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Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

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

President
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Renee H. Shaw
Signature of Holding Company Director and Official

12/17/2018
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 3837467
C.I.

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

September 30, 2018
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

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

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

City	State	Zip Code
Wake Forest	NC	27587

same
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Robert C. White	Contract CFO

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

919-556-5300
Area Code / FAX Number

bob.white@wakeforestfederal.com
E-mail Address

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

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

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... [ ]
2. a letter justifying this request has been provided separately ... [ ]

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

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

For Use By Tiered Holding Companies

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

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

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

Wake Forest	NC	27587
City	State	Zip Code

same
Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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City State Zip Code

Physical Location (if different from mailing address)

Wake Forest Bancorp M.H.C and Subsidiaries

Organizational Chart

Item 2a

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

Note that none of the holding companies within the organizational structure have a Legal Entity Identifier (LEI), the Association does have an LEI which it was required to obtain in order to submit HMDA data. The Association's LEI is 5493007OYHUX3OJQ2537

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

↓

Owns 56.6% of Wake Forest Bancshares, Inc
at September 30, 2018
Organized April, 1996, Conducts no business activities

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

↓

Owns 100% of Wake Forest Federal
at September 30, 2018
This is the reporting level that has outside shareholders but none more than 5% (other than the MHC)
Organized May, 1999
Conducts no activities other than buying back shares and paying dividends

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

↓

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

Wake Forest Federal Savings & Loan Association
Domestic Branches

Item 2b.

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

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

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

Wake Forest Bancshares, Inc.
Securities Holders

Item 3.

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

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

Wake Forest Bancorp, M.H.C. holds 56.6% of the voting stock of Wake Forest Bancshares, Inc., which is the reporting company and the entity that has outside shareholders.

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

There are no known shareholders of Wake Forest Bancshares, Inc. that hold more than 5% of the stock of Wake Forest Bancshares, Inc. either at or during the fiscal year ended September 30, 2018.

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

Wake Forest Bancorp, M.H.C.
Insiders

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

Name City, State, Country	Principal Occupation if Other than Holding Company	Title or Position with Holding Company	Title or Position with Subsidiaries	Title or Position with Other Businesses	% of Voting Shares in Wake Forest Bancorp, MHC	% of Voting Shares in Subsidiaries Wake Forest Bancshares, Inc.	Names of Companies if Own 25% or More Voting Shares
Howard L. Brown Wake Forest, NC, USA	Retired, Rolesville Oil Company	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.74%	N/A
John D. Lyon Wake Forest, NC, USA	Owner, Marathon Management	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	President, Marathon Management	N/A	2.45%	N/A
Rodney M. Privette Rolesville, NC, USA	Owner, Privette Insurance Agency	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	President, Privette Ins. Agency	N/A	0.11%	N/A
Anna O. Sumerlin Wake Forest, NC, USA	Retired, Former CEO of the Company	Director, Chair of the Board	Director, Chair of the Board Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.39%	N/A
Robert W. Wilkinson III Wake Forest, NC, USA	Retired, Former Mg Officer of Company	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.54%	N/A
Robert C. White Wake Forest, NC, USA	Retired, Former CEO of the Company	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.21%	N/A
Randy L. Bright Wake Forest, NC, USA	Funeral Director-Bright Funeral Home	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	Funeral Director-Bright Funeral Home	N/A	0.27%	N/A
Sue E. Anthony Wake Forest, NC, USA	Owner/Operator, Anthony Law Office	Director	Director Wake Forest Bancshares, Inc. Wake Forest Federal S&L	Partner, Anthony Law Office	N/A	0.13%	N/A
Renee H. Shaw Wake Forest, NC, USA	President & CEO of the Company	Director, President and CEO	Director, President and CEO Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.19%	N/A
Carter S. Harrell Wake Forest, NC, USA	Sr VP, Treasurer/Sec of the Company	Sr VP, Treasurer/Secretary	Sr VP, Treasurer/Secretary Wake Forest Bancshares, Inc. Wake Forest Federal S&L	N/A	N/A	0.00%	N/A

Wake Forest Banchares, Inc.
Annual Report to Shareholders

Item 1.

The Annual Report to Shareholders for the fiscal year ended September 30, 2018 is attached. Wake Forest Bancshares, Inc. is the reporting entity. The financial statements for Wake Forest Bancorp, MHC are included in the Annual Report by reference to footnote number 14. The standalone financial statements for Wake Forest Bancshares, Inc. are included in the Annual Report by reference to footnote number 15.

Wake Forest Bancshares, Inc.

2018 Annual Report

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REPORT TO STOCKHOLDERS

The fiscal year ending September 30, 2018 was an exceptional year for Wake Forest Bancshares, Inc. (the "Company") with earnings of $1,033,800 or $0.92 per share. Earnings for the current year would have been $1,300,100 but were impacted by the passage of the Tax Cuts and Jobs Act (TCJA) in December of 2017 which caused the Company's net deferred tax assets to be revalued and written down by $266,300. The Company's net deferred tax assets were established when corporate tax rates were at 35% and the legislation lowered the rate to 21%. The rate reduction trigged a one-time charge-off because such assets will be less valuable at the lower rate. Total assets and deposits were marginally lower during the current year due to competitive pricing of area deposits but the Company expanded its loan portfolio by more than 14% during 2018. Local economic conditions and our real estate markets have continued to trend in an optimistic direction. Aided by a strong economy and a robust local real estate market, the Company had no nonperforming assets at any time during its fiscal year ended September 30, 2018, a remarkable situation that has not occurred for several decades. Because of the lack of nonperforming loans, the Company's loan loss provision was only $15,000 during the current year even though it experienced significant loan growth. The Company's results were positively influenced not only by loan growth but by expanded interest rate margins, which increased by 38 basis points, and were in large part aided by Federal Reserve policies of gradually raising interest rates during the year. Given the existing monetary environment which is focused on increasing short term rates, the Company has prudently continued to remain interest rate sensitive and keep its investments and loans on a relatively short maturity cycle. That has involved emphasis on shorter term construction lending which remained strong during the current year. Our cost of funds increased slightly during the current year, expanding by only five basis points. While we were very pleased with our 2018 earnings, our ability to duplicate or expand those earnings in the future will be predicated on maintaining low levels of nonperforming assets, control of other operating expenses, and a continued favorable interest rate environment which will be dictated largely by Federal Reserve actions.

The Company's real estate lending expanded significantly in the current year, not only because our residential markets have continued to perform strongly, but aided by new customer relationships the current management team was able to develop from prior affiliations. Home values have risen and sales volumes have consistently remained resilient even as inventories of available homes have persisted at historically low levels. Reasons for the tight inventory vary, but many potential buyers have elected to forego home purchases and not place their current homes on the market because of the uncertainty of finding suitable replacement properties.

