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

Senior Executive Vice President & CFO
Title of the Holding Company Director and Official

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

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

Thomas J Chmelik
Signature of Holding Company Director and Official

2/15/2019
Date of Signature

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

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2018
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

MainStreet Bancshares, Inc.
Legal Title of Holding Company

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

Fairfax	VA	22030
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Thomas J. Chmelik	SEVP & CFO
Name	Title

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

703-481-4568
Area Code / FAX Number

tchmelik@mstreetbank.com
E-mail Address

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

Is confidential treatment requested for any portion of this report submission? (0=No, 1=Yes) 0

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

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

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

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.

Legal Title of Subsidiary Holding Company	Legal Title of Subsidiary Holding Company
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box	(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box
City State Zip Code	City State Zip Code
Physical Location (if different from mailing address)	Physical Location (if different from mailing address)
Legal Title of Subsidiary Holding Company	Legal Title of Subsidiary Holding Company
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(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box	(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box
City State Zip Code	City State Zip Code
Physical Location (if different from mailing address)	Physical Location (if different from mailing address)

Form FR Y-6
MainStreet Bancshares, Inc.
Fairfax, Virginia
Fiscal Year Ending December 31, 2018

Report Item

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

2a: Organizational Chart:

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

Results: A list of branches for your depository institution: MAINSTREET BANK (ID_RSSD: 3248849).
This depository institution is held by MAINSTREET BANCSHARES, INC. (4977397) of FAIRFAX, VA.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/04/2019.

Reconciliation and Verification Steps

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

Actions

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

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

Submission Procedure

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	Not Required	MAINSTREET BANK	10089 FAIRFAX BOULEVARD	FAIRFAX	VA	22030	FAIRFAX CITY	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	
OK		Full Service	Not Required	CLARENDON BRANCH	1000 N. HIGHLAND STREET	ARLINGTON	VA	22201	ARLINGTON	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	
OK		Full Service	Not Required	FAIRFAX BRANCH	4029 CHAIN BRIDGE ROAD	FAIRFAX	VA	22030	FAIRFAX CITY	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	
OK		Full Service	Not Required	HERNDON BRANCH	727 ELDEN STREET	HERNDON	VA	20170	FAIRFAX	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	
OK		Full Service	Not Required	MCLEAN BRANCH	1354 OLD CHAIN BRIDGE ROAD	MC LEAN	VA	22101	FAIRFAX	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	
ADD	4/18/2018	Full Service	Not Required	LEESBURG BRANCH	307 E MARKET ST	LEESBURG	VA	20176	LOUDOUN	UNITED STATES	Not Required	Not Required	MAINSTREET BANK	3248849	

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

Form FR Y-6
MainStreet Bancshares, Inc.
Fiscal Year Ending December 31, 2018

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2018			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with the power to vote during the fiscal year ending 12-31-18		
(1)(a) Name, City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Wellington Management Company, LLP 280 Congress St. Boston, MA 02210 USA	USA	809,807 9.90%	N/A		
RMB Capital Management, LLC 115 S. LaSalle Street 34th Floor Chicago, IL 60606 USA Previously Mendon Capital Advisors Corporation	USA	785,171 9.60%			
The Banc Funds Co. Chicago, IL 60606 USA	USA	611,070 7.47%			
EJF Sidecar Fund, Series LLC 2107 Wilson Blvd. Arlington, VA 22201 USA	USA	429,914 5.26%			

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

Form FR Y-6
MainStreet Bancshares, Inc.
Fiscal Year Ending December 31, 2018

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (include names of other businesses)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)
Jeff W. Dick Oakton, Virginia USA	N/A	Chairman & CEO	Chairman & CEO MainStreet Bank	N/A	1.79%	N/A	N/A
Thomas J. Chmelik Arlington, Virginia USA	N/A	EVP, CFO & Director	SEVP, CFO & Director MainStreet Bank	N/A	1.20%	N/A	N/A
Chris C. Brockett Ashburn, Virginia USA	N/A	President & Director	President & Director MainStreet Bank	N/A	1.03%	N/A	N/A
Paul Thomas Haddock Loudoun, Virginia USA	Real Estate Investor	Director	Director MainStreet Bank	N/A	0.20%	N/A	N/A
Patsy Rust Herndon, Virginia USA	Retired	Director	Director MainStreet Bank	N/A	0.22%	N/A	N/A
Elizabeth Bennett Herndon, Virginia USA	Business Owner	Director	Director MainStreet Bank	N/A	0.11%	N/A	N/A
Darrell Green Ashburn, Virginia USA	Business Owner	Director	Director MainStreet Bank	N/A	0.15%	N/A	N/A
Terry M. Saeger Potomac Falls, Virginia USA	President of Construction Co.	Director	Director MainStreet Bank	N/A	0.37%	N/A	N/A
Russell Echlov Rye, New York USA	Portfolio Manager	Director	Director MainStreet Bank	N/A	0.01%	N/A	N/A

MainStreet Bancshares Inc.

Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017
With Independent Auditor's Report

CONTENTS | PAGE

Yount Hyde & Barbour
Certified Public Accountants and Consultants

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
MainStreet Bancshares, Inc.
Fairfax, Virginia

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of MainStreet Bancshares, Inc. and its subsidiary (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Yount, Hyde & Barbour, P.C.

We have served as the Company's auditor since 2008.

Richmond, Virginia
February 15, 2019

MainStreet Bancshares Inc.
Consolidated Balance Sheets

December 31,	2018	2017
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 27,886,426	$ 37,492,616
Federal funds sold	30,190,000	—
Total cash and cash equivalents	58,076,426	37,492,616
Investment securities available for sale, at fair value	55,979,182	51,314,180
Investment securities held to maturity (fair value of $26,232,199 and $27,903,552, respectively)	26,177,751	27,516,929
Restricted equity securities, at cost	5,893,700	4,241,250
Loans, net of allowance for loan losses of $8,830,626 and $5,705,451, respectively	917,125,293	654,339,234
Premises and equipment, net	14,221,929	13,964,889
Accrued interest and other receivables	5,148,396	3,849,266
Bank owned life insurance	14,064,039	13,636,598
Other assets	3,926,447	1,596,521
Total Assets	$ 1,100,613,163	$ 807,951,483
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Non-interest bearing deposits	$ 211,748,773	$ 171,571,856
Interest bearing demand deposits	60,588,274	48,432,354
Savings and NOW deposits	51,370,951	47,855,384
Money market deposits	138,152,451	82,827,995
Time deposits	458,276,310	316,967,721
Total deposits	920,136,759	667,655,310
Federal Home Loan Bank advances	40,000,000	48,141,666
Other borrowings	—	5,638,000
Subordinated debt	14,776,300	14,747,525
Other liabilities	4,449,175	2,967,800
Total Liabilities	979,362,234	739,150,301
Stockholders' Equity:		
Preferred stock, $1.00 par value. Authorized 2,000,000 shares; no shares issues and outstanding for December 31, 2018 and 2017.	—	—
Common stock, $4.00 par value. (Authorized 10,000,000 shares; issued and outstanding 8,177,978 shares (including 133,869 nonvested shares) for December 31, 2018 and 5,471,892 shares (including 111,358 nonvested shares) for December 31, 2017	32,176,436	21,442,136
Capital surplus	74,255,935	35,692,805
Retained earnings	15,185,475	11,685,788
Accumulated other comprehensive loss	(366,917)	(19,547)
Total Stockholders' Equity	121,250,929	68,801,182
Total Liabilities and Stockholders' Equity	$ 1,100,613,163	$ 807,951,483

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

MainStreet Bancshares Inc.
Consolidated Statements of Income

Years Ended December 31,	2018	2017
INTEREST INCOME:		
Interest and fees on loans	$ 41,269,922	$ 25,080,364
Interest on investment securities	1,470,476	1,576,130
Interest on federal funds sold	1,095,302	297,159
Total interest income	43,835,700	26,953,653
INTEREST EXPENSE:		
Interest on interest bearing demand deposits	900,183	193,795
Interest on savings and NOW deposits	250,686	182,417
Interest on money market deposits	1,707,893	565,304
Interest on other time deposits	8,065,222	3,114,234
Interest on Federal Home Loan Bank advances and other borrowings	776,111	451,912
Subordinated debt interest expense	966,275	963,567
Total interest expense	12,666,370	5,471,229
Net interest income	31,169,330	21,482,424
Provision for loan losses	3,126,000	1,885,000
Net interest income after provision for loan losses	28,043,330	19,597,424
NON-INTEREST INCOME:		
Deposit account service charges	1,103,450	836,401
Other loan fees	506,785	445,659
Bank owned life insurance income	427,440	434,751
Other operating income	1,200,873	560,680
Total non-interest income	3,238,548	2,277,491
NON-INTEREST EXPENSES:		
Salaries and employee benefits	11,844,681	9,652,288
Occupancy expenses	735,858	605,444
Furniture and equipment expenses	1,858,754	1,271,760
Advertising and marketing	614,373	264,345
Outside services	838,544	663,036
Franchise tax	684,573	451,014
FDIC insurance	733,556	431,696
Data processing	811,065	742,380
Loss on sale of other real estate owned	-	50,735
Other operating expenses	1,857,692	1,525,452
Total non-interest expenses	19,979,096	15,658,150
INCOME BEFORE INCOME TAXES	11,302,782	6,216,765
Income tax expense	2,093,598	2,334,555
NET INCOME	$ 9,209,184	$ 3,882,210
Net income per common share, basic and diluted *(1)*	$ 1.38	$ 0.81
Weighted average number of shares, basic and diluted *(1)*	6,652,979	4,778,748

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

(1) All share and per share amounts for 2018 and 2017 reflect the effect of the 5% stock dividend on April 30, 2018.

