Real Estate					
	Residential	Commercial & Agricultural	Construction & Land Devel	Commercial & Agricultural	Consumer Loans	Total
30-59 days past due	$ 153,793	$ -	$ 20,504	$ -	$ 3,658	$ 177,955
60-90 days past due	31,455	-	-	-	2,925	34,380
>90 days past due	19,740	-	-	-	-	19,740
Total past due	204,988	-	20,504	-	6,583	232,075
Nonaccrual loans	607,802	1,811,850	800,409	-	27,120	3,247,181
Performing troubled debt restructurings	1,104,632	-	-	-	-	1,104,632
Current loans	119,045,409	138,846,618	35,846,770	31,036,186	4,943,463	329,718,446
Total loans	$ 120,962,831	$ 140,658,468	$ 36,667,683	$ 31,036,186	$ 4,977,166	$ 334,302,334
Loans > 90 days and accruing	$ 19,740	$ -	$ -	$ -	$ -	$ 19,740
Interest not accrued	$ 34,895	$ 95,670	$ 56,837	$ -	$ 1,493	$ 188,895
Interest recognized on a cash basis	$ -	$ -	$ -	$ -	$ -	$ -

Loan aging as of December 31, 2016 is as follows:

	Real Estate					
	Residential	Commercial & Agricultural	Construction & Land Devel	Commercial & Agricultural	Consumer Loans	Total
30-59 days past due	$ 499,339	$ -	$ 23,751	$ -	$ 3,910	$ 527,000
60-90 days past due	46,551	-	-	-	1,576	48,127
>90 days past due	-	-	-	-	-	-
Total past due	545,890	-	23,751	-	5,486	575,127
Nonaccrual loans	1,002,736	1,899,543	1,113,458	-	41,259	4,056,996
Performing troubled debt restructurings	1,855,918	243,669	-	-	-	2,099,587
Current loans	109,225,894	120,025,366	28,201,227	26,870,891	4,361,673	288,685,051
Total loans	$ 112,630,438	$ 122,168,578	$ 29,338,436	$ 26,870,891	$ 4,408,418	$ 295,416,761
Loans > 90 days and accruing	$ -	$ -	$ -	$ -	$ -	$ -
Interest not accrued	$ 70,550	$ 52,101	$ 16,183	$ -	$ 397	$ 139,231
Interest recognized on a cash basis	$ -	$ -	$ -	$ -	$ -	$ -

6. Loans and Allowance for Loan Losses (Continued)

The following tables present the Bank's recorded investment with respect to impaired loans.

	Real Estate					
	Residential	Commercial & Agricultural	Construction & Land Devel	Commercial & Agricultural	Consumer Loans	Total
December 31, 2017						
Recorded investment in impaired loans	**$ 1,596,085**	**$ 1,949,423**	**$ 800,409**	**$ -**	**$ 27,120**	**$ 4,373,037**
Unpaid principal balance of impaired loans	**$ 1,645,760**	**$ 1,986,239**	**$ 1,412,845**	**$ -**	**$ 28,334**	**$ 5,073,178**
Average recorded investment in impaired loans	**$ 1,689,240**	**$ 1,934,403**	**$ 837,207**	**$ -**	**$ 35,295**	**$ 4,496,145**
Interest income recognized on impaired loans during the period	**$ 41,610**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 41,610**
Interest income reported on a cash basis on impaired loans	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
December 31, 2016						
Recorded investment in impaired loans	$ 2,133,988	$ 1,899,543	$ 1,113,458	$ -	$ 41,259	$ 5,188,248
Unpaid principal balance of impaired loans	$ 2,334,892	$ 2,015,602	$ 1,411,905	$ -	$ 42,797	$ 5,805,196
Average recorded investment in impaired loans	$ 3,214,364	$ 2,232,662	$ 1,133,856	$ 100,000	$ 45,298	$ 6,726,180
Interest income recognized on impaired loans during the period	$ 79,668	$ 46,639	$ 19,976	$ -	$ -	$ 146,283
Interest income reported on a cash basis on impaired loans	$ -	$ -	$ -	$ -	$ -	$ -