The lack of non-performing assets has been remarkable and the absence of collection concerns and associated expense have undoubtedly contributed to the Company's performance. Non-performing loans and foreclosed assets amounted to $-0- at September 30, 2018 and 2017 and the Company had no foreclosures during either year. The Company provided a relatively insignificant provision for loan loss in the current year and was able to recover $160,000 of its loan loss allowance during 2017. The Company's loan loss allowances amounted to approximately 2.22% of total loans outstanding at September 30, 2018, which we feel is more than enough to cover any loan issues now or in the immediate future.

The Company continues to remain well capitalized. With a Tier 1 capital leverage ratio of 23.65% at September 30, 2018, the Company is well in excess of regulatory requirements and capital levels of most other community banks in our market. Due to our strong capital position and continued profitability, the Company was able to declare and pay cash dividends of $0.28 per share in 2018. Although future dividends will be dictated by these same operational issues, we are very proud of the fact that the Company has been able to continue to pay dividends without interruption for the past twenty two years.

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

Respectfully,

Renee H. Shaw

Renee H. Shaw
President & Chief Executive Officer

WAKE FOREST BANCSHARES, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

	September 30,				
	2018	2017	2016	2015	2014
Financial Condition Data:			(In Thousands)		
Total assets	$ 103,854	$ 106,740	$ 106,021	$ 106,593	$ 114,014
Investments (1)	37,625	48,516	47,804	43,030	45,011
Loans receivable, net	62,404	54,584	53,894	59,984	64,234
Deposits	78,023	81,401	81,220	82,336	90,366
Stockholders' equity	24,564	24,082	23,489	22,801	22,225

	Years Ended September 30,				
	2018	2017	2016	2015	2014
Operating Data:			(In Thousands, Except Per Share Data)		
Interest and dividend income	$ 4,112	$ 3,703	$ 3,732	$ 4,128	$ 4,066
Interest expense	757	714	736	962	1,144
Net interest income	3,355	2,989	2,996	3,166	2,922
Provision for (recovery of) loan losses	15	(160)	-	163	100
Noninterest income	97	95	143	97	122
Noninterest expense	1,706	1,724	1,565	1,709	1,575
Income before income taxes	1,731	1,520	1,574	1,391	1,369
Income tax expense	697	550	592	511	519
Net income	$ 1,034	$ 970	$ 982	$ 880	$ 850
Basic earnings per share	$ 0.92	$ 0.85	$ 0.86	$ 0.76	$ 0.74
Diluted earnings per share	0.92	0.85	0.86	0.76	0.74
Dividends per share	0.28	0.24	0.24	0.24	0.23
Dividend payout ratio	30.48%	28.23%	28.02%	31.36%	31.14%
Selected Other Data:					
Return on average assets (3)	0.99%	0.92%	0.93%	0.80%	0.75%
Return on average equity (3)	4.27%	4.08%	4.29%	3.93%	3.88%
Interest rate spread (3)	3.07%	2.70%	2.73%	2.74%	2.41%
Average equity to average assets (3)	23.09%	22.48%	21.79%	20.44%	19.34%
Net interest margin (3)	3.27%	2.89%	2.92%	2.96%	2.64%
Allowance for loan losses to nonperforming loans (2)	N/A	N/A	1267.62%	407.50%	309.34%
Nonperforming loans to total loans (2)	N/A	N/A	0.21%	0.61%	0.80%
Allowance for loan losses to total loans	2.22%	2.52%	2.69%	2.49%	2.46%

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

(2) Nonperforming loans include mortgage loans delinquent more than 90 days and non-accrual loans. There were no nonperforming loans outstanding at September 30, 2018 and 2017

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

WAKE FOREST BANCSHARES, INC.
YIELDS AND COSTS OF FUNDS
Years Ended September 30, 2018 and 2017

	Year Ended September 30,					
	2018			2017		
Assets:	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Interest-earning assets:						
Interest-earning deposits	$ 13,433	$ 211	1.57%	$ 20,004	$ 188	0.94%
Bank certificate of deposits	25,980	402	1.55%	26,436	385	1.46%
Investment securities	1,334	21	1.57%	1,260	17	1.35%
Loans receivable (1)	61,892	3,478	5.62%	55,623	3,113	5.60%
Total interest-earning assets	102,639	$ 4,112	4.01%	103,323	$ 3,703	3.58%
Non-interest-earning assets	2,269			2,348		
Total	$ 104,908			$ 105,671		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Passbook accounts	$ 2,802	$ 5	0.18%	$ 2,889	$ 4	0.14%
NOW & MMDA accounts	37,009	221	0.60%	33,679	160	0.48%
Certificates of deposit	40,334	531	1.32%	43,945	550	1.25%
Total interest-bearing liabilities	80,145	$ 757	0.94%	80,513	$ 714	0.89%
Non-interest-bearing liabilities	543			1,404		
Stockholders' equity	24,220			23,754		
Total	$ 104,908			$ 105,671		
Net interest income and interest rate spread (2)		$ 3,355	3.07%		$ 2,989	2.70%
Net interest margin (3)			3.27%			2.89%
Ratio of interest-earning assets to interest-bearing liabilities			128.07%			128.33%

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

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

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

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Wake Forest Bancshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated statements of financial condition as of September 30, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wake Forest Bancshares, Inc. and Subsidiary as of September 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, North Carolina
December 17, 2018

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
September 30, 2018 and 2017

		2018		2017
ASSETS				
Cash:				
Interest-earning deposits	$	13,130,250	$	20,468,250
Noninterest-earning deposits		1,148,150		851,550
		14,278,400		21,319,800
Certificate of deposits in other banks		23,445,000		26,631,000
Investment securities, available for sale (Note 2)		955,950		1,320,400
FHLB stock, at cost (Note 2)		93,900		96,000
Loans receivable, net of allowance for loan losses of $1,419,450 in 2018 and $1,404,450 in 2017 (Note 3)		62,404,200		54,584,350
Accrued interest receivable		208,650		160,800
Property and equipment, net (Note 5)		293,300		193,500
Bank owned life insurance (Note 7)		1,653,150		1,607,000
Deferred income taxes (Note 11)		453,850		735,700
Prepaid expenses and other assets		67,450		91,750
Total assets	$	103,853,850	$	106,740,300
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits (Note 8)	$	78,022,900	$	81,400,800
Accrued interest on deposits		3,600		4,550
Accounts payable and accrued expenses		732,550		667,500
Dividends payable		78,500		68,200
Deferred gain on sale of foreclosed real estate (Note 6)		318,100		326,650
Redeemable common stock held by the ESOP, net of unearned ESOP shares (Note 10)		134,050		190,600
Total liabilities		79,289,700		82,658,300
Commitments and contingencies (Note 13)				
Stockholders' Equity (Note 12):				
Preferred stock, authorized 1,000,000 shares, none issued		-		-
Common stock, $.01 par value, authorized 5,000,000 shares; issued 1,253,948 shares in 2018 and 2017		12,550		12,550
Additional paid-in-capital		5,779,500		5,779,500
Accumulated other comprehensive income		3,250		11,950
Retained earnings, substantially restricted (Note 12)		20,890,800		20,115,550
Common stock in treasury, at cost (132,146 shares in 2018 and 117,166 shares in 2017)		(2,121,950)		(1,837,550)
Total stockholders' equity		24,564,150		24,082,000
Total liabilities and stockholders' equity	$	103,853,850	$	106,740,300