MainStreet Bancshares Inc.
Consolidated Statements of Comprehensive Income

Year Ended December 31,	**2018**	**2017**
Net income	$ 9,209,184	$ 3,882,210
Other comprehensive income (loss), net of tax:		
Unrealized securities gains (losses) arising during period (net of tax (benefit), ($102,714) and $86,475, respectively)	(375,550)	167,864
Add: reclassification adjustment for amortization of unrealized losses on securities transferred from available for sale to held to maturity (net of tax, $7,491 and $12,356, respectively)	28,180	23,986
Other comprehensive income (loss)	(347,370)	191,850
Comprehensive income	$ 8,861,814	$ 4,074,060

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

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2016	$ 16,650,188	$ 22,152,193	$ 7,800,365	$ (208,184)	$46,394,562
Proceeds from sale of common stock, net of offering costs	4,600,000	13,215,583	—	—	17,815,583
Vesting of restricted stock grants	191,948	(191,948)	—	—	—
Stock based compensation expense	—	516,977	—	—	516,977
Net income	—	—	3,882,210	—	3,882,210
Reclassification of stranded tax effects from change in tax rate	—	—	3,213	(3,213)	—
Other comprehensive income	—	—	—	191,850	191,850
Balance at December 31, 2017	$ 21,442,136	$ 35,692,805	$ 11,685,788	$ (19,547)	$68,801,182
Proceeds from sale of common stock, net of offering costs	9,473,684	33,238,174	—	—	42,711,858
Vesting of restricted stock grants	182,076	(182,076)	—	—	—
Stock dividend	1,078,540	4,624,241	(5,702,781)	—	—
Cash in lieu of fractional shares	—	—	(6,716)	—	(6,716)
Stock based compensation expense	—	882,791	—	—	882,791
Net income	—	—	9,209,184	—	9,209,184
Other comprehensive loss	—	—	—	(347,370)	(347,370)
Balance at December 31, 2018	$ 32,176,436	$ 74,255,935	$ 15,185,475	$ (366,917)	$121,250,929

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

MainStreet Bancshares Inc.
Consolidated Statements of Cash Flows

Year Ended December 31,	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,209,184	$ 3,882,210
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion, net	1,669,176	1,304,248
Deferred income tax benefit	(1,035,922)	(266,465)
Loss on sale of other real estate owned	—	50,735
Loss on disposal of fixed assets	108,896	—
Provision for loan losses	3,126,000	1,885,000
Stock based compensation expense	882,791	516,977
Income from bank owned life insurance	(427,441)	(434,751)
Subordinated debt amortization expense	28,775	28,775
Changes in assets and liabilities		
Increase in accrued interest and other receivables	(1,299,130)	(1,588,140)
Increase in other assets	(1,152,349)	(77,593)
Increase in other liabilities	1,481,375	1,428,623
Net cash provided by operating activities	12,591,355	6,729,619
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturity of investment securities available for sale	115,000,000	68,000,000
Purchase of investment securities available for sale	(124,915,307)	(85,330,015)
Payments on investment securities available for sale	4,254,020	2,338,964
Purchase of investment securities held to maturity	(500,000)	—
Principal paydowns, calls, maturities on held to maturity	1,655,000	—
Proceeds from sale of other real estate owned	—	83,724
Proceeds from sale of premises and equipment	31,000	—
Net increase in loan portfolio	(265,912,059)	(192,298,489)
Increase in bank owned life insurance	—	(3,000,000)
Purchase of restricted stock	(6,162,850)	(1,452,950)
Redemption of restricted stock	4,510,400	638,000
Purchase of premises and equipment	(1,374,674)	(2,478,231)
Net cash used in investing activities	(273,414,470)	(213,498,997)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in non-interest bearing deposits	40,176,917	65,521,354
Net increase in interest bearing demand, savings and time deposits	212,304,532	128,567,219
Net increase in subordinated debt	—	700,000
Net proceeds from sale of common stock, net of offering costs	42,711,858	17,815,583
Cash paid in lieu of fractional shares	(6,716)	—
Net increase (decrease) in Federal Home Loan Bank advances and other borrowings	(13,779,666)	13,588,000
Net cash provided by financing activities	281,406,925	226,192,156
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,583,810	19,422,778
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	37,492,616	18,069,838
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 58,076,426	$ 37,492,616