6. Loans and Allowance for Loan Losses (Continued)

Information related to impaired loans as of December 31, 2017 is presented as follows:

	Real Estate					
	Residential	Commercial & Agricultural	Construction & Land Devel	Commercial & Agricultural	Consumer Loans	Total
Impaired loans *with* a specific allowance:						
Accruing	$ -	$ -	$ -	$ -	$ -	$ -
Non-accruing	-	159,958	152,201	-	27,120	339,279
Restructured accruing	-	-	-	-	-	-
Restructured non-accruing	327,907	-	-	-	-	327,907
	327,907	159,958	152,201	-	27,120	667,186
Impaired loans *without* a specific allowance	1,268,178	1,789,465	648,208	-	-	3,705,851
Total impaired loans	$ 1,596,085	$ 1,949,423	$ 800,409	$ -	$ 27,120	$ 4,373,037
Allowance	$ 31,702	$ 20,000	$ 152,201	$ -	$ 27,120	$ 231,023

Information related to impaired loans as of December 31, 2016 is presented as follows:

	Real Estate					
	Residential	Commercial & Agricultural	Construction & Land Devel	Commercial & Agricultural	Consumer Loans	Total
Impaired loans *with* a specific allowance:						
Accruing	$ -	$ -	$ -	$ -	$ -	$ -
Non-accruing	277,935	-	463,458	-	29,787	771,180
Restructured accruing	377,706	-	-	-	-	377,706
Restructured non-accruing	69,431	-	-	-	-	69,431
	725,072	-	463,458	-	29,787	1,218,317
Impaired loans *without* a specific allowance	1,408,916	1,899,543	650,000	-	11,472	3,969,931
Total impaired loans	$ 2,133,988	$ 1,899,543	$ 1,113,458	$ -	$ 41,259	$ 5,188,248
Allowance	$ 225,382	$ -	$ 463,458	$ -	$ 29,787	$ 718,627

6. Loans and Allowance for Loan Losses (Continued)

The following table presents the breakdown of troubled debt restructurings ("TDR's") by portfolio segment as of December 31:

	2017	2016
Real estate loans:		
Residential	**$ 1,578,366**	$ 1,995,473
Commercial and agricultural	**1,651,892**	1,928,138
Construction and land development	**647,021**	650,000
	$ 3,877,279	$ 4,573,611
Nonaccrual TDR's included above	**$ 2,772,647**	$ 516,890

No loans were modified as trouble debt restructurings in 2016. Information on loans modified as troubled debt restructurings for the year ended December 31, 2017 is as follows:

	2017		
	Number of Contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded modification
Real estate loans:			
Residential	9	$ 1,183,197	$ 1,016,864
	9	$ 1,183,197	$ 1,016,864

The Bank modified nine residential real estate loans to two borrowers in 2017. Four loans to one borrower, totaling $662,267, were restructured in 2017 and the balance charged down to the amount supported by the collateral and underlying rental income. The new note, which included an interest rate concession, is performing in accordance of the terms of the note as of December 31, 2017.

Under similar circumstances, five loans to one borrower were modified in December 2017, allowing the charge-off of the portion of the balance not supported by collateral and rental income. The two new notes have a combined lower interest rate and were placed on nonaccrual status.

Eight loans that were modified prior to 2016 remain classified as TDR's as of December 31, 2017. Of these eight loans, four loans, totaling $2,366,017, are on nonaccrual status. The remaining four loans, totaling $1,084,101, are paying in accordance with the terms of their notes.

There are no outstanding commitments to lend additional funds to any loans classified as TDR as of December 31, 2017. When applicable, modifications are considered part of the qualitative analysis in determining the adequacy of the allowance for loan losses.