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended September 30, 2018 and 2017

		2018		2017
Interest and dividend income:				
Loans	$	3,478,900	$	3,112,750
Investment securities		20,550		17,500
Bank certificate of deposits		402,050		385,000
Interest-earning deposits		210,900		188,200
		4,112,400		3,703,450
Interest expense:				
Deposits		757,000		714,300
		757,000		714,300
Net interest income before provision (recovery) of loan losses		3,355,400		2,989,150
Provision (recovery) of loan losses (Note 3)		15,000		(160,000)
Net interest income after provision (recovery) of loan losses		3,340,400		3,149,150
Noninterest income:				
Service fees		30,050		29,850
Income from bank owned life insurance		46,150		45,650
Gain on sale of foreclosed real estate		8,600		13,500
Other income		12,500		5,750
		97,300		94,750
Noninterest expense:				
Compensation and benefits (Notes 9 and 10)		1,035,750		1,156,400
Occupancy		62,950		46,850
Federal insurance premiums and operating assessments		50,400		48,650
Data processing and outside service fees		181,850		173,800
Foreclosed assets		-		7,150
Other operating expense		375,400		291,300
		1,706,350		1,724,150
Income before income taxes		1,731,350		1,519,750
Income taxes (Note 11):				
Current		409,950		505,550
Deferred		287,600		44,450
		697,550		550,000
Net income	$	1,033,800	$	969,750
Basic earnings per share	$	0.92	$	0.85
Diluted earnings per share	$	0.92	$	0.85
Dividends paid per share	$	0.28	$	0.24

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended September 30, 2018 and 2017

	2018	2017
Net income	$ 1,033,800	$ 969,750
Other comprehensive income (loss):		
Investment securities available for sale:		
Unrealized holding gains (losses)	(14,500)	7,700
Tax effect of unrealized (gains) losses	5,800	(2,800)
	(8,700)	4,900
Total comprehensive income	$ 1,025,100	$ 974,650

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2018 and 2017

	Outstanding Shares of Common Stock		Common Stock		Additional Paid in Capital
Balance at September 30, 2016	1,146,196	$	12,550	$	5,779,500
Comprehensive income for 2017	-		-		-
Market value adjustment for redeemable common stock held by ESOP	-		-		-
Cash dividends ($0.24 per share)	-		-		-
Purchase of 9,414 shares for the Treasury	(9,414)		-		-
Balance at September 30, 2017	1,136,782		12,550		5,779,500
Comprehensive income for 2018	-		-		-
Market value adjustment for redeemable common stock held by ESOP	-		-		-
Cash dividends ($0.28 per share)	-		-		-
Treasury shares sold	1,700				
Purchase of 16,680 shares for the Treasury	(16,680)		-		-
Balance at September 30, 2018	-	$	12,550	$	5,779,500

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2018 and 2017

Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock Acquired	Total
$ 7,050	$ 19,357,100	$ (1,667,450)	$ 23,488,750
4,900	969,750	-	974,650
-	62,400	-	62,400
-	(273,700)	-	(273,700)
-	-	(170,100)	(170,100)
11,950	20,115,550	(1,837,550)	24,082,000
(8,700)	1,033,800	-	1,025,100
-	56,550	-	56,550
-	(315,100)	-	(315,100)
-	-	32,200	32,200
-	-	(316,600)	(316,600)
$ 3,250	$ 20,890,800	$ (2,121,950)	$ 24,564,150

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2018 and 2017

		2018		2017
Cash Flows From Operating Activities				
Net income	$	1,033,800	$	969,750
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		30,400		28,600
Provision for (recovery of) loan losses		15,000		(160,000)
Deferred income taxes		287,600		44,450
Increase in bank owned life insurance contracts		(46,150)		(45,650)
Gain or amortization of deferred gain from sale of foreclosed assets		(8,550)		(9,400)
Gain on sale of participation loans		(400)		(5,050)
Changes in assets and liabilities:				
(Increase) decrease in:				
Accrued interest receivable		(47,850)		(24,350)
Prepaid expenses and other assets		24,300		37,800
Increase in:				
Accounts payable and accrued expenses		64,100		15,950
Net cash provided by operating activities	$	1,352,250	$	852,100
Cash Flows From Investing Activities				
Principal collected on loans	$	27,398,500	$	27,432,800
Purchase of participation loans		(180,000)		(100,000)
Proceeds from sale of participation loans		38,850		169,250
Loans originated		(35,091,800)		(28,027,400)
Purchase of certificate of deposits in other banks		(5,677,000)		(5,210,000)
Maturity of certificate of deposits in other banks		8,863,000		4,862,000
Proceeds from sale of foreclosed assets		-		266,350
Purchase of investment securities		(350,000)		(150,000)
Maturities of investment securities		700,000		-
Redemption (purchase) of FHLB of Atlanta Stock		2,100		(100)
Proceeds from disposal of property and equipment		-		2,400
Purchases of property and equipment		(130,200)		(10,350)
Net cash used in investing activities	$	(4,426,550)	$	(765,050)

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2018 and 2017

		2018		2017
Cash Flows From Financing Activities				
Cash dividends paid	$	(304,800)	$	(274,250)
Purchase of treasury stock		(316,600)		(170,100)
Proceeds from issuance of treasury stock		32,200		-
Net (decrease) increase in deposits		(3,377,900)		181,200
Net cash used in financing activities		(3,967,100)		(263,150)
Net decrease in cash		(7,041,400)		(176,100)
Cash:				
Beginning		21,319,800		21,495,900
Ending	$	14,278,400	$	21,319,800
Supplemental Disclosures of Cash Flow Information				
Cash payments for:				
Interest	$	757,950	$	711,250
Income taxes	$	394,500	$	554,000
Supplemental Schedule of Noncash Investing and Financing Activities:				
Reduction in fair value of ESOP obligation	$	56,550	$	62,400
Change in unrealized gain (loss) on available for sale securities, net of tax effect	$	(8,700)	$	4,900

Note 1. Nature of Business and Significant Accounting Policies

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

The Company is majority owned by Wake Forest Bancorp, M.H.C., (the "MHC") a mutual holding company. Members of the MHC consist of depositors and certain borrowers of the Association, who have the sole authority to elect the board of directors of the MHC. The MHC's principal assets consist of 635,000 shares of the Company's common stock and deposits at the Association. The MHC, which by law must own in excess of 50% of the stock of the Company, currently has an ownership interest of 56.6% of the Company. The mutual holding company is registered as a savings and loan holding company and is subject to regulation, examination, and supervision by the Federal Reserve.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreclosed real estate: Foreclosed real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value minus costs to sell. Revenue and expenses from holding or disposing of the properties and additions or recoveries to the valuation allowance are included in earnings.