Supplemental Disclosure of Cash Flow Information

Income taxes paid	$ 2,620,040	$ 1,853,003
Interest paid	$12,067,737	$ 5,237,086
Net unrealized gain (loss) on securities available for sale	$ (489,025)	$ 254,353

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

MainStreet Bancshares Inc.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 1 - ORGANIZATION

MainStreet Bancshares Inc. (the "Company") is a bank holding company incorporated under the laws of the Commonwealth of Virginia whose principal activity is the ownership and management of MainStreet Bank. On May 18, 2016, the shareholders of MainStreet Bank (the "Bank") approved a Reorganization Agreement and Plan of Share Exchange ("Reorganization") whereby the Bank would reorganize into a holding company structure. The Plan of Share Exchange called for each outstanding share of Bank common stock to be automatically converted into and exchanged for one share of the Company's common stock, and the common shareholders of the Bank would become the common shareholders of the Company on the effective date of the Reorganization. The Company is authorized to issue 10,000,000 shares of common stock with a par value of $4.00 per share. Additionally, the Company is authorized to issue 2,000,000 shares of preferred stock at a par value $1.00 per share. There is currently no preferred stock outstanding. There are no plans currently nor does the Board of Directors of the Company anticipate any need in the foreseeable future to issue shares of preferred stock.

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

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

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Investment securities – The Bank's investment securities are classified as either held to maturity, available for sale or trading. At December 31, 2018 and December 31, 2017, the Bank held approximately \$26.2 million and \$27.5 million, respectively, in securities classified as held to maturity. The Bank held no securities classified as trading. Municipal securities that were originally purchased as available for sale were transferred to held to maturity during 2013. The unrealized loss on the securities transferred to held to maturity is being amortized over the expected life of the securities. At December 31, 2018 and December 31, 2017, the unamortized unrealized loss was \$109,420 and \$145,091, respectively, before tax, and remains in accumulated other comprehensive income (loss), net of tax.

Securities which are not classified as held to maturity or trading are classified as securities available for sale. Securities available for sale are reported at fair value. Any unrealized gain or loss, net of applicable income taxes, is reported as a separate addition to or reduction from stockholders' equity. Gains and losses arising from the sale of securities available for sale are recognized based on the specific identification method on a trade-date basis and included in results of operations.

Securities held to maturity includes securities purchased with the ability and positive intent to hold to maturity. Debt securities are stated at historical cost adjusted for amortization of premiums and accretion of discount. Any investment security, for which there has been a value impairment deemed by management to be other than temporary, is written down to its estimated market value or fair value with a charge to current operations.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether the Bank intends to sell the security, whether it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, and whether the Bank expects to recover the security's entire amortized cost basis. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted equity securities consist of the Federal Reserve Bank and Federal Home Loan Bank of Atlanta ("FHLB") stock in the amount of \$3,340,000 and \$2,426,900 respectively, as of December 31, 2018, compared to \$1,550,150 and \$2,564,300, respectively, as of December 31, 2017. Restricted equity securities also consisted of \$126,800 in Community Bankers Bank stock at December 31, 2018 and December 31, 2017. This restricted stock is recorded at cost because its ownership is restricted and it lacks a market for resale. The Bank is required to maintain Federal Reserve Bank stock at a level of 6% of capital and surplus. The FHLB requires the Bank to maintain stock, at a minimum, in an amount equal to 4.5% of outstanding borrowings and 0.20% of total assets. When evaluating restricted stock for impairment, its value is based on ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Bank does not consider these investments to be other than temporarily impaired at December 31, 2018 or December 31, 2017 and no impairment has been recognized.

Loans - The Bank makes commercial and consumer loans to customers. Our recorded investment in loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their unpaid principal balances adjusted for charge-offs, unearned discounts, any deferred fees or costs on originated loans, and the allowance for loan losses. Interest on loans is credited to operations based on the principal amount outstanding. Loan fees and origination costs are deferred and the net amount is amortized as an adjustment of the related loan's yield using the effective interest method. The Bank is amortizing these amounts over the contractual life of the related loans.