7. Foreclosed Real Estate

There was one property classified as foreclosed real estate as of December 31, 2017, which had been written down to $0. In 2017, the Bank took three loans into foreclosure, totaling $332,146 after charge-offs to the allowance for loan losses of $98,913. All real estate properties are carried at the lower of the cost basis or current appraised value, less selling costs, as determined through routine appraisal. During 2017, the Bank recognized valuation allowances of $148,644 to reflect the declining market values of the respective properties. Twelve properties were sold in 2017 at a gain of $226,799. At December 31, 2017, the Bank held one loan in foreclosure, which was being actively marketed for sale. The Bank held one additional residential mortgage, carried at $75,800, for which formal foreclosure possession had been initiated.

Total foreclosed real estate was $945,860 at December 31, 2016. In 2016, the Bank took five loan relationships into foreclosure, totaling $235,756 after charge-offs to the allowance for loan losses of $125,420. All real estate properties were carried at the lower of the cost basis or current appraised value, less selling costs, as determined through routine appraisal. During 2016, the Bank recognized valuation allowances of $519,233 to reflect the declining market values of the respective properties. Nine properties were sold in 2016 at a gain of $16,343. At December 31, 2016, the Bank held nine loan relationships in foreclosure. As of December 31, 2016, the Bank held $59,506 in consumer mortgages secured by residential real estate for which formal foreclosure possession had been initiated.

Rental income, net gains and losses on sales of foreclosed real estate, foreclosed real estate expense and subsequent write-downs in fair value are reported under other operating expense.

8. Restricted Stock Investments

Restricted stock investments are as follows:

	2017	2016
Federal Home Loan Bank stock, at cost	**$ 2,007,300**	$ 1,377,400
Maryland Financial Bank stock, at cost	**73,198**	100,500
Atlantic Community Bankers Bank, at cost	**62,500**	62,500
	$ 2,142,998	$ 1,540,400

Because no ready market exists for the FHLB, Maryland Financial Bank ("MFB") and Atlantic Community Bankers Bank stock above, and they have no quoted market value, the Bank's investments in these stocks are typically carried at cost. The FHLB requires member banks to hold stock as a requirement of membership and as collateral for outstanding advances. At December 31, 2017, the amount of outstanding FHLB stock that was held as collateral for advances totaled $1,674,100. At December 31, 2016, the amount of outstanding FHLB stock that was held as collateral for advances totaled $1,092,700.

As of December 31, 2017, MFB Acquisition Corporation had announced its intention to acquire Maryland Financial Bank. The estimated purchase price for MFB stock was below the carrying value on the Bank's financial statements. Therefore, an "other-than-temporary" loss was recognized on the MFB stock of $27,302 as of December 31, 2017.

9. Premises and Equipment

A summary of premises and equipment and the related depreciation is as follows:

	Estimated useful life	2017	2016
Land		$ 1,483,496	$ 2,062,568
Premises	5 - 40 years	5,871,877	5,787,029
Leasehold improvements	5 - 19 years	1,213,968	204,679
Furniture and equipment	3 - 20 years	3,367,324	2,940,786
Vehicles	5 years	53,105	53,105
Property held for sale		200,000	278,823
Land and improvements in process		600,011	727,284
		12,789,781	12,054,274
Accumulated depreciation		4,953,811	4,643,260
Net premises and equipment		$ 7,835,970	$ 7,411,014
Depreciation expense		$ 452,679	$ 417,181

Property held for sale represents the cost of a parcel of land, plus improvements, located in Cambridge, Maryland. The Bank recorded a loss of $66,723 in 2017 (included in loss on disposition of equipment) to bring the carrying value of the property to the marketed sales price.

Land and improvements in process includes a lot in Salisbury, Maryland, that is being developed for a future branch location, expected to open in 2019. The total cost to construct the branch is not yet known.

Computer software and related amortization, included in other assets, are as follows:

	Estimated useful life	2017	2016
Cost	3 - 10 years	$ 270,007	$ 247,974
Accumulated amortization		227,834	218,331
		$ 42,173	$ 29,643
Amortization expense		$ 15,911	$ 13,462

10. Lease Commitments

Lease obligations will require minimum payments as follows:

Period	Rentals
2018	$ 273,572
2019	278,432
2020	284,499
2021	197,695
2022	115,060
After 2022	1,621,790
Total	$2,771,048

Rent expense, net of rental income, was $305,227 for 2017 and $187,134 for 2016.