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

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

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

Income taxes: Deferred income taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are either eliminated or reduced by valuation allowances if in the opinion of management it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company continually monitors and evaluates the potential impact of current events on the estimates used to establish income tax expense and income tax liabilities. On a periodic basis, the Company evaluates its income tax positions based on current tax law, positions taken by various tax authorities within the jurisdictions that the Company is required to file income tax returns, as well as any potential or pending audits or assessments by such tax authorities. The Company did not recognize or accrue any interest or penalties related to income taxes during the years ended September 30, 2018 and 2017. The Company did not have an accrual for uncertain tax positions because it believes its tax positions are based on widely understood administrative practices and procedures that would be sustained upon examination. It is the Company's policy to recognize any income tax related interest and penalties as components of income tax expense. Income tax returns for all years 2015 and thereafter are subject to possible future examinations by tax authorities.

Earnings per share: The Company provides for a dual presentation of basic and diluted earnings per share (EPS) with a reconciliation of the numerator and denominator of the EPS computations. Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. Diluted earnings per share assume the conversion, exercise or issuance of all potential common stock instruments such as options, unless the effect is to reduce a loss or increase earnings per share. No adjustments were required to net income for any period presented in the computation of diluted earnings per share and there were no differences in basic and diluted earnings per share in 2018 or 2017. The weighted average numbers of shares outstanding for earnings per share computation was 1,125,983 and 1,141,807 in 2018 and 2017, respectively.

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

Subsequent events: Management has evaluated subsequent events through December , 2018, the date the financial statements were available to be issued.

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

- Level 1 –The asset or liability has available quoted prices for identical assets or liabilities in active markets. An active market is a marketplace with sufficient frequency and volume to provide pricing information on an ongoing basis. As of September 30, 2018, the Company carried certain investment securities at fair value hierarchy Level 1.

- Level 2 – The asset or liability has available quoted prices for similar assets and liabilities in active markets, and inputs that are observable for substantially the full term of the financial instrument. As of September 30, 2018, the Company had no assets or liabilities carried at fair value hierarchy Level 2.
- Level 3 – The asset or liability has no observable market inputs that are significant to the fair value measurement and fair value is supported by the entity's own assumptions. As of September 30, 2018, the Company had no assets or liabilities carried at fair value hierarchy Level 3.

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

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

Loans: The Company does not record loans at fair value on a recurring basis. However, loans for which it is probable that the payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired if such payment delinquencies are not considered temporary. The fair value of impaired loans is estimated using the underlying collateral value or the present value of discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected cash flows or collateral value exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. At September 30, 2018, the Company had no impaired loans. At September 30, 2017, substantially all of the Company's impaired loans were evaluated based on the fair value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value that relies upon comparable values from identical sources, the Company records the impaired loan as non-recurring Level 2. When current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan or asset as nonrecurring Level 3. Loans totaling $369,600 were considered impaired at September 30, 2017. None of these impaired loans had specific impairment loss allowances at September 30, 2017.

Foreclosed real estate: Foreclosed real estate is adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at fair value based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value that relies upon comparable values from identical sources, the Company records the foreclosed real estate as non-recurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed real estate as nonrecurring Level 3. At September 30, 2018 and 2017 the Company had no foreclosed real estate.

Presented below is information about assets measured at fair value at September 30, 2018 and 2017:

		Fair Value Measurements using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Signficant Unobservable Inputs (Level 3)
At September 30, 2018:				
US Government agency securities	$ 944,550	$ 944,550	$ -	$ -
FHLMC stock	11,400	11,400	-	-
Foreclosed real estate	-	-	-	-
Impaired loans	-	-	-	-
At September 30, 2017:				
US Government agency securities	$ 1,296,900	$ 1,296,900	$ -	$ -
FHLMC stock	23,500	23,500	-	-
Foreclosed real estate	-	-	-	-
Impaired loans	369,600	-	-	369,600

Fair value of financial instruments: Estimated fair values have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates for the fair value of the Company's financial instruments are not necessarily indicative of the amounts the Company could realize in a current market exchange and do not represent the underlying value of the Company. The use of different market assumptions or estimation methodologies may have a material effect on the fair value amounts. The fair value estimates are based on pertinent information available to management as of September 30, 2018. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

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

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

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

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

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

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

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

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2018 and 2017:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 14,278,400	$ 14,278,400	$ 21,319,800	$ 21,319,800
Certificate of deposits in other banks	23,445,000	23,445,000	26,631,000	26,631,000
Investment securities	955,950	955,950	1,320,400	1,320,400
FHLB stock	93,900	93,900	96,000	96,000
Loans receivable, net of loss allowance	62,404,200	62,349,900	54,584,350	53,648,700
Bank owned life insurance	1,653,150	1,653,150	1,607,000	1,607,000
Accrued interest receivable	208,650	208,650	160,800	160,800
Financial liabilities:				
Deposits	78,022,900	77,695,750	81,400,800	81,733,050
Accrued interest payable	3,600	3,600	4,550	4,550
Dividends payable	78,500	78,500	68,200	68,200

Future Reporting Requirements:

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

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 82510): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU includes the following changes: i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requires the use of exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) allows an equity investment that does not have readily determinable fair values, to be measured at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (v) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and (vii) clarifies that a valuation allowance on a deferred tax asset related to available for sale securities should be evaluated in combination with the organization's other deferred tax assets. This ASU is effective for interim and annual periods beginning after December 15, 2017. The adoption of this update is not expected to have a material impact on the consolidated financial statements.

In June 2016, FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. This ASU is effective for the Company's interim and annual reporting periods beginning on or after October 01, 2021. Early adoption is permitted for all entities beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the ASU on its consolidated financial statements.

During August 2016, FASB issued ASU No. 2016-15 related to the Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The ASU addresses the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this ASU provide guidance on (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The guidance requires application using a retrospective transition method. The adoption of this standard is not expected to have a material impact on our Consolidated Statements of Cash Flows.

In November 2016, the FASB issued ASU No. 2016-18 related to the Statement of Cash Flows. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU does not provide a definition of restricted cash or restricted cash equivalents. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2019.The Company does not expect this guidance will have a material impact on its Consolidated Statements of Cash Flows.