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

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

Troubled Debt Restructuring (TDR) occurs when the Bank agrees to modify the original terms of a loan due to the deterioration in the financial condition of the borrower. TDRs are considered impaired loans. Upon designation as a TDR, the Bank evaluates the borrower's payment history, past due status and ability to make payments based on the revised terms of the loan. If a loan was accruing prior to being modified as a TDR and if the Bank concludes that the borrower is able to continue making such payments, and there are no other factors or circumstances that would cause it to conclude otherwise, the loan will remain on an accruing status. If a loan was on nonaccrual status at the time of the TDR, the loan will remain on nonaccrual status following the modification and may be returned to accrual status based on the policy for returning loans to accrual status as noted above. Restructured loans for which there was no rate concession, and therefore made at a market rate of interest, may be eligible to be removed from TDR status in periods subsequent to the restructuring depending on the performance of the loan. As of December 31, 2018, and

December 31, 2017, the Bank had approximately $3.4 million and $3.5 million of loans classified as TDR, respectively. At December 31, 2018 and 2017, TDR loans consisted of two loans. One loan in the amount of approximately $1.5 million is currently performing in accordance with its modified terms. The other loan in the amount of approximately $1.9 million is on non-accrual.

Allowance for Loan Losses - The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Loan losses are charged against the allowance for loan losses for the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when:

- Management believes that the collectability of the principal is unlikely regardless of delinquency status.
- The loan is a consumer loan and is 120 days past due.
- The loan is a non-consumer loan, unless the loan is well secured and recovery is probable.
- The borrower is in bankruptcy, unless the debt has been reaffirmed, is well secured and recovery is probable.

Subsequent recoveries, if any, are credited to the allowance.

The allowance represents an amount that, in management's judgment, will be adequate to absorb probable losses inherent in the loan portfolio. Management's judgment in determining the level of the allowance is based on evaluations of the collectability of loans while taking into consideration such factors as trends in delinquencies and charge-offs, changes in the nature and volume of the loan portfolio, current economic conditions that may affect a borrower's ability to repay and the value of collateral, overall portfolio quality and review of specific potential losses. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The evaluation also considers the following risk characteristics of each loan portfolio segment:

- Real estate residential mortgage loans, including equity lines of credit, carry risks associated with the continued credit-worthiness of the borrower and the changes in the value of the collateral.
- Real estate construction loans and land improvement carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Commercial real estate loans carry risks of the client's ability to repay the loan from the cash flow derived from the underlying real estate. Risks inherent in managing a commercial real estate portfolio relate to sudden or gradual drops in property values as well as changes in the economic climate. Real estate security diminishes risks only to the extent that a market exists for the subject collateral. These risks are attempted to be mitigated by carefully underwriting loans of this type and by following appropriate loan-to-value standards.
- Commercial and industrial loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.

- Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral (e.g., rapidly-depreciating assets such as automobiles), or lack thereof. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.

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

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

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

Interest income on loans – Interest on loans is accrued and credited to income on daily balances of the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Generally, the Bank will return a loan to accrual status when all delinquent interest and principal becomes current and remains current for six consecutive months under the terms of the loan agreement or the loan is well-secured or in process of collection. Upon returning to accrual status, interest payments applied to the principal balance of a loan while in nonaccrual status are recognized as a yield adjustment over the remaining life.

Loan origination and commitment fees and certain related direct costs - Loan origination and commitment fees charged by the Bank and certain direct loan origination costs are deferred and the net amount is amortized as a yield adjustment. The Bank amortizes these net amounts over the life of the related loans or, in the case of demand loans, over the estimated life. Net fees related to standby letters of credit are recognized over the commitment period.

Premises and equipment – Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization computed principally on the straight-line basis over the estimated useful life of each asset, which ranges from 3 to 27.5 years. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful lives of the improvements. Construction in progress includes assets which will be reclassified and depreciated once placed into service.

Income taxes – The Bank uses an asset and liability approach in financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The principal items relate primarily to differences between the allowance for loan losses, deferred loan fees, and accumulated depreciation and amortization. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of December 31, 2018 and 2017, there were no such liabilities recorded.

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

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

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

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

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Sholes model is used to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards. No stock options were granted during 2018 and 2017.

Earnings per share – Net income per common share has been determined under the provisions of FASB ASC 260, "Earnings Per Share" and has been computed based on the weighted average common shares outstanding during the year (6,652,979 for 2018 and 4,778,748 for 2017 as adjusted for a 5% stock dividend issued April 30, 2018). Diluted earnings per share reflect additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

The only potential dilutive stock of the Bank as defined in FASB ASC 260 is stock options granted to various directors, officers, and employees of the Bank. There were no such options outstanding at December 31, 2018 or 2017. Restricted stock is included in the computation of basic earnings per share as the holder is entitled to full benefits of a shareholder during the vesting period.

