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FRB RICHMOND

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

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Thomas J. Chmelik
Name of the Holding Company Director and Official

Executive Vice President & CFO
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.

Thomas J. Chmelik
Signature of Holding Company Director and Official

4/3/2018
Date of Signature

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

For Federal Reserve Bank Use Only

RSSD ID ________
C.I. ________

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

549300FHZZP7SP56TS88
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

MainStreet Bancshares, Inc.
Legal Title of Holding Company

10089 Fairfax Blvd.
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Fairfax	VA	22030

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Thomas J. Chmelik — EVP & CFO
Name / Title

703-481-4540
Area Code / Phone Number / Extension

703-481-4568
Area Code / FAX Number

tchmelik@mstreetbank.com
E-mail Address

www.mstreetbank.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."

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

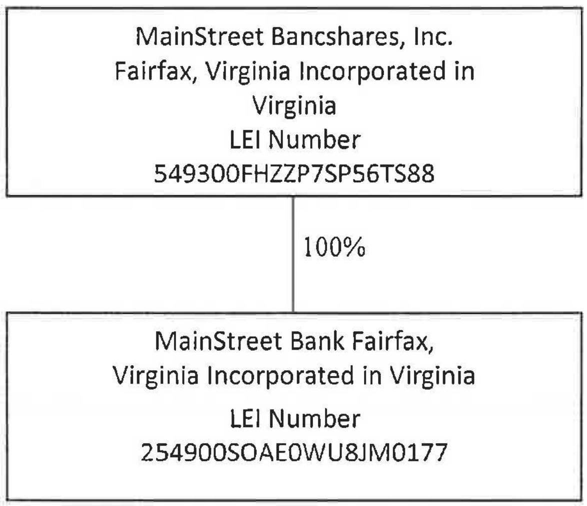
Physical Location (if different from mailing address)

Form FR Y-6
MainStreet Bancshares, Inc.
Fairfax, Virginia
Fiscal Year Ending December 31, 2017

Report Item

1a: The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the appropriate Reserve Bank, one copy is enclosed.

2a: Organizational Chart:



2b: Domestic branch listing provided to the Federal Reserve Bank.

Results: A list of branches for your depository institution: MAINSTREET BANK (ID_RSSD: 3248849).
This depository institution is held by MAINSTREET BANCSHARES, INC. (4977397) of FAIRFAX, VA.
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)	3248849	MAINSTREET BANK	10089 FAIRFAX BOULEVARD	FAIRFAX	VA	22030	FAIRFAX CITY	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	
OK		Full Service	4118510	CLARENDON BRANCH	1000 N. HIGHLAND STREET	ARLINGTON	VA	22201	ARLINGTON	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	
OK		Full Service	3596906	FAIRFAX BRANCH	4029 CHAIN BRIDGE ROAD	FAIRFAX	VA	22030	FAIRFAX CITY	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	
OK		Full Service	4418872	HERNDON BRANCH	727 ELDEN STREET	HERNDON	VA	20170	FAIRFAX	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	
OK		Full Service	4031301	MCLEAN BRANCH	1354 OLD CHAIN BRIDGE ROAD	MC LEAN	VA	22101	FAIRFAX	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	

Form FR Y-6
MainStreet Bancshares, Inc.
Fiscal Year Ending December 31, 2017

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

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2017			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with the power to vote during the fiscal year ending 12-31-17		
(1)(a) Name, City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Wellington Management Group, LLP Radnor, PA 19087 USA	USA	527,251 9.53%	First Manhattan Co. New York, NY 10022 USA	USA	238,017 5.53%
The Banc Funds Co. Chicago, IL 60606 USA	USA	492,023 8.89%			
Mendon Capital Advisors Corp. New York, NY 10022 USA	USA	313,553 5.67%			

Form FR Y-6
MainStreet Bancshares, Inc.
Fiscal Year Ending December 31, 2017

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

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (include names of other businesses)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)
Jeff W. Dick Oakton, Virginia USA	N/A	Chairman & CEO	Chairman & CEO MainStreet Bank	N/A	2.52%	N/A	N/A
Thomas J. Chmelik Arlington, Virginia USA	N/A	EVP, CFO & Director	EVP, CFO & Director MainStreet Bank	N/A	1.86%	N/A	N/A
Chris C. Brockett Ashburn, Virginia USA	N/A	President & Director	President & Director MainStreet Bank	N/A	1.44%	N/A	N/A
Paul Thomas Haddock Loudoun, Virginia USA	Real Estate Investor	Director	Director MainStreet Bank	N/A	0.29%	N/A	N/A
Patsy Rust Herndon, Virginia USA	Retired	Director	Director MainStreet Bank	N/A	0.33%	N/A	N/A
Elizabeth Bennett Herndon, Virginia USA	Business Owner	Director	Director MainStreet Bank	N/A	0.15%	N/A	N/A
Darrell Green Ashburn, Virginia USA	Business Owner	Director	Director MainStreet Bank	N/A	0.22%	N/A	N/A
Terry M. Saeger Potomac Falls, Virginia USA	President of Construction Co.	Director	Director MainStreet Bank	N/A	0.55%	N/A	N/A

MainStreet Bancshares Inc.

Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016
With Independent Auditor's Report

CONTENTS	PAGE

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MainStreet Bancshares Inc. and its subsidiary as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Richmond, Virginia
February 16, 2018

MainStreet Bancshares Inc.
Consolidated Statements of Income

Years Ended December 31,	2017	2016
INTEREST INCOME:		
Interest and fees on loans	$ 25,080,364	$ 20,197,027
Interest on investment securities	1,576,130	1,287,084
Interest on federal funds sold	297,159	93,113
Total interest income	26,953,653	21,577,224
INTEREST EXPENSE:		
Interest on interest bearing demand deposits	193,795	10,969
Interest on savings and NOW deposits	182,417	167,102
Interest on money market deposits	565,304	299,540
Interest on other time deposits	3,114,234	2,327,510
Interest on Federal Home Loan Bank advances and other borrowings	451,912	265,531
Subordinated debt interest expense	963,567	—
Total interest expense	5,471,229	3,070,652
Net interest income	21,482,424	18,506,572
Provision for loan losses	1,885,000	645,000
Net interest income after provision for loan losses	19,597,424	17,861,572
NON-INTEREST INCOME:		
Deposit account service charges	836,401	731,005
Other loan fees	445,659	203,674
Bank owned life insurance income	434,751	201,884
Other operating income	560,680	385,638
Total non-interest income	2,277,491	1,522,201
NON-INTEREST EXPENSES:		
Salaries and employee benefits	9,652,288	8,587,722
Occupancy expenses	605,444	733,698
Furniture and equipment expenses	1,271,760	1,143,082
Advertising and marketing	264,345	276,214
Outside services	663,036	615,069
Franchise tax	451,014	343,225
FDIC insurance	431,696	369,000
Data processing	742,380	576,860
Loss on sale of other real estate owned	50,735	—
Other operating expenses	1,525,452	1,270,079
Total non-interest expenses	15,658,150	13,914,949
INCOME BEFORE INCOME TAXES	6,216,765	5,468,824
Income tax expense	2,334,555	1,593,491
NET INCOME	$ 3,882,210	$ 3,875,333
Net income per common share, basic and diluted	$ 0.85	$ 0.91
Weighted average number of shares, basic and diluted	4,551,189	4,260,622

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

MainStreet Bancshares Inc.
Consolidated Statements of Changes in Stockholders' Equity

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2015	$ 16,515,300	$ 21,836,106	$ 3,925,032	$ (152,272)	$42,124,166
Vesting of restricted stock grants	134,888	(134,888)	—	—	—
Stock based compensation expense	—	450,975	—	—	450,975
Net income	—	—	3,875,333	—	3,875,333
Other comprehensive loss	—	—	—	(55,912)	(55,912)
Balance at December 31, 2016	$ 16,650,188	$ 22,152,193	$ 7,800,365	$ (208,184)	$46,394,562
Proceeds from sale of common stock, net of offering costs	4,600,000	13,215,583	—	—	17,815,583
Vesting of restricted stock grants	191,948	(191,948)	—	—	—
Stock based compensation expense	—	516,977	—	—	516,977
Net income	—	—	3,882,210	—	3,882,210
Reclassification of stranded tax effects from change in tax rate	—	—	3,213	(3,213)	—
Other comprehensive income	—	—	—	191,850	191,850
Balance at December 31, 2017	$ 21,442,136	$ 35,692,805	$ 11,685,788	$ (19,547)	$68,801,182

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

MainStreet Bancshares Inc.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 1 - ORGANIZATION

MainStreet Bancshares Inc. (the "Company") is a bank holding company incorporated under the laws of the Commonwealth of Virginia whose principal activity is the ownership and management of MainStreet Bank. On May 18, 2016, the shareholders of MainStreet Bank (the "Bank") approved a Reorganization Agreement and Plan of Share Exchange ("Reorganization") whereby the Bank would reorganize into a holding company structure. The Plan of Share Exchange called for each outstanding share of Bank common stock to be automatically converted into and exchanged for one share of the Company's common stock, and the common shareholders of the Bank would become the common shareholders of the Company on the effective date of the Reorganization. The Company is authorized to issue 7,500,000 shares of common stock with a par value of $4.00 per share. Additionally, the Company is authorized to issue 2,000,000 shares of preferred stock at a par value $1.00 per share. There is currently no preferred stock outstanding. There are no plans currently nor does the Board of Directors of the Company anticipate any need in the foreseeable future to issue shares of preferred stock.

On July 15, 2016, the Reorganization became effective, and the Bank became a wholly-owned subsidiary of the Company. The holding company is regulated under the Bank Holding Company Act of 1956, as amended ("BHC Act") and is subject to inspection, examination, and supervision by the Federal Reserve Board.

MainStreet Bank is headquartered in Fairfax, Virginia where it also operates a branch. The Bank was incorporated on March 28, 2003 and received its charter from the Bureau of Financial Institutions of the Commonwealth of Virginia (the "Bureau") on March 16, 2004. The Bank commenced regular operations on May 26, 2004 and is supervised by the Bureau and the Federal Reserve Bank of Richmond. The Bank is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation. The Bank places special emphasis on serving the needs of individuals, and small and medium-sized business and professional concerns in the Washington, D.C. metropolitan area.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents – For the purpose of presentation in the Statements of Cash Flows, the Bank has defined cash and cash equivalents as those amounts included in the balance sheet captions "Cash and due from banks" and "Federal funds sold."