11. Deposits

Deposits outstanding at December 31 consist of the following:

	2017	2016
Noninterest-bearing deposits	**$ 92,520,400**	$ 85,289,771
Interest-bearing deposits:		
Transaction accounts	**30,314,396**	21,947,405
Savings accounts	**57,323,413**	56,914,134
Money market accounts	**23,887,435**	42,314,007
Time deposits	**117,931,324**	98,319,723
Total interest-bearing deposits	**229,456,568**	219,495,269
	$ 321,976,968	$ 304,785,040

Time deposits mature as follows:

	Certificates of deposit $250,000 or more	Retirement deposits $250,000 or more	Smaller time deposits	Total
One year or less	$ 2,089,504	$ 280,692	$ 21,786,925	$ 24,157,121
Over one through three years	4,618,656	853,778	51,949,983	57,422,417
Over three through five years	4,574,800	511,302	31,265,684	36,351,786
	$ 11,282,960	$ 1,645,772	$ 105,002,592	$ 117,931,324

11. Deposits (Continued)

Following is the annual maturity schedule for time deposits:

Year	Amount
2018	$ 24,157,121
2019	43,029,114
2020	14,393,303
2021	19,739,871
2022 and after	16,611,915
	$ 117,931,324

Overdraft balances reclassified as loan balances totaled $63,669 at December 31, 2017 and $44,954 at December 31, 2016.

12. Borrowings

Securities sold under agreements to repurchase represent overnight borrowings from customers. The securities that are held as collateral for these agreements are federal agency securities owned by the Bank and are maintained in the custody of a nonaffiliated bank. Additional information is as follows:

	2017	2016
Balance, December 31	**$ 3,708,694**	$ 4,012,542
Maximum amount outstanding at any month end	**4,507,854**	5,526,215
Average amount outstanding	**3,292,625**	4,384,764
Average rate paid during the year	**0.25%**	0.25%
Investment securities underlying the agreements at year end:		
Amortized cost	**$ 4,842,547**	$ 6,134,202
Estimated fair value	**4,726,334**	6,002,982

At December 31, 2017, $3,000,000 was due to a correspondent bank under an unsecured line of credit. The advance was outstanding for 12 days at an interest rate of 2.00%.

12. Borrowings (Continued)

The Company had a term loan with First Tennessee Bank totaling $4,750,000 at December 31, 2017. The interest rate on the loan is fixed at 4.30%. The provisions of the loan call for quarterly payments of principal and interest on a ten-year amortization schedule, with a balloon payment of $2,625,000 due in June 2022. The outstanding balance on the loan is secured by a pledge of all issued stock of Provident State Bank, Inc. Principal payments on the note are as follows:

Period	Payments
2018	$ 500,000
2019	500,000
2020	500,000
2021	500,000
2022	2,750,000
	$ 4,750,000

The Company had a term loan with Maryland Financial Bank totaling $869,210 at December 31, 2016. The interest rate on the loan was equal to the Wall Street Journal prime rate of interest plus 25 basis points. The provisions of the loan called for monthly payments of principal and interest sufficient to amortize the principal through the ten year term of the loan. The outstanding balance on the loan was secured by a pledge of all issued stock of Provident State Bank, Inc. The balance due on this note was paid in full with the proceeds of the note from First Tennessee Bank.