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

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

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

The Company's critical accounting policies relate to (1) the allowance for loan losses, (2) fair value of financial instruments, (3) derivative financial instruments, and (4) income taxes. These critical accounting policies require the use of estimates, assumptions and judgments which are based on information available as of the date of the financial statements. Accordingly, as this information changes, future financial statements could reflect the use of different estimates, assumptions and judgments. Certain determinations inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. In connection with the determination of the allowances for losses on loans and valuation of other real estate owned management obtains independent appraisals for significant properties.

Fair value of financial instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 19. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Derivative Financial Instruments – The Bank recognizes derivative financial instruments at fair value as either an other asset or other liability in the consolidated balance sheet. The Bank's derivative financial instruments include interest rate swaps with certain qualifying commercial loan customers and dealer counterparties. Because the interest rate swaps with loan customers and dealer counterparties are not designated as hedging instruments, adjustments to reflect unrealized gains and losses resulting from changes in fair value of these instruments are reported as noninterest income or noninterest expense, as applicable. The Bank's interest rate swaps with loan customers and dealer counterparties are described more fully in Note 18.

Transfers of financial assets – Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Recently Adopted Accounting Pronouncements:

During 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," and all amendments thereto (collectively, ASU 2014-09), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain/loss from the transfer of nonfinancial assets, such as other real estate owned (OREO). The Company adopted ASU 2014-09 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASU 2014-09, while prior period amounts continue to be reported in accordance with pronouncements in effect prior to January 1, 2018. The adoption of ASU 2014-09 did not result in a change to the accounting for any of the in-scope revenue streams; therefore, no cumulative effect adjustment was recorded.

Most revenue associated with the Company's financial instruments, including interest income and gains/losses on investment securities, derivatives and sales of financial instruments are outside the scope of ASU 2014-09. The Company's services that fall within the scope of ASU 2014-09 are presented within noninterest income and are recognized as revenue. A description of the Corporation's primary revenue streams accounted for under ASU 2014-09 follows:

Service Charges on Deposit Accounts. The Company earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the company satisfies the performance obligation.

Other Service Charges and Fees. The Company earns fees from its customers for transaction-based services. Such services include safe deposit box, ATM, stop payment, wire transfer, mortgage origination and interest rate swap fees. In each case, these service charges and fees are recognized in income at the time or within the same period that the Company's performance obligation is satisfied.

Interchange Income. The Company earns interchange fees from debit and credit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

Reclassifications – Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. The reclassifications had no effect on total assets, net income or stockholders' equity as previously reported.

Note 3 – RESTRICTIONS ON CASH

To comply with Federal Reserve regulations, the Bank is required to maintain certain average cash reserve balances. The daily average cash reserve requirements were approximately $7.7 million and $8.2 million for the weeks including December 31, 2018 and December 31, 2017, respectively.

Note 4 - INVESTMENT SECURITIES

The amortized cost, unrealized holding gains and losses, and the fair value of investment securities at December 31, 2018 and 2017, are summarized as follows:

Classified as Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
U.S. Treasury Securities	$ 29,996,462	$ 1,404	$ (298)	$ 29,997,568
Collateralized Mortgage Backed	4,966,941	20,770	(95,074)	4,892,637
Subordinated Debt	2,000,000	14,530	—	2,014,530
Municipal Securities	8,868,962	194	(35,790)	8,833,366
U.S. Government Agencies	10,515,470	—	(274,389)	10,241,081
Total	$ 56,347,835	$36,898	$(405,551)	$ 55,979,182

Classified as Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Municipal Securities	$24,677,751	$314,803	$(260,355)	$24,732,199
Subordinated Debt	1,500,000	—	—	1,500,000
Total	$ 26,177,751	$314,803	$(260,355)	$26,232,199

Classified as Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
U.S. Treasury Securities	$ 29,997,511	$ —	$ (3,318)	$ 29,994,193
Collateralized Mortgage Backed	4,146,657	32,936	(29,050)	4,150,543
Subordinated Debt	2,000,000	111,875	—	2,111,875
Municipal Securities	589,052	33	—	589,085
U.S. Government Agencies	14,460,588	26,582	(18,686)	14,468,484
Total	$ 51,193,808	$ 171,426	$ (51,054)	$ 51,314,180

Classified as Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
Municipal Securities	$ 26,516,929	$557,155	$(170,532)	$ 26,903,552
Subordinated Debt	1,000,000	—	—	1,000,000
Total	$ 27,516,929	$557,155	$(170,532)	$ 27,903,552

At December 31, 2018 there were $258,046 securities pledged to secure FHLB advances. At December 31, 2017 securities with a carrying value of approximately $19.9 million, respectively, were pledged to secure FHLB advances.