Investment securities – The Bank's investment securities are classified as either held to maturity, available for sale or trading. At December 31, 2017 and December 31, 2016, the Bank held approximately $27.5 million and $27.7 million, respectively, in securities classified as held to

A loan's past due status is based on the contractual due date of the most delinquent payment due. All loans which are 30 or more days past due at the end of the month are reported to the Board of Directors. Commercial loans are generally placed on nonaccrual status when the collection of principal or interest is 90 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Consumer loans are generally placed on nonaccrual status when the collection of principal or interest is 120 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Loans greater than 90 days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest. For those loans that are carried on nonaccrual status, payments are first applied to principal outstanding. A loan may be returned to accrual status if the borrower has demonstrated a sustained period of repayment performance in accordance with the contractual terms of the loan and there is reasonable assurance the borrower will continue to make payments as agreed. It is Bank policy to charge-off loans whose collectability is sufficiently questionable and can no longer be justified as an asset on the balance sheet. To determine if a loan should be charged-off, all possible sources of repayment are analyzed, including: (1) the potential for future cash flow, (2) the value of the Bank's collateral, and (3) the strength of co-makers or guarantors. All principal and previously accrued interest is charged to the allowance for loan losses. All future payments received on the loan are credited to the allowance for loan losses as a recovery. These policies are applied consistently across our loan portfolio.

Impairment of a loan - The Bank considers a loan impaired when it is probable that the Bank will be unable to collect all interest and principal payments as scheduled in the loan agreement. A loan is not considered impaired during a period of an insignificant delay in payment if the ultimate collectability of all amounts due is expected. Impairment is measured on a loan by loan basis for all commercial, construction and residential loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Consistent with the Bank's method for nonaccrual loans, payments on impaired loans are first applied to principal outstanding. Smaller balance consumer loans are not individually evaluated for impairment.

Troubled Debt Restructuring (TDR) occurs when the Bank agrees to modify the original terms of a loan due to the deterioration in the financial condition of the borrower. TDRs are considered impaired loans. Upon designation as a TDR, the Bank evaluates the borrower's payment history, past due status and ability to make payments based on the revised terms of the loan. If a loan was accruing prior to being modified as a TDR and if the Bank concludes that the borrower is able to continue making such payments, and there are no other factors or circumstances that would cause it to conclude otherwise, the loan will remain on an accruing status. If a loan was on nonaccrual status at the time of the TDR, the loan will remain on nonaccrual status following the modification and may be returned to accrual status based on the policy for returning loans to accrual status as noted above. Restructured loans for which there was no rate concession, and therefore made at a market rate of interest, may be eligible to be removed from TDR status in periods subsequent to the restructuring depending on the performance of the loan. As of December 31, 2017 and December 31, 2016, the Bank had approximately $3.5 million of loans classified as TDR. At December 31, 2017, TDR loans consisted of two loans. One loan in the amount of approximately $1.5 million is currently performing in accordance with its modified terms. The other loan in the amount of approximately $2.0 million is on non-accrual. At, December 31, 2016, all TDR's were preforming in accordance with their modified terms.

Allowance for Loan Losses - The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Loan losses are charged against the allowance

For collateral dependent loans, an updated appraisal will be ordered if a current one is not on file. Appraisals are performed by independent third-party appraisers with the relevant industry experience. Adjustments to the appraised value may be made based on recent sales of like properties or general market conditions when appropriate. The general component covers non-classified or performing loans and those loans classified as substandard or special mention that are not impaired. The general component is based on historical loss experience adjusted for qualitative factors, such as current economic conditions, including current home sales and foreclosures, unemployment rates and retail sales. Non-impaired classified loans are assigned a higher allowance factor based on an internal migration analysis, which increases with the severity of classification, than non-classified loans. The characteristics of the loan ratings are as follows:

- Pass rated loans are to persons or business entities with an acceptable financial condition, appropriate collateral margins, appropriate cash flow to service the existing loan, and an appropriate leverage ratio. The borrower has paid all obligations as agreed and it is expected that this type of payment history will continue. When necessary, acceptable personal guarantors support the loan.
- Special mention loans have a specific defined weakness in the borrower's operations and the borrower's ability to generate positive cash flow on a sustained basis. The borrower's recent payment history is characterized by late payments. The Bank's risk exposure is mitigated by collateral supporting the loan. The collateral is considered to be well-margined, well maintained, accessible and readily marketable.
- Substandard loans are considered to have specific and well-defined weaknesses that jeopardize the viability of the Bank's credit extension. The payment history for the loan has been inconsistent and the expected or projected primary repayment source may be inadequate to service the loan. The estimated net liquidation value of the collateral pledged and/or ability of the personal guarantor(s) to pay the loan may not adequately protect the Bank. There is a distinct possibility that the Bank will sustain some loss if the deficiencies associated with the loan are not corrected in the near term. A substandard loan would not automatically meet our definition of impaired unless the loan is significantly past due and the borrower's performance and financial condition provide evidence that it is probable that the Bank will be unable to collect all amounts due.
- Doubtful rated loans have all the weaknesses inherent in a loan that is classified substandard but with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high.
- Loss rated loans are not considered collectible under normal circumstances and there is no realistic expectation for any future payment on the loan. Loss rated loans are fully charged off.