In December 2016, FASB issued ASU No. 2016-19, "Technical Corrections and Improvements" and ASU 2016-20, "Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers." On November 10, 2010 FASB added a standing project that will facilitate the FASB Accounting Standards Codification ("Codification") updates for technical corrections, clarifications, and improvements. These amendments are referred to as Technical Corrections and Improvements. Maintenance updates include non-substantive corrections to the Codification, such as editorial corrections, various link-related changes, and changes to source fragment information. These updates contain amendments that will affect a wide variety of Topics in the Codification. The amendments in these ASUs will apply to all reporting entities within the scope of the affected accounting guidance and generally fall into one of four categories: amendments related to differences between original guidance and the Codification, guidance clarification and reference corrections, simplification, and minor improvements. In summary, the amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Transition guidance varies based on the amendments in the ASUs. The amendments that require transition guidance are effective for fiscal years and interim reporting periods after December 15, 2016. Early adoption is permitted including adoption in an interim period. All other amendments are effective upon the issuance of these ASUs. Neither ASU 2016-19 nor ASU 2016-20 had a material impact on the Company's Consolidated Financial Statements.

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

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

Note 2. Investment Securities, Available for Sale

The amortized cost, fair market value and gross unrealized gains and losses of the Association's available for sale investment securities at September 30, 2018 and 2017 are as follows:

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available for sale securities:				
FHLMC stock	$ 1,750	$ 9,650	$ -	$ 11,400
US Government agency securities	950,000	-	5,450	944,550
	$ 951,750	$ 9,650	$ 5,450	$ 955,950

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

There were no sales of investment securities during 2018 or 2017.

The change during 2018 and 2017 in accumulated other comprehensive income, which consists solely of net unrealized gains associated with available for sale securities, is as follows:

	2018	2017
Accumulated other comprehensive income, beginning of year	$ 11,950	$ 7,050
Change in unrealized gains (losses), net of tax effect of $5,800 in 2018 and $2,800 in 2017	(8,700)	4,900
Accumulated other comprehensive income, end of year	$ 3,250	$ 11,950

The Association, as a member of the Federal Home Loan Bank (FHLB) system, maintains an investment in capital stock of the FHLB of Atlanta. No ready market exists for the bank stock and its market value is equal to its cost due to the redemptive provisions of the FHLB of Atlanta. During 2018, FHLB stock with a cost basis of $2,100 was redeemed at par by the FHLB of Atlanta. In 2017, FHLB stock with a cost basis of $100 was required to be purchased.

US Government agency securities with an amortized cost of $950,000 are pledged to secure public deposits at September 30, 2018. US Government agency securities at September 30, 2018 mature as follows but may be called earlier by the issuer:

	Amortized Cost	Estimated Market Value
Due in less than one year	$ 450,000	$ 448,500
Due in one through five years	500,000	496,050
	$ 950,000	$ 944,550

Note 3. Loans Receivable

Loans receivable consist of the following:	2018	2017
Single family, one-to-four units	$ 29,815,850	$ 26,290,050
Multifamily, residential	505,650	389,800
Commercial real estate	6,176,400	5,784,350
Churches	3,629,900	4,014,950
Land	7,082,400	5,848,050
Residential construction	20,295,650	17,393,500
Commercial construction	3,500,000	-
Equity line mortgages	3,352,600	3,612,100
Loans on deposit accounts	104,200	377,700
	74,462,650	63,710,500
Undisbursed portion of loans in process	(10,494,700)	(7,605,950)
Allowance for loan losses	(1,419,450)	(1,404,450)
Deferred loan fees	(144,300)	(115,750)
	(12,058,450)	(9,126,150)
	$ 62,404,200	$ 54,584,350

The change in the Association's allowance for loan losses is as follows for the years ended September 30, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ 1,404,450	$ 1,489,450
Provision for (recovery of) loan losses	15,000	(160,000)
Charge-offs	-	-
Recoveries	-	75,000
Balance, end of year	$ 1,419,450	$ 1,404,450

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

Year Ended September 30, 2018:

	Residential	Construction	Home Equity	Commercial Real Estate	Land	Loans on Deposits	Total
Balance at September 30, 2017	$ 239,200	$ 258,150	$ 18,000	$ 530,100	$ 359,000	$ -	$ 1,404,450
Provision for loan losses	6,900	26,700	(1,200)	(31,850)	14,450	-	15,000
Charge-offs	-	-	-		-	-	-
Recoveries	-	-	-	-	-	-	-
Balance at September 30, 2018	$ 246,100	$ 284,850	$ 16,800	$ 498,250	$ 373,450	$ -	$ 1,419,450

Year Ended September 30, 2017:

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

As of September 30, 2018:	Residential	Construction	Home Equity	Commercial Real Estate	Land	Loans on Deposits	Total
Portion of ending balance:							
Individually evaluated for Impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for Impairment	$ 246,100	$ 284,850	$ 16,800	$ 498,250	$ 373,450	$ -	$1,419,450
Total loan loss allowances	$ 246,100	$ 284,850	$ 16,800	$ 498,250	$ 373,450	$ -	$1,419,450

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

The following segregates total loans by portfolio segment and impairment methodology as of September 30, 2018 and 2017:

	Residential	Construction	Home Equity	Commercial Real Estate	Land	Loans on Deposits	Total
September 30, 2018:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$30,321,500	$13,300,950	$3,352,600	$ 9,806,300	$7,082,400	$ 104,200	$63,967,950
Total	$30,321,500	$13,300,950	$3,352,600	$ 9,806,300	$7,082,400	$ 104,200	$63,967,950
September 30, 2017:							
Individually evaluated for impairment	$ 51,300	$ -	$ -	$ -	$ 318,300	$ -	$ 369,600
Collectively evaluated for impairment	$26,628,550	$ 9,787,550	$3,612,100	$ 9,799,300	$5,529,750	$ 377,700	$55,734,950
Total	$26,679,850	$ 9,787,550	$3,612,100	$ 9,799,300	$5,848,050	$ 377,700	$56,104,550

Loans are evaluated for credit quality on a recurring basis and the composition of the loans outstanding at September 30, 2018 and 2017 by credit quality indicator is presented below. The credit quality indicators are the same for each portfolio segment.

Loan Origination/Risk Management: The Association has certain lending policies and procedures in place that are designed to enhance the profitability of our lending operations within an acceptable level of risk. Management and the Board of Directors review these policies and procedures on a regular basis. Ongoing monitoring related to loan production, loan quality, concentrations of credit, and loan performance are critical functions of the Association.

Lending concentrations derived from significant borrowing relationships also have a material effect on the qualitative factors that influence the credit risks associated with the size and scope of the Association's loan loss allowances. The Association has several large lending relationships and the Association quantifies that concentration risk by factoring in qualitative factors resulting in the allocation of an additional loan loss allowances established to account for these qualitative considerations. The Association's loan activities are segmented into various lending categories. Such lending diversification allows the Association to mitigate risk associated with changing economic conditions.