The scheduled maturities of investment securities at December 31, 2018 were as follows:

	Available for sale securities	
	Amortized Cost	Fair Value
Due in one year or less	$ 30,020,700	$ 30,022,528
Due after one year through five years	583,039	580,814
Due after five years through ten years	3,022,916	3,022,140
Due after ten years	22,721,180	22,353,700
Total	$ 56,347,835	$ 55,979,182

	Held to maturity securities	
	Amortized Cost	Fair Value
Due after one year through five years	$ 516,329	$ 528,304
Due after five years through ten years	5,894,336	5,974,378
Due after ten years	19,767,086	19,729,517
Total	$ 26,177,751	$ 26,232,199

The following table presents the fair value and unrealized losses for securities at December 31, 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	Investment Securities With Unrealized Losses					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
Securities available for sale:						
U.S. Treasury Securities	$ 4,999,105	$ (298)	—	—	$ 4,999,105	$ (298)
Collateralized Mortgage Backed	1,705,774	(13,930)	$ 2,658,762	$ (81,144)	4,364,536	(95,074)
Municipal Securities	3,683,496	(18,259)	1,588,424	(17,531)	5,271,920	(35,790)
U.S. Government Agencies	6,519,893	(120,786)	3,586,261	(153,603)	10,106,154	(274,389)
Total securities available for sale	$ 16,908,268	$ (153,273)	$ 7,833,447	$(252,278)	$ 24,741,715	$ (405,551)
Securities held to maturity:						
Municipal Securities	$ 1,025,060	$ (4,711)	$ 8,899,362	$ (255,644)	$ 9,924,422	$ (260,355)
Total securities held to maturity	$ 1,025,060	$ (4,711)	$ 8,899,362	$ (255,644)	$ 9,924,422	$ (260,355)

The following table presents the fair value and unrealized losses for available for sale securities by aging category at December 31, 2017:

	Investment Securities With Unrealized Losses					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
Securities available for sale:						
U.S. Treasury Securities	$ 29,994,193	$ (3,318)	—	—	$ 29,994,193	$ (3,318)
Collateralized Mortgage Backed	1,555,578	(10,052)	$1,838,325	$ (18,998)	3,393,903	(29,050)
U.S. Government Agencies	1,349,100	(2,155)	3,387,340	(16,531)	4,736,440	(18,686)
Total securities available for sale	$ 32,898,871	$ (15,525)	$5,225,665	$ (35,529)	$ 38,124,536	$ (51,054)
Securities held to maturity:						
Municipal Securities	$ 704,039	$ (3,647)	$ 5,934,118	$ (166,885)	$ 6,638,157	$ (170,532)
Total securities held to maturity	$ 704,039	$ (3,647)	$ 5,934,118	$ (166,885)	$ 6,638,157	$ (170,532)

The factors considered in evaluating securities for impairment include whether the Bank intends to sell the security, whether it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, and whether the Bank expects to recover the security's entire amortized cost basis. These unrealized losses are primarily attributable to current financial market conditions for these types of investments, particularly changes in interest rates, causing bond prices to decline, and are not attributable to credit deterioration.

At December 31, 2018, there was one U.S. Treasury security with a fair value of approximately $5.0 million, three collateralized mortgage backed securities with fair values totaling approximately $1.7 million, three U.S. government agencies with fair values totaling $6.5 million, and ten municipal securities with fair values totaling $4.7 million considered temporarily impaired and in an unrealized loss position of less than 12 months. At December 31, 2018, there were six collateralized mortgage backed securities with fair values totaling $2.7 million, six U.S. government agencies with fair values totaling approximately $3.6 million, and nineteen municipal securities with fair values totaling $10.5 million that were in an unrealized loss position of more than 12 months. The Bank does not consider the securities in the available for sale or held to maturity portfolio to be other-than-temporarily impaired at December 31, 2018 and December 31, 2017. There were no securities sold during 2018 and 2017.

All municipal securities originally purchased as available for sale were transferred to held to maturity during 2013. The unrealized loss on the securities transferred to held to maturity is being amortized over the expected life of the securities. The unamortized, unrealized loss, before tax, at December 31, 2018 and December 31, 2017 was $109,420 and $145,091, respectively.