Other Real Estate Owned - Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, and recent sales of like properties, length of time the properties have been held and our ability and intention with regard to continued ownership of the properties. The Bank may incur additional write-downs of foreclosed assets to fair value less costs to sell if valuations indicate a further deterioration in market values. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets and improvements are capitalized.

Interest income on loans – Interest on loans is accrued and credited to income on daily balances of the principal amount outstanding. The accrual of interest on loans is discontinued when, in the

Interest and penalties associated with unrecognized tax benefits, if any, would be classified as additional income taxes in the statement of operations.

Comprehensive income – Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI"). The Company early adopted this new standard in the current year. ASU 2018-02 requires reclassification from AOCI to retained earnings for stranded tax effects resulting from the impact of the newly enacted federal corporate income tax rate on items included in AOCI. The amount of this reclassification in 2017 was $3,213.

Stock compensation plans – Stock compensation accounting guidance (FASB ASC 718, "Compensation – Stock Compensation") requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Sholes model is used to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards. No stock options were granted during 2017 and 2016.

Earnings per share – Net income per common share has been determined under the provisions of FASB ASC 260, "Earnings Per Share" and has been computed based on the weighted average common shares outstanding during the year (4,551,189 for 2017 and 4,260,622 for 2016). Diluted earnings per share reflect additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

The only potential dilutive stock of the Bank as defined in FASB ASC 260 is stock options granted to various directors, officers, and employees of the Bank. Restricted stock is included in the computation of basic earnings per share as the holder is entitled to full benefits of a shareholder during the vesting period.

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

Advertising and marketing expense – Advertising and marketing costs are expensed as incurred.

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

Classified as Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016				
U.S. Treasury Securities	$ 14,999,532	$ —	$ (234)	$ 14,999,298
Collateralized Mortgage Backed	5,279,819	45,521	(91,439)	5,233,901
Subordinated Debt	2,000,000	3,750	(4,710)	1,999,040
U.S. Government Agencies	14,208,720	1,108	(87,977)	14,121,851
Total	$ 36,488,071	$ 50,379	$(184,360)	$ 36,354,090

Classified as Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016				
Municipal Securities	$ 26,713,601	$366,442	$(577,214)	$26,502,829
Subordinated Debt	1,000,000	—	—	1,000,000
Total	$ 27,713,601	$366,442	$(577,214)	$ 27,502,829

At December 31, 2017 and 2016 securities with a carrying value of approximately $19.9 million and $12.4 million, respectively, were pledged to secure customer repurchase agreements and FHLB advances.

The scheduled maturities of investment securities at December 31, 2017 were as follows:

	Available for sale securities	
	Amortized Cost	Fair Value
Due in one year or less	$ 30,028,728	$ 30,025,331
Due after one year through five years	650,991	652,933
Due after five years through ten years	2,000,000	2,111,875
Due after ten years	18,514,089	18,524,041
Total	$ 51,193,808	$ 51,314,180

	Held to maturity securities	
	Amortized Cost	Fair Value
Due in one year or less	$ 1,665,047	$ 1,681,041
Due after one year through five years	1,172,419	1,197,983
Due after five years through ten years	4,695,711	4,803,533
Due after ten years	19,983,742	20,220,995
Total	$ 27,516,919	$ 27,903,552

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

market conditions for these types of investments, particularly changes in interest rates, causing bond prices to decline, and are not attributable to credit deterioration. At December 31, 2017, there was one U.S. Treasury security with a fair value of approximately $30.0 million, four collateralized mortgage backed securities with fair values totaling approximately $1.6 million, two U.S. government agencies with fair values totaling $1.3 million, and one municipal security with fair values totaling $704,039 considered temporarily impaired and in an unrealized loss position of less than 12 months. At December 31, 2017, there were three collateralized mortgage backed securities with fair values totaling $1.8 million, three U.S. government agencies with fair values totaling approximately $3.4 million, and twelve municipal securities with fair values totaling $5.9 million that were in an unrealized loss position of more than 12 months. The Bank does not consider the securities in the available for sale or held to maturity portfolio to be other-than-temporarily impaired at December 31, 2017 and December 31, 2016. There were no securities sold during 2017 and 2016.

All municipal securities originally purchased as available for sale were transferred to held to maturity during 2013. The unrealized loss on the securities transferred to held to maturity is being amortized over the expected life of the securities. The unrealized loss, before tax, at December 31, 2017 and December 31, 2016 was $145,091 and $181,429, respectively.