Borrowed funds include notes payable to the FHLB as follows:

Date of Note	Maturity date	Rate	**2017**	2016
December 18, 2015	December 18, 2030	2.8700%	**$ 890,155**	$ 945,864
March 16, 2016	March 16, 2026	2.0260%	**4,125,000**	4,625,000
June 21, 2016	June 21, 2022	2.2600%	**5,000,000**	5,000,000
June 21, 2016	June 21, 2021	2.2000%	**5,000,000**	5,000,000
June 21, 2016	June 21, 2021	1.9650%	**5,000,000**	5,000,000
October 5, 2016	October 5, 2017	0.9110%	-	5,000,000
June 15, 2017	June 17, 2024	2.0000%	**445,714**	-
June 15, 2017	June 17, 2024	2.0000%	**464,286**	-
June 15, 2017	June 17, 2024	2.0000%	**464,286**	-
June 15, 2017	June 17, 2019	1.5190%	**15,000,000**	-
October 5, 2017	April 5, 2018	1.3500%	**3,000,000**	-
			$ 39,389,441	$ 25,570,864

The advances maturing in 2024, 2026, and 2030 are fixed rate principal reducing credits, calling for monthly payments of principal and interest. The remaining advances outstanding at December 31, 2017 carry fixed rates of interest and require quarterly interest-only payments.

Advances from the FHLB are secured by FHLB stock, one-to-four family mortgages and commercial mortgages. Loans pledged as collateral totaled $127,652,503 at December 31, 2017 and $111,042,173 at December 31, 2016.

13. Income Taxes

The Tax Cut and Jobs Act (the "Tax Act"), enacted in December 2017, reduced the federal corporate marginal income tax rate from 35% to 21%, effective January 1, 2018. As a result of the Tax Act, the Company recorded a $412,000 reduction in the value of its net deferred tax asset, which was recorded as additional income tax expense in the fourth quarter of 2017 and which increased significantly the effective tax rate for the year ended December 31, 2017. The Company reported net deferred tax assets of $962,904 and $1,547,838 at December 31, 2017 and 2016, respectively, which relate primarily to the allowance for loan losses. Adjustments may be made in future periods to these estimates as the Company continues to obtain, prepare and analyze information about facts and circumstances that existed as of the enactment date of the 2017 Tax Act that, if known, would have affected the income tax effects reported as provisional amounts until the filing of the 2017 tax returns, which is expected in the third quarter of 2018. Management believes it is more likely than not that all of the deferred tax assets will be realized.

The Company has adopted Statement of Financial Accounting Standards Board Accounting Standards Update "Income Statement – Reporting Comprehensive Income" (ASU 2018-02). This Update provides financial statement preparers with an option to reclassify stranded tax effects with accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recorded. This Update is effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Organizations should apply the proposed guidance either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company has elected to reclassify the stranded income tax effects from the Tax Act in its financial statements for the period ending December 31, 2017. The amount of this reclassification in 2017 was $110,301.

Federal and state income tax expense consists of the following for the years ended December 31:

	2017	2016
Current		
Federal	**$ 1,132,838**	$ 353,854
State	**287,120**	118,723
	1,419,958	472,577
Deferred		
Federal	**288,183**	93,342
State	**(38,361)**	15,803
	249,822	109,145
	$ 1,669,780	$ 581,722

13. Income Taxes (Continued)

Temporary differences between the amounts reported in the financial statements and the tax bases of assets and liabilities result in deferred taxes. The types of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows for the years ended December 31:

	2017	2016
Deferred tax assets:		
Allowance for loan losses	**$ 566,324**	$ 740,616
Nonaccrual loan interest	**51,979**	54,920
Other than temporary impairment of investment securities	**96,311**	138,058
Valuation allowance on other real estate owned	**23,555**	96,432
Other, net	**82,694**	96,209
	820,863	1,126,235
Deferred tax liabilities:		
Depreciation	**112,484**	168,034
	112,484	168,034
Net deferred tax assets attributable to operations	**708,379**	958,201
Deferred tax asset on losses on investments charged to other comprehensive income	**254,525**	589,637
Net deferred tax asset	**$ 962,904**	$ 1,547,838

A reconciliation of the provision for taxes on income from the statutory federal income tax rate to the effective income tax rates follows:

	2017	2016
Tax at statutory federal income tax rate	**34.00%**	34.00%
Tax effect of		
State income taxes, net of federal benefit	**5.19**	4.92
Tax exempt income	**(5.21)**	(9.10)
Nondeductible expenses	**0.68**	0.30
Deferred tax adjustment related to reduction in U.S. federal statutory income tax rate	**11.17**	-
Other	**(0.52)**	(0.65)
Income tax expense	**45.31%**	29.47%

Under normal circumstances, the Internal Revenue Service and the Comptroller of Maryland may examine the Company's tax returns for years after 2013.