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

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

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

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

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

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

- Unclassified/Pass: An unclassified loan is not adversely classified because it does not display any of the characteristics for adverse classification.
- Special Mention: A special mention asset has potential weaknesses that deserve Management's close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or the loan's collateral position in the future. Special Mention assets are not adversely classified and do not warrant adverse classification.
- Substandard: A substandard asset is inadequately protected by the current net worth, paying capacity, or the collateral pledged. Substandard assets generally have well defined weaknesses that jeopardize the orderly liquidation of the debt with the distinct possibility of loss if the deficiencies are not corrected.

The following table shows all loans classified by credit quality indicators for the years ended September 30, 2018 and 2017:

For Year Ended September 30, 2018:	Unclassified	Special Mention	Substandard	Total
Single family, one-to-four units	$ 29,786,400	$ -	$ 29,450	$ 29,815,850
Multifamily, residential	505,650	-	-	505,650
Commercial real estate	6,176,400	-	-	6,176,400
Churches	3,629,900	-	-	3,629,900
Land	6,767,000	8,250	307,150	7,082,400
Residential construction	13,300,950	-	-	13,300,950
Equity line mortgages	3,352,600	-	-	3,352,600
Loans on deposit accounts	104,200	-	-	104,200
	$ 63,623,100	$ 8,250	$ 336,600	$ 63,967,950

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

The Association does not accrue interest on loans past due 90 days or more and interest on certain other loans where collection is in doubt. Such interest is removed from income through the establishment of a reserve for uncollected interest. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal amounts due. At September 30, 2018 and 2017 there were no loans past due 90 days or more and no reserves established for uncollected interest.

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

The following table provides an aged analysis of all outstanding loans by loan class at September 30, 2018 and 2017:

At September 30, 2018:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Accruing
Single family, 1-4 units	$ 174,050	$ -	$ 174,050	$ 29,641,800	$ 29,815,850	$ -
Multifamily, residential	-	-	-	505,650	505,650	-
Commercial real estate	-	-	-	6,176,400	6,176,400	-
Churches	-	-	-	3,629,900	3,629,900	-
Land	8,250	-	8,250	7,074,150	7,082,400	-
Residential construction	-	-	-	13,300,950	13,300,950	-
Equity line mortgages	-	-	-	3,352,600	3,352,600	-
Loans on deposits	-	-	-	104,200	104,200	-
	$ 182,300	$ -	$ 182,300	$ 63,785,650	$ 63,967,950	$ -

At September 30, 2017:

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

A loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement unless the delinquency is considered temporary. An allowance is recorded if the present value of the loan's future cash flows, discounted using the loan's effective interest rate, is less than the carrying value of the loan. An impaired loan can also be valued at its fair value in the market place or on the basis of its underlying collateral if the loan is primarily collateral dependent. If foreclosure is imminent, and the loan is collateral dependent, the loan is valued based upon the fair value of the underlying collateral. Impaired loans, or portions thereof, are charged off when deemed uncollectable. The Association had no impaired loans at September 30, 2018. The following table shows an analysis of impaired loans by loan class as of September 30, 2017:

September 30, 2017:

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

There were no impaired loans at September 30, 2017 which had specific allowances. In addition, there were no loans which were considered troubled debt restructurings in 2018 or 2017.

Note 4. Related Party Loans

Shareholders of the Company with 10% or more ownership and officers and directors, including their families and companies of which they are principal owners, are considered to be related parties. In management's opinion, these loans and transactions were in the ordinary course of business and on the same terms as those for comparable loans and transactions with non-related parties. Loan transactions with related parties during the years ended September 30, 2018 and 2017 were as follows:

	2018	2017
Beginning balance	$ 196,400	$ 261,050
New loans	-	63,000
Repayments	(113,600)	(127,650)
Ending balance	$ 82,800	$ 196,400
Maximum balance during the year	$ 196,400	$ 267,100

Note 5. Property and Equipment

Property and equipment at September 30, 2018 and 2017 are summarized as follows:

	2018	2017
Land	$ 20,950	$ 20,950
Office buildings and improvements	657,500	608,800
Furniture and fixtures	425,050	343,550
	1,103,500	973,300
Less accumulated depreciation	(810,200)	(779,800)
	$ 293,300	$ 193,500

Note 6. Foreclosed Real Estate

The change in the allowance for loss on foreclosed real estate follows for years ended September 30, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ -	$ 54,500
Provision for loss	-	-
Charge-offs	-	(54,500)
Balance, end of year	$ -	$ -

The Company had no foreclosure related expense in 2018 and incurred $7,150 in expense in 2017. The Company also recognized net gains of $850 from the disposal of $265,500 in foreclosed assets during 2017. In addition to the recognized gains, the Company recorded $355,950 in a deferred gain on the sale of a foreclosed property during 2014 that was financed by the Company. The deferred gain is being recognized proportionally as principal is collected on the outstanding loan. Amortized gains totaled $8,550 in both 2018 and 2017.

Note 7. Bank Owned Life Insurance

The Company has entered into Life Insurance Endorsement Method Split Dollar Agreements with certain current and past employees of the Association. Under the agreement, upon death of the insured individual, the Company first recovers the cash surrender value of the contract and then shares the remaining death benefits from the insurance contracts, which are written through two different carriers, with the designated beneficiaries of the insured individual. The death benefit to the insured individual is limited to $25,000 each. The Company, as owner of the policies, reserves the right to terminate the agreements at any time and retains an interest in the life insurance proceeds and a 100% interest in the cash surrender value of the policies. The

Company paid an initial single premium of $1.0 million which is accounted for as cash surrender value and reported as "Bank owned life insurance" in the Company's consolidated statement of financial condition. Increases in the surrender value of the policies are accounted for as other non-interest income. For 2018 and 2017 the increase amounted to $46,150 and $45,650, respectively.

Note 8. Deposits

Deposits at September 30, 2018 and 2017 consisted of:	2018	2017
Passbook accounts	$ 2,858,000	$ 2,975,600
MMDA accounts	28,037,700	27,523,500
NOW accounts	3,605,550	4,052,850
Certificate of deposit accounts	39,037,900	42,725,150
Noninterest-bearing accounts	4,483,750	4,123,700
	$ 78,022,900	$ 81,400,800

Certificate of deposit accounts mature as follows at September 30, 2018:

Matures:	
2019	$ 16,593,900
2020	8,739,650
2021	5,270,000
2022	5,861,900
2023	2,572,450
	$ 39,037,900

Certificate of deposit accounts at September 30, 2018 with a minimum denomination of $250,000 mature as follows:

Maturity Period:	
Within three months	$ 643,600
After three months but within six months	-
After six months but within twelve months	1,070,450
After twelve months	2,908,200
	$ 4,622,250

Note 9. Employees and Directors Benefit Plans

The Association has a 401k plan which covers substantially all employees. The Association matches employee contributions up to 10% and pays the administrative cost of the Plan. Employer contributions to the Plan amounted to $72,750 and $85,250 during 2018 and 2017, respectively. Administrative Plan expense amounted to $8,800 and $6,350 during 2018 and 2017, respectively.