Note 5 – LOANS

Loans are summarized as follows at December 31,

	2017	2016
Residential Real Estate		
Single family	$ 112,428,967	$ 87,126,885
Multifamily	13,366,435	11,188,951
Commercial real estate		
Owner occupied	101,112,303	91,253,806
Non-owner occupied	149,222,755	99,037,985
Construction and Land Development	103,591,969	54,945,250
Commercial – Non Real Estate		
Commercial & industrial	90,152,045	46,415,355
Consumer – Non Real Estate		
Unsecured	2,382,296	3,232,189
Secured	88,376,644	75,240,879
Total Gross Loans	660,633,414	468,441,300
Less: unearned fees	(356,068)	(19,681)
Less: unamortized discount on consumer secured loans	(232,661)	(515,380)
Less: allowance for loan losses	(5,705,451)	(3,980,494)
Net Loans	$ 654,339,234	$ 463,925,745

The consumer loans above include $955,362 and $95,213 of overdrafts reclassified as loans for the years ended December 31, 2017 and 2016, respectively.

The Bank held no loans for sale at December 31, 2017 and 2016.

Credit Quality By Class

As of December 31, 2017

INTERNAL RISK RATING GRADES	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Residential Real Estate						
Single family	$ 111,178,324	$ 768,925	—	$ 481,718	—	$112,428,967
Multifamily	13,366,435	—	—	—	—	13,366,435
Commercial Real Estate						
Owner occupied	95,235,005	2,705,899	—	3,171,399	—	101,112,303
Non-owner occupied	149,222,755	—	—	—	—	149,222,755
Construction & Land Development	103,591,969	—	—	—	—	103,591,969
Commercial – Non Real Estate						
Commercial & industrial	85,362,137	3,901,576	—	888,332	—	90,152,045
Consumer - Non Real Estate						
Unsecured	2,382,296	—	—	—	—	2,382,296
Secured	88,376,644	—	—	—	—	88,376,644
Totals	$648,715,565	$ 7,376,400	—	$ 4,541,449	—	$660,633,414

Credit Quality By Class

As of December 31, 2016

INTERNAL RISK RATING GRADES	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Residential Real Estate						
Single family	$ 85,384,560	$ 1,568,964	—	$ 173,361	—	$ 87,126,885
Multifamily	11,188,951	—	—	—	—	11,188,951
Commercial Real Estate						
Owner occupied	88,929,571	952,290	—	1,371,945	—	91,253,806
Non-owner occupied	98,490,854	—	$ 547,131	—	—	99,037,985
Construction & Land Development	54,945,250	—	—	—	—	54,945,250
Commercial – Non Real Estate						
Commercial & industrial	44,353,428	1,423,424	—	638,503	—	46,415,355
Consumer - Non Real Estate						
Unsecured	3,232,189	—	—	—	—	3,232,189
Secured	75,240,879	—	—	—	—	75,240,879
Totals	$461,765,682	$ 3,944,678	$ 547,131	$ 2,183,809	—	$468,441,300

Note 6 - ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses are summarized as follows for the year ended December 31, 2017 and 2016:

Allowance for Credit Losses By Portfolio Segment

As of December 31, 2017

	Real Estate					
	Residential	Commercial	Construction	Consumer	Commercial	Total
Allowance for credit losses:						
Beginning Balance	$ 834,034	$ 1,782,008	$ 433,341	$ 676,356	$ 254,755	$ 3,980,494
Charge-offs	(67,617)	—	—	(163,115)	—	(230,732)
Recoveries	4,197	38,614	—	26,322	1,556	70,689
Provision	18,716	518,156	400,015	201,978	746,135	1,885,000
Ending Balance	$ 789,330	$ 2,338,778	$ 833,356	$ 741,541	$1,002,446	$ 5,705,451
Ending Balance:						
Individually evaluated for Impairment	$ 19,870	—	—	—	—	$ 19,870
Collectively evaluated for Impairment	$ 769,460	$ 2,338,778	$ 833,356	$ 741,541	$ 1,002,446	$ 5,685,581
Loans Receivable:						
Ending Balance:						
Individually evaluated for Impairment	$ 1,632,305	$ 1,939,392	—	—	—	$ 3,571,697
Collectively evaluated for Impairment	$124,163,097	$248,395,666	$103,591,969	$90,758,940	$ 90,152,045	$657,061,717

The Bank maintains deposit accounts with some of its executive officers, directors and their affiliated entities. Such deposit accounts at December 31, 2017 and December 31, 2016 amounted to approximately $2.7 million and $3.1 million, respectively.

Note 8 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows at December 31:

	2017	2016
Cost		
Building	$ 9,727,109	$ 9,709,010
Land	2,407,018	2,407,018
Leasehold improvements	461,879	461,879
Furniture, fixtures and equipment	1,591,958	2,116,298
Computer software and equipment	1,549,515	2,409,600
	15,737,479	17,103,805
Less accumulated depreciation	(4,128,463)	(4,794,885)
Construction in progress	2,355,873	—
Premises and equipment, net	$ 13,964,889	$ 12,308,920

Depreciation and amortization charged to operations was $822,262 and $801,882 during the years ended December 31, 2017 and December 31, 2016, respectively.

Note 9 - DEPOSITS

Time deposits in denominations of $250,000 or more totaled approximately $63.4 million and $46.1 million at December 31, 2017 and 2016, respectively.