14. Other Operating Expense

Other operating expense consists of:

	2017	2016
Advertising	**$ 151,376**	$ 103,269
Bank losses	**150,644**	79,176
Supplies and stationery	**149,561**	131,066
Deposit account expenses	**139,785**	106,508
Postage	**118,954**	111,692
Telephone	**102,716**	90,142
Training and development	**83,641**	41,216
Insurance	**83,489**	80,745
Travel	**77,966**	68,010
Compliance	**50,586**	49,482
Correspondent bank fees	**50,197**	53,305
Armored freight	**46,980**	34,208
Memberships and dues	**32,305**	30,489
Miscellaneous	**108,558**	93,587
	$ 1,346,758	$ 1,072,895

15. Employee Benefits

Retirement benefits are provided to employees through the Provident State Bank 401(k) Plan (the "Plan"). Employees who meet certain service requirements are eligible to defer a portion of their salaries through an arrangement that qualifies under Section 401(k) of the Internal Revenue Code, as amended, which will be matched up to 5% by the Bank. Matching contributions by the Bank under this Plan totaled $217,807 for 2017 and $158,787 for 2016.

The Bank also offers a deferred compensation plan that qualifies under Section 409(a) of the Internal Revenue Code. Under the deferred compensation plan, certain employees may defer a predefined portion of their salaries, which shall be deemed invested, at the direction of the participant, in a savings account at a predetermined rate of interest or in PSB Holding Corp. stock. The funds deferred and the related interest are measured by the Bank and remain assets of the Bank. A corresponding liability represents the amount due to the employee at termination or retirement. Interest accrued under the plan totaled $642 in 2017 and $1,006 in 2016.

16. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations). The factors used to measure capital adequacy include Total

16. Regulatory Matters (Continued)

capital, Tier 1 capital, Common Equity Tier 1 capital and Tier 2 capital. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off-balance-sheet items.

Management believes, as of December 31, 2017, that the Bank meets all capital adequacy requirements to which it is subject, and there are no restrictions on the payment of dividends. As of December 31, 2017, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes would change the Bank's classification.

Regulatory capital amounts and ratios for the Bank are as follows:

	Actual		Minimum Capital Adequacy		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Total capital (to risk-weighted assets)	**$ 41,382**	**12.7%**	**$ 26,103**	**8.0%**	**$ 32,629**	**10.0%**
Tier 1 capital (to risk-weighted assets)	**38,318**	**11.8%**	**19,577**	**6.0%**	**26,103**	**8.0%**
Common equity tier 1 capital (to risk-weighted assets)	**38,318**	**11.8%**	**14,683**	**4.5%**	**21,209**	**6.5%**
Tier 1 leverage (to average assets)	**38,318**	**9.3%**	**16,469**	**4.0%**	**20,587**	**5.0%**
December 31, 2016						
Total capital (to risk-weighted assets)	$ 35,121	12.1%	$ 23,245	8.0%	$ 29,056	10.0%
Tier 1 capital (to risk-weighted assets)	32,394	11.1%	17,433	6.0%	23,245	8.0%
Common equity tier 1 capital (to risk-weighted assets)	32,394	11.1%	13,075	4.5%	18,886	6.5%
Tier 1 leverage (to average assets)	32,394	8.7%	14,891	4.0%	18,613	5.0%

17. Fair Value of Financial Instruments

The Bank has adopted Statement of Financial Accounting Standards Board Accounting Standards Codification "Fair Value Measurements and Disclosures" ("ASC 820"). ASC 820 defines fair value as the amount that would be received from the sale of an asset or the transfer of a liability between market participants in an orderly transaction. It establishes a framework for measuring fair value and expands disclosures about fair value. ASC 820 also establishes a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

17. Fair Value of Financial Instruments (Continued)

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 – Inputs to the valuation methodology are unobservable. Significant management assumptions and discretion are required for the fair value measurement.