The Association has a non-qualified noncontributory retirement plan covering its directors. Under the plan agreement, upon retirement and having reached the age of 65, directors will receive an undiscounted lump sum payment equal to $50,000. Expense is accrued over the expected service years for each director up to the age of 65. Other stipulations and limitations based on years of service, death and disability, change of control, and early termination apply. Expense associated with the plan amounted to $7,500 and $5,450 in 2018 and 2017, respectively. At September 30, 2018, the Association had accrued $303,350 for this retirement plan obligation and the liability is reported in "accounts payable and accrued expenses" in the consolidated statement of financial condition.

Note 10. Employee Stock Ownership Plan

The Association has an Employee Stock Ownership Plan ("ESOP") to benefit substantially all employees. As a part of the Association's initial public offering in April 1996, the ESOP purchased 41,200 shares of common stock with the proceeds from a loan received from a third party financial institution. The Association made quarterly contributions to the ESOP in amounts sufficient to allow the ESOP to make its scheduled principal and interest payments on the note. The note matured in March 2003. The Association recorded expense based upon the fair value of the shares allocated to plan participants each year. The difference between the cash contributions and the amount expensed was credited or charged to additional paid-in capital. Because all remaining shares under the plan were allocated to participants during 2003, the Company's current expense is only associated with administration of the plan and amounted to $4,650 and $1,500 for 2018 and 2017, respectively.

The ESOP has a put option which requires the Company to repurchase its common stock from participants in the ESOP who elect to receive cash in exchange for their common stock. The Company records a liability for the maximum possible cash obligation to redeem the shares, which is the fair value of such shares. The liability for the put option at September 30, 2018 was $134,050 based upon the market price of the Company's shares at that time. The liability for the put option will fluctuate based upon the fair value of the shares with the resulting increase or decrease reflected as change to retained earnings.

Shares of the Company held by the ESOP at September 30, 2018 and 2017 are as follows:

	2018	2017
Shares originally held by the ESOP	41,200	41,200
Shares released to retired participants	(34,802)	(30,565)
Shares released for allocation and outstanding at year end	6,398	10,635
Fair value of outstanding ESOP shares	$ 134,050	$ 190,600

Note 11. Income Taxes

At September 30, 2018 and 2017 retained earnings contain $1,434,000 in tax related bad debt reserves for which no deferred income taxes have been provided because the Association does not intend to use the reserves for purposes other than to absorb losses. The balance represents the Association's bad debt reserves at September 30, 1988 and the unrecorded deferred income taxes amount to $329,800. If amounts which qualified as bad debt deductions are used for purposes other than to absorb losses or adjustments arising from the carryback of net operating losses, income taxes may be imposed at then existing rates.

Deferred income taxes consist of the following components as of September 30, 2018 and 2017:

	2018	2017
Deferred tax assets:		
Loan loss allowances	$ 326,500	$ 505,600
Health insurance accrual	62,400	85,400
Retirement plan accrual	30,500	45,000
Deferred gain on sale of foreclosed assets	73,150	117,600
	492,550	753,600
Deferred tax liabilities:		
Excess accumulated tax depreciation	20,500	11,200
Bad debt recovery	17,250	-
Unrealized net appreciation, investments	950	6,700
	38,700	17,900
Deferred tax assets, net	$ 453,850	$ 735,700

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

Income tax expense differs from the federal statutory rate of 24.5% (34% in 2017) as follows:

	2018	2017
Statutory federal income tax rate	24.50 %	34.00 %
State income taxes, net of federal benefit	2.27	2.92
Rate differential on temporary timing differences	14.85	-
Nontaxable income from bank owned life insurance	(0.65)	(1.02)
Other changes	(0.68)	0.29
Effective tax rate	40.29 %	36.19 %

The Tax Cuts and Jobs Act (TCJA) was passed in December of 2017 and caused the Company's net deferred tax assets to be revalued and written down. The Company's net deferred tax assets were established when corporate tax rates were at 35% and the recently passed law lowers that rate to 21%. The rate reduction trigged a one-time charge-off because such assets will be less valuable at the lower rate. The write-down of the Company's net deferred tax assets amounted to $266,288 and was expensed as a part of the 2018 income tax provision.

Note 12. Capital

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

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

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

In Thousands	Actual		Minimum Requirements: To Meet Conservation Buffers		To Meet PCA Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2018						
Tier 1 Leverage Ratio	$ 24,560	23.65%	$ 4,154	4.000%	$ 5,336	5.000%
Common Equity Tier 1 Ratio (Risk Based)	$ 24,560	40.34%	$ 3,881	6.375%	$ 3,745	6.500%
Tier 1 Capital Ratio (Risk Based)	$ 24,560	40.34%	$ 4,794	7.875%	$ 4,609	8.000%
Total Capital Ratio (Risk Based)	$ 25,329	41.61%	$ 6,012	9.875%	$ 5,761	10.000%
2017						
Tier 1 Leverage Ratio	$ 24,069	22.55%	$ 4,269	4.000%	$ 5,336	5.000%
Common Equity Tier 1 Ratio (Risk Based)	$ 24,069	41.78%	$ 3,313	5.750%	$ 3,745	6.500%
Tier 1 Capital Ratio (Risk Based)	$ 24,069	41.78%	$ 4,177	7.250%	$ 4,609	8.000%
Total Capital Ratio (Risk Based)	$ 24,798	43.04%	$ 5,329	9.250%	$ 5,761	10.000%

The Company has an ongoing stock repurchase program authorizing the Company to repurchase its common stock, limited only by the regulatory requirements described above and the available cash held solely by Wake Forest Bancshares, Inc. At September 30, 2018 the Company had liquidity to purchase up to an additional $804,250 of its outstanding common stock. The repurchases are made through its transfer agent or registered broker-dealers from shareholders in open market purchases at the discretion of management. The Company intends to hold the shares repurchased as treasury shares, and may utilize such shares to fund stock benefit plans or for any other general corporate purpose as permitted by applicable law. Through September 30, 2018, the Company had repurchased 132,146 shares of its common stock. The program continues until terminated by the Board of Directors.