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

	Year ended December 31,
2018	$ 251,575,593
2019	32,385,925
2020	17,337,473
2021	5,522,360
2022	10,146,370
Total	$ 316,967,721

Brokered deposits, as defined by the FDIC, totaled approximately $102.9 million and $63.8 million at December 31, 2017 and December 31, 2016, respectively.

Note 10 – BORROWED FUNDS

On October 25, 2005, the Bank entered into a fifteen-year principal reducing credit agreement ("PRC") with the FHLB in the amount of $750,000. Interest accrues at the rate of 5.24% and is due October 26, 2020. Principal reductions occur monthly commencing on November 25, 2005, paid at December 31, 2017 and 2016 was 1.43% and 0.70%, respectively. The weighted average rate of advances outstanding at December 31, 2017 and 2016 was 1.06% and 0.64%, respectively.

On December 31, 2017, the Bank purchased $5.6 million in federal funds for four days from Community Bankers Bank at a rate of 2.25%. There were no such purchases at December 31, 2016.

Note 11 – INCOME TAXES

The Company files tax returns in the U.S. Federal jurisdiction. With few exceptions, the Bank is no longer subject to tax examination by tax authorities for years prior to 2013.

The Commonwealth of Virginia assesses a Bank Franchise Tax on banks instead of a state income tax. The Bank Franchise Tax expense is reported in non-interest expense and the tax's calculation is unrelated to taxable income.

For the tax year 2017, the Company will file a consolidated federal income tax returns and for the foreseeable future.

The provision for income taxes consists of the following components:

	2017	**2016**
Current expense	$ 2,601,020	$ 1,786,045
Deferred (benefit)	(1,018,020)	(192,554)
Deferred tax adjustment for enacted change in tax rate	751,555	—
Total	$ 2,334,555	$ 1,593,491

Income tax expense for 2017 includes a downward adjustment of net deferred tax assets in the amount of $738,648, recorded as a result of the enactment of H.R.1 Tax Cuts and Jobs Act on December 22, 2017. The Act reduced the corporate Federal tax rate from 34% to 21% effective January 1, 2018.

Income tax expense differed from amounts computed by applying the U.S. federal income tax rate of 34% to income before income tax expense as a result of the following:

	Year ended December 31,	
	2017	**2016**
Computed "expected" income tax expense	$ 2,115,182	$ 1,859,400
Increase (decrease)in income taxes resulting from:		
Non-deductible expense	27,384	22,533
Tax exempt Interest	(253,989)	(219,801)
BOLI Income	(147,815)	(68,641)
Restricted Stock Adjustment	(144,855)	—
Deferred Tax Asset Adjustment	738,648	—
Total	$ 2,334,555	$ 1,593,491

	2017	2016
Net income	$ 3,882,210	$ 3,875,333
Weighted average number of shares, basic and diluted	4,551,189	4,260,622
Basic and diluted EPS (weighted average shares)	$ 0.85	$ 0.91

Note 13 - COMMITMENTS AND CONTINGENCIES

The Bank was obligated under a non-cancelable operating lease, which expired in 2014, for its office facility located at 727 Elden Street. After this lease expiration, the Bank entered into a lease for 3,400 square feet on the first floor. The lease commenced on May 1, 2014 and expires on April 30, 2019. The Herndon lease provides for monthly payments of $7,517 that increase 2% annually over the lease term. The lease also includes three renewal periods of 60 months each. The Bank is liable for payment of the pro-rata portion of general operating expenses of the leased property.

The Bank entered into a lease for the branch in Fairfax, Virginia during 2007. The lease commenced on January 1, 2007 and expired on December 31, 2016. The lease includes two renewal option periods of five years each. The Bank exercised the first five-year renewal option on November 3, 2015. Under this option, the lease agreement commenced on November 1, 2016 and expires on November 1, 2021, and will provide for monthly payments of $7,725 that increase 3% annually over the lease term.

Total rent expense for the occupancy leases for the years ended December 31, 2017 and 2016 was $206,348 and $257,115, respectively.

Minimum annual rental commitments under the Herndon and Fairfax leases are as follows for the years ended December 31:

2018	$ 184,569
2019	126,627
2020	98,837
2021	84,413
	$ 494,446

The Bank's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit.

The amounts of loan commitments and standby letters of credit are set forth in the following table as of December 31, 2017 and 2016:

The Basel III Capital Rules, a new comprehensive capital framework for U.S. banking organizations, became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2017 is 1.25% and 0.625% for 2016. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total capital, Common Equity Tier 1 capital, and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017, the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2017 and 2016, the most recent notification from the Federal Reserve Bank of Richmond categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum total risk-based, Common Equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Company's and the Bank's category.

The Company's and the Bank's actual regulatory capital amounts and ratios as of December 31, 2017 and 2016 are presented in the table below.