Assets measured at fair value on a recurring basis

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to valuation methodology.

Investment securities available for sale: If quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. In the table below, these securities, classified as Level 2 of the hierarchy, include mortgage-backed and small business administration securities, state and municipal securities and trust preferred securities.

Interest rate lock commitments: Interest rate lock commitments are recorded at fair value determined as the amount that would be required to settle each of these derivatives at the balance sheet date. These valuations fall into Level 3 of the fair value hierarchy. The rate lock commitments are deemed as Level 3 inputs because the Bank applies an estimated pull-through rate, which is deemed an unobservable measure. The pull-through rate utilized is based upon historic pull-through rates and is estimated at 90 percent.

The Bank measures its securities available for sale and interest rate lock commitments at fair value on a recurring basis. The following table categorizes those securities by valuation level at December 31, 2017:

	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable (Level 3)	Changes in Fair Value Included in Period Earnings
Investment securities available for sale:					
State and municipal	**$ 13,788,013**	**$ -**	**$ 13,788,013**	**$ -**	**$ -**
Corporate debt	**1,228,354**	**-**	**1,228,354**	**-**	**-**
Small business administration loans	**6,497,828**	**-**	**6,497,828**	**-**	**-**
Mortgage-backed	**25,257,963**	**-**	**25,257,963**	**-**	**-**
Interest rate lock commitments	**142,995**	**-**		**142,995**	

The following table categorizes the available for sale securities at December 31, 2016:

	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable (Level 3)	Changes in Fair Value Included in Period Earnings
Investment securities available for sale:					
State and municipal	$ 15,471,988	$ -	$ 15,471,988	-	-
Corporate debt	896,039	-	896,039	-	-
Small business administration loans	2,350,790	-	2,350,790	-	-
Mortgage-backed	22,532,672	-	22,532,672	-	-

17. Fair Value of Financial Instruments (Continued)

The following table presents a reconciliation of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2017. There were no assets measured at fair value on a recurring basis using Level 3 inputs as of December 31, 2016.

Balance, beginning of period	$	-
Net gains included in realized and unrealized gains on mortgage banking activity in noninterest income		142,995
Balance, end of period	$	142,995

Assets measured at fair value on a nonrecurring basis

Certain financial and non-financial assets are measured at fair value on a nonrecurring basis. Financial assets measured at fair value on a nonrecurring basis include impaired loans. Non-financial assets measured at fair value on a nonrecurring basis include foreclosed assets.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, using the present value of the expected cash flows, the loan's observable market price or the fair value of the collateral, less costs to sell, if the loans are collateral dependent. Market value is measured based on the value of the collateral securing the loans and is classified at a Level 3 in the fair value hierarchy. Collateral is typically real estate but may be business assets, including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Bank, less a market discount of 7% to account for sales costs. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the factors identified above.

Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed properties are carried at the lower of carrying value or fair value, less costs to sell. The estimated fair value for foreclosed properties included in Level 3 is determined by independent market-based appraisals, less a market discount of 7% to account for sales costs. The fair market value of the collateral may be further adjusted if the list price of the collateral or the expected sales contract is below the fair market discounted value of the appraisal. If the fair value of the collateral deteriorates subsequent to initial recognition, the Bank records the change in value as a nonrecurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