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

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

At September 30, 2018, the Association had outstanding loan commitments amounting to $3,237,000. The un-disbursed portion of construction loans amounted to $10,494,700 and unused lines of credit amounted to $4,398,550 at September 30, 2018. The Association evaluates each customer's credit worthiness on a case-by-case basis. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Association upon extension of credit, is based on management's credit evaluation of the customer. Collateral held is the underlying real estate.

Note 14. Mutual Holding Company Financial Data

The MHC owns 56.6% of the Company and is registered as a savings and loan holding company and is subject to regulation, examination, and supervision by the Federal Reserve. A summary of the condensed financial statements of the MHC follows:

Wake Forest Bancorp, MHC
Condensed Balance Sheets
September 30, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	$ 111,050	$ 136,600
Accrued dvidends receivable	44,450	38,100
Investment in Wake Forest Bancshares, Inc.	12,649,000	12,242,900
Refundable income taxes	700	2,000
Total assets	$ 12,805,200	$ 12,419,600
Liabilities:		
Accounts payable and accrued expenses	$ 35,100	$ 18,000
Equity:		
Capitalization by Wake Forest Federal	106,350	106,350
Equity in Wake Forest Bancshares, Inc.	3,854,700	3,854,700
Retained earnings	8,809,050	8,440,550
Total equity	12,770,100	12,401,600
Total liabilities and equity	$ 12,805,200	$ 12,419,600

Wake Forest Bancorp, MHC
Condensed Statements of Income
Years Ended September 30, 2018 and 2017

	2018	2017
Revenues:		
Interest income	$ 850	$ 800
Equity in earnings of subsidiary	583,900	539,050
Total income	584,750	539,850
Expenses:		
Accounting and tax expense	31,600	29,800
Director's fees	135,500	121,950
Other	49,150	44,650
Total expense	216,250	196,400
Net income	$ 368,500	$ 343,450

Wake Forest Bancorp, MHC
Condensed Statements of Cash Flows
For the Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net income	$ 368,500	$ 343,450
Equity in earnings of Wake Forest Bancshares, Inc.	(583,900)	(539,050)
Cash dividends	171,450	152,400
(Increase) decrease in refundable income taxes	1,300	300
Increase (decrease) in accounts payable and accrued expenses	17,100	(12,850)
Net cash used in operating activities	(25,550)	(55,750)
Cash and cash equivalents- beginning	136,600	192,350
Cash and cash equivalents- ending	$ 111,050	$ 136,600

Note 15. Parent Company Only Financial Data

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

Wake Forest Bancshares, Inc.
Condensed Balance Sheets
September 30, 2018 and 2017

		2018		2017
Assets:				
Cash and cash equivalents	$	804,250	$	835,500
Accrued dividends receivable, Wake Forest Federal		78,500		68,200
Investment in Wake Forest Federal		23,753,400		23,240,000
Other assets		6,500		6,500
Total assets:	$	24,642,650	$	24,150,200
Liabilities and Equity:				
Accrued dividends payable	$	78,500	$	68,200
Common stock		12,550		12,550
Additional paid-in capital		14,510,850		14,510,850
Retained earnings		12,162,700		11,396,150
Treasury stock acquired		(2,121,950)		(1,837,550)
Total equity		24,564,150		24,082,000
Total liabilities and equity	$	24,642,650	$	24,150,200

Wake Forest Bancshares, Inc.
Condensed Statements of Income
For the Years Ended September 30, 2018 and 2017

		2018		2017
Interest income	$	4,650	$	3,150
Equity in earnings of Wake Forest Federal		1,030,550		967,500
Other expense		(1,400)		(900)
Net income	$	1,033,800	$	969,750

Wake Forest Bancshares, Inc.
Condensed Statement of Cash Flows
For the Years Ended September 30, 2018 and 2017

		2018		2017
Cash Flows from Operating Activities:				
Net income	$	1,033,800	$	969,750
Equity in earnings of Wake Forest Federal		(1,030,550)		(967,500)
Dividends received from Wake Forest Federal		565,000		673,700
Decrease (increase) in accrued dividends receivable		(10,300)		550
Decrease (increase) in other assets		-		850
Net cash provided by operating activities		557,950		677,350
Cash Flows from Financing Activities:				
Treasury stock acquired, net of proceeds from issuances		(284,400)		(170,100)
Increase (decrease) in accrued dividends payable		10,300		(550)
Dividends paid		(315,100)		(273,700)
Net cash used in financing activities		(589,200)		(444,350)
Increase in cash		(31,250)		233,000
Cash and cash equivalents- beginning		835,500		602,500
Cash and cash equivalents- ending	$	804,250	$	835,500

WAKE FOREST BANCSHARES, INC.
COMMON STOCK INFORMATION

The Company's stock (previously as Wake Forest Federal Savings & Loan Association) began trading on April 3, 1996. There are 1,121,802 shares of common stock outstanding (net of treasury shares) of which approximately 43% were held by individual stockholders at September 30, 2018. The MHC and the ESOP hold approximately 57%. There were approximately 137 stockholders of record (not held by brokers) as of September 30, 2018. The Company's stock is not actively traded, although the stock is quoted on the OTC Electronic Bulletin Board under the symbol "WAKE." The table below reflects the stock trading and dividend payment frequency of the Company's stock for the years ended September 30, 2018 and 2017, based upon information provided to management of the Company by certain securities firms effecting transactions in the Company's stock on an agency basis.

		Stock Price	
	Dividends	High	Low
2018			
First Quarter	$ 0.07	$ 20.00	$ 17.92
Second Quarter	0.07	19.75	18.51
Third Quarter	0.07	20.70	19.55
Fourth Quarter	0.07	20.95	20.00
2017			
First Quarter	$ 0.06	$ 16.95	$ 16.20
Second Quarter	0.06	19.45	16.78
Third Quarter	0.06	19.00	17.00
Fourth Quarter	0.06	17.92	17.75

Wake Forest Bancshares, Inc.
Corporate Information

OFFICERS

Renee H. Shaw
President, Chief Executive Officer

Carter S. Harrell
Senior Vice President, Secretary & Treasurer

Millie W. Hale
Vice President, Controller

Wanda R. Keith
Compliance Officer and Internal Auditor

Ann W. Caudle
Vice President

DIRECTORS

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

Randy L. Bright
Funeral Director

Rodney M. Privette
Owner Operator of Insurance Agency

Renee H. Shaw
CEO of the Company

Howard L. Brown
Former Owner Operator of Oil Distribution Company

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

Sue E. Anthony
Owner Operator of Law Firm

John D. Lyon
Real Estate Management

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

STOCK TRANSFER AGENT

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INDEPENDENT AUDITORS

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Raleigh, NC 27607

ANNUAL MEETING

The 2019 annual meeting of stockholders of Wake Forest Bancshares, Inc. will be held at 3:00 pm on Tuesday, February 19, 2019 at the Wake Forest Town Hall at 301 Brooks Street, Wake Forest, N.C.