(000's except for percentages)

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provision**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2017						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 88.287	12.09%	$ 58.402	>8.0%	N/A	N/A
Bank	$ 83.457	11.43%	$ 58.402	>8.0%	$ 73.003	>10.0%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 68.834	9.43%	$ 32.851	>4.5%	N/A	N/A
Bank	$ 77.752	10.65%	$ 32.851	>4.5%	$ 58.402	>8.0%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 68.834	9.43%	$ 43.802	>6.0%	N/A	N/A
Bank	$ 77.752	10.65%	$ 43.802	>6.0%	$ 58.402	>8.0%
Tier 1 Capital						
(to Average Assets)						
Consolidated	$ 68.834	9.23%	$ 29.836	>4.0%	N/A	N/A
Bank	$ 77.752	10.42%	$ 29.836	>4.0%	$ 37.295	>5.0%
As of December 31, 2016						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 63.883	12.71%	$ 40.214	>8.0%	N/A	N/A
Bank	$ 62.983	12.53%	$ 40.214	>8.0%	$ 50.267	>10.0%
Common Equity Tier 1 Capital						

On November 20, 2007, the Bank granted 112,500 shares of restricted stock in connection with employment agreements entered into with two executive officers during December 2007. The restricted stock awards were made outside of the 2006 Plan and are governed by restricted stock agreements entered into by the Bank and each of the officers, dated November 20, 2007. The restricted stock vests in 5%, 10% or 15% increments over a period of 10 years, subject to earlier vesting in the event of certain termination events or a change of control of the Bank. As of December 31, 2017, the total number of restricted shares that have vested are 112,500.

A summary of the status of the Bank's nonvested restricted stock shares as of December 31, 2017 and changes during the year ended December 31, 2017 is presented below:

Nonvested Restricted Stock Shares	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2017	112,685	$ 9.54
Granted	46,915	14.66
Forfeited	(255)	11.73
Vested	(47,987)	9.74
Nonvested at December 31, 2017	111,358	$ 11.61

As of December 31, 2017, there was $908,885 of total unrecognized compensation cost related to nonvested restricted stock awards. The cost is expected to be recognized over approximately seven years. The total fair value of shares vested during the years ended December 31, 2017 and 2016 was $756,483 and $353,455, respectively.

Note 18 – DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosure", the Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is the most representative of fair value under current market conditions.

In accordance with the guidance, a hierarchy of valuation techniques is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data

		(000's) Fair Value Measurements at December 31, 2017 Using		
Description	Balance as of December 31, 2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities:				
U.S. Treasury Securities	$ 29,994	—	$ 29,994	—
Collateralized Mortgage Backed	4,151	—	4,151	—
Subordinated Debt	2,112	—	2,112	
Municipal Securities	589		589	
U.S. Government Agencies	14,468	—	14,468	—
Total	$ 51,314	—	$ 51,314	—

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

		(000's) Fair Value Measurements at December 31, 2016 Using		
Description	Balance as of December 31, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities:				
U.S. Treasury Securities	$ 14,999	—	$ 14,999	—
Collateralized Mortgage Backed	5,234	—	5,234	—
Subordinated Debt	1,999	—	1,999	
U.S. Government Agencies	14,122	—	14,122	—
Total	$ 36,354	—	$ 36,354	—

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable

		(000's) Carrying Value at December 31, 2016 Using		
Description	Balance as of December 31, 2016	Quoted Prices In Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans				
Residential Real Estate				
Single family	$ 1,516	—	—	$ 1,516
OREO	134	—	—	134

		(000's) Fair Value Measurements at December 31, 2017		
Description	Fair Value	Valuation Technique(s)	Unobservable Inputs	Discount
Assets:				
Impaired Loans				
Residential Real Estate				
Single family	71	Sales Comparison Approach	Adjustment for differences in comparable sales and age; selling costs	10% - 25%

		(000's) Fair Value Measurements at December 31, 2016		
Description	Fair Value	Valuation Technique(s)	Unobservable Inputs	Discount
Assets:				
Impaired Loans				
Residential Real Estate				
Single family	$ 1,516	Sales Comparison Approach	Adjustment for differences in comparable sales and age; selling costs	10% - 25%
OREO	134	Sales Comparison Approach	Adjustment for differences in comparable sales and age; selling costs	10%

FASB ASC 820 requires the Bank to disclose estimated fair values of its financial instruments.

The following methods and assumptions were used to estimate the approximate fair value of each class of financial instrument for which it is practicable to estimate fair value.

Cash and due from banks and federal funds sold or purchased

The carrying amount is a reasonable estimate of fair value.

material at December 31, 2017 and 2016, and as such, the related fair values have not been estimated.

The carrying amounts and approximate fair values of the Bank's financial instruments are summarized as follows:

		(000's) Fair Value Measurements at December 31, 2017 Using			
	Carrying Value	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value Balance
Financial assets:					
Cash and due from banks	$ 37,493	$ 37,493	$ —	$ —	$ 37,493
Restricted equity securities	4,241	—	4,241	—	4,241
Securities					
Available for sale	51,314	—	51,314	—	51,314
Held to maturity	27,517	—	27,904	—	27,904
Loans, net	654,339	—	—	647,150	647,150
Bank owned life insurance	13,637	—	13,637	—	13,637
Accrued interest receivable	3,337	—	3,337	—	3,337
Financial liabilities:					
Deposits	$ 667,655	$ —	$ 356,734	$ 315,054	$ 671,788
Federal Home Loan Bank	48,142	—	47,855	—	47,855
Other Borrowings	5,638		5,640		5,640
Accrued interest payable	505	—	505	—	505