17. Fair Value of Financial Instruments (Continued)

The following table presents the financial and non-financial assets measured at fair value on a nonrecurring basis as of December 31:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2017				
Impaired loans:				
Real estate:				
Residential	**$ 1,564,383**	**$ -**	**$ -**	**$ 1,564,383**
Commercial and agricultural	**2,576,444**	**-**	**-**	**2,576,444**
Construction and land development	**1,187**	**-**	**-**	**1,187**
Commercial and agricultural loans	**-**	**-**	**-**	**-**
Consumer loans	**-**			**-**
Total impaired loans	**$ 4,142,014**	**$ -**	**$ -**	**$ 4,142,014**
Foreclosed real estate	**$ -**	**$ -**	**$ -**	**$ -**
December 31, 2016				
Impaired loans:				
Real estate:				
Residential	$ 1,908,606	$ -	$ -	$ 1,908,606
Commercial and agricultural	1,899,543	-	-	1,899,543
Construction and land development	650,000	-	-	650,000
Commercial and agricultural loans	-	-	-	-
Consumer loans	11,472			11,472
Total impaired loans	$ 4,469,621	$ -	$ -	$ 4,458,149
Foreclosed real estate	$ 945,860	$ -	$ -	$ 945,860

Accounting guidance requires the Bank to disclose fair value information about financial instruments for which it is practicable to estimate, whether or not such fair values are reflected in the consolidated balance sheets. Estimated fair value amounts have been determined using available market information and other valuation methodologies. However, considerable judgment is required to interpret market data in developing the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amount that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and due from banks and Federal funds sold: The carrying amount approximates fair value.

Investment securities: The carrying amount approximates fair value.

Loans held for sale: The carrying amount approximates fair value, due to the short-term nature of the loans remaining on the balance sheet.

Loans: The fair value of variable-rate loans and fixed rate loans that reprice within one year, with no significant credit risk, are based upon their carrying amounts. The fair values of all other loans are estimated using discounted cash flow analysis, which utilizes interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The allowance for loan losses is allocated to the various components of the loan portfolio in determining the fair value.

17. Fair Value of Financial Instruments (Continued)

Restricted stock investments: Due to its restrictive nature, the fair value of the FHLB stock approximates its carrying value.

Accrued interest receivable: The carrying amount approximates fair value.

Deposits: The fair value for demand deposits is, by definition, equal to the amount payable on demand at the reporting date. The carrying amounts for variable-rate deposits and fixed-rate certificates of deposit that reprice within one year approximate their fair values at the reporting date. Fair values for longer-term fixed-rate certificates of deposit are estimated using discounted cash flow analysis that applies interest rates currently being offered on certificates of the same term.

Securities sold under agreement to repurchase and borrowed funds: The fair value of securities sold under agreements to repurchase is based on the carrying value due to their short-term basis. Borrowed funds are discounted using a cash flow approach with market rates as of December 31, 2017 and 2016.

Accrued interest payable: The carrying amount approximates fair value.

Off-balance sheet financial instruments: The Bank charges fees for commitments to extend credit. Interest rates on loans for which these commitments are extended are normally committed for periods of one year or less. Fees charged on standby letters of credit and other financial guarantees are deemed to be immaterial and these guarantees are expected to be settled at face amount or expire unused. It is impractical to assign any fair value to the commitments.

The carrying value and estimated fair values of the Bank's financial assets and liabilities are as follows:

	December 31, 2017		December 31, 2016	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	**$ 9,173,311**	**$ 9,173,311**	$ 17,154,977	$ 17,154,977
Federal funds sold	**787,729**	**787,729**	289,308	289,308
Investment securities	**46,772,158**	**46,772,158**	41,251,489	41,251,489
Loans held for sale	**1,061,107**	**1,061,107**	1,365,587	1,365,587
Loans, net of allowance	**332,002,264**	**332,176,609**	293,473,907	293,958,040
Restricted stock investments	**2,142,998**	**2,142,998**	1,540,400	1,540,400
Interest rate lock commitments	**142,995**	**142,995**	-	-
Accrued interest receivable	**1,219,224**	**1,219,224**	1,153,527	1,153,527
Financial liabilities:				
Deposits	**321,976,968**	**324,719,127**	304,785,040	306,014,919
Securities sold under agreements to repurchase and borrowed funds	**50,848,135**	**50,564,345**	30,452,616	30,383,490

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Provident State Bank

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