		(000's) Fair Value Measurements at December 31, 2016 Using			
	Carrying Value	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value Balance
Financial assets:					
Cash and due from banks	$ 17,273	$ 17,273	$ —	$ —	$ 17,273
Federal funds sold	797	797	—	—	797
Restricted equity securities	3,426	—	3,426	—	3,426
Securities					
Available for sale	36,354	—	36,354	—	36,354
Held to maturity	27,714	—	27,503	—	27,503
Loans, net	463,926	—	—	471,090	471,090
Banked owned life insurance	10,202	—	10,202	—	10,202
Accrued interest receivable	2,146	—	2,146	—	2,146
Financial liabilities:					
Deposits	$ 473,567	$ —	$ 269,783	$ 205,215	$ 474,998
Federal Home Loan Bank	40,192	—	38,117	—	38,117
Accrued interest payable	270	—	270	—	270

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience,

Note 20 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Details regarding reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2017 and 2016 were as follows:

Reclassifications Out of Accumulated Other Comprehensive Income for the Year Ended December 31, 2017:

Details about AOCI Components	Amount Reclassified from AOCI	Affected Line Item in the Income Statement
Realized gain on sale of securities	—	Net gain on sales of securities available for sale
Amortization of unrealized loss on securities	$ (36,342)	Interest on investment securities
Income tax expense	12,356	Income tax expense
Disproportionate effects of tax rate change on securities	(3,213)	—
Total reclassifications	$ (27,199)	Net of tax

Reclassifications Out of Accumulated Other Comprehensive Income for the Year Ended December 31, 2016:

Details about AOCI Components	Amount Reclassified from AOCI	Affected Line Item in the Income Statement
Realized gain on sale of securities	—	Net gain on sales of securities available for sale
Amortization of unrealized loss on securities	$ (36,342)	Interest on investment securities
Income tax expense	12,356	Income tax expense
Total reclassifications	$ (23,986)	Net of tax

Note 21 – CAPITAL OFFERING

On October 24, 2017, the Company completed a capital offering which raised $17.8 million net of offering costs. The Company sold an aggregate of 1,150,000 shares of common stock at a price of $16.00 per share. The issuance of additional shares of common stock is accretive to the Company's current book value. The Bank will use the proceeds of the offering to facilitate strategic initiatives, support organic growth and market expansion activities, and for general corporate purposes.

Note 22 – SUBORDINATED NOTES

On December 30, 2016, the Company completed the issuance of $14.3 million in aggregate principal amount of fixed-to-floating rate subordinated notes in a private placement transaction to various accredited investors. During the first quarter 2017, an additional $700,000 of subordinated notes was issued for a total issuance of $15.0 million. The net proceeds of the offering are intended to support growth and be used for other general business purposes. The notes have a maturity date of December 31, 2026 and have an annual fixed interest rate of 6.25% until December 31, 2021. Thereafter, the notes will have a floating interest rate based on three-month LIBOR rate plus 425 basis points (4.25%) (computed on the basis of a 360-day year of twelve 30-day months) from and including January 1, 2022 to the maturity date or any early redemption date. Interest will be paid semi-annually, in arrears, on July 1 and January 1 of each year during the time that the notes remain outstanding through the fixed interest rate period or earlier redemption date. Interest will be paid quarterly, in arrears, on April 1, July 1, October 1 and January 1 throughout the floating interest rate period or earlier redemption date.

Condensed Statement of Cash Flows

Year Ended December 31,	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,882,210	$ 3,875,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of subsidiary	(4,518,164)	(3,775,333)
Subordinated debt amortization expense	28,775	—
Increase in other receivables	(713,904)	—
Net cash (used in) provided by operating activities	(1,321,083)	100,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in bank subsidiary	(13,713,708)	(12,500,000)
Net cash used in investing activities	(13,713,708)	(12,500,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of subordinated debt, net of debt issuance costs	700,000	14,018,750
Net proceeds from sale of common stock, net of offering costs	17,815,583	—
Net cash provided by financing activities	18,515,583	14,018,750
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,480,792	1,618,750
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,618,750	—
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,099,542	$ 1,618,750

Note 24 – SUBSEQUENT EVENTS

In accordance with ASC 855-10/SFAS 165, the Bank evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Bank evaluated subsequent events through February 16, 2018.

Based on the evaluation, the Bank did not identify any recognized or non-recognized subsequent events that would have required adjustment to or disclosure in the financial statements.

Note 25 - IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. If the other components of net periodic benefit cost are not presented on a separate line or lines, the line item(s) used in the income statement must be disclosed. In addition, only the service cost component will be eligible for capitalization as part of an asset, when applicable. The amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted. The Company does not expect the adoption of ASU 2017-07 to have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities." The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company is currently assessing the impact that ASU 2017-08 will have on its consolidated financial statements.

During May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The Company is currently assessing the impact that ASU 2017-09 will have on its consolidated financial statements.

During February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments provide financial statement preparers with an option to reclassify stranded tax effects within 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 Cuts and Jobs Act (or portion thereof) is recorded. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments 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 Cuts and Jobs Act is recognized. The Company has elected to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act in the consolidated financial statements for the period ending December 31, 2017.