Note 5 – LOANS

Loans are summarized as follows at December 31,

	2018	2017
Residential Real Estate		
Single family	$ 139,619,796	$ 112,428,967
Multifamily	9,182,324	13,366,435
Farmland	825,412	–
Commercial real estate		
Owner occupied	121,621,348	101,112,303
Non-owner occupied	256,139,046	149,222,755
Construction and Land Development	183,551,129	103,591,969
Commercial – Non Real Estate		
Commercial & industrial	114,220,883	90,152,045
Consumer – Non Real Estate		
Unsecured	1,402,202	2,382,296
Secured	100,875,147	88,376,644
Total Gross Loans	927,437,287	660,633,414
Less: unearned fees	(1,399,781)	(356,068)
Less: unamortized discount on consumer secured loans	(81,587)	(232,661)
Less: allowance for loan losses	(8,830,626)	(5,705,451)
Net Loans	$ 917,125,293	$ 654,339,234

The consumer loans above include $452,190 and $955,362 of overdrafts reclassified as loans for the years ended December 31, 2018 and 2017, respectively.

The Bank held no loans for sale at December 31, 2018 and 2017.

Impaired Loans By Class
December 31, 2018

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Residential Real Estate					
Single family	$ 1,510,104	$ 1,510,104	—	$ 1,525,832	$ 61,953
With an allowance recorded:					
Commercial Real Estate					
Owner occupied	1,939,392	1,939,392	$ 732,892	1,939,392	—
Total:					
Residential Real Estate	$ 1,510,104	$ 1,510,104	—	$ 1,525,832	$ 61,953
Commercial Real Estate	1,939,392	1,939,392	$ 732,892	1,939,392	—

Impaired Loans By Class
December 31, 2017

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Residential Real Estate					
Single family	$ 1,541,560	$ 1,541,560	—	$ 1,556,669	$ 63,192
Commercial Real Estate					
Owner occupied	1,939,392	1,939,392	—	1,950,595	59,588
With an allowance recorded:					
Residential Real Estate					
Single family	90,745	90,745	$ 19,870	90,745	—
Total:					
Residential Real Estate	$ 1,632,305	$ 1,632,305	$ 19,870	$ 1,647,414	$ 63,192
Commercial Real Estate	1,939,392	1,939,392	—	1,950,595	59,588

No additional funds are committed to be advanced in connection with impaired loans.

There were no nonaccrual loans at December 31, 2018 and December 31, 2017 excluded from the impaired loan disclosure. If interest on nonaccrual loans had been accrued, such income would have been $142,962 and $105,923 in 2018 and 2017, respectively.

Credit Quality By Class

As of December 31, 2018

INTERNAL RISK RATING GRADES	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Residential Real Estate						
Single family	$ 138,482,315	$ 755,390	—	$ 382,091	—	$139,619,796
Multifamily	9,182,324	—	—	—	—	9,182,324
Farmland	825,412	—	—	—	—	825,412
Commercial Real Estate						
Owner occupied	117,905,314	1,776,642	—	—	$1,939,392	121,621,348
Non-owner occupied	256,139,046	—	—	—	—	256,139,046
Construction & Land Development	183,551,129	—	—	—	—	183,551,129
Commercial – Non Real Estate						
Commercial & industrial	110,630,779	1,333,403	$ 2,256,701	—	—	114,220,883
Consumer - Non Real Estate						
Unsecured	1,402,202	—	—	—	—	1,402,202
Secured	100,875,147	—	—	—	—	100,875,147
Totals	$ 918,993,668	$ 3,865,435	$ 2,256,701	$ 382,091	$ 1,939,392	$927,437,287

Credit Quality By Class

As of December 31, 2017

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

Loans Past Due and Nonaccruals

As of December 31, 2018

	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due and Still Accruing	Total Past Due	Current	Nonaccruals	Total Loans
Residential Real Estate							
Single family	—	—	—	—	$139,619,796	—	$139,619,796
Multifamily	—	—	—	—	9,182,324	—	9,182,324
Farmland	—	—	—	—	825,412	—	825,412
Commercial Real Estate							
Owner Occupied	—	—	—	—	119,681,956	$ 1,939,392	121,621,348
Non-owner occupied	—	—	—	—	256,139,046	—	256,139,046
Construction and Land Development	—	—	—	—	183,551,129	—	183,551,129
Commercial - Non Real Estate							
Commercial & Industrial	—	—	—	—	114,220,883	—	114,220,883
Consumer - Non Real Estate							
Unsecured	$ 49,875	$ 9,578	$ 11,157	$ 70,610	1,331,592	—	1,402,202
Secured	57,404	4,768	—	62,172	100,812,975	—	100,875,147
Total	$ 107,279	$ 14,346	$ 11,157	$ 132,782	$925,365,113	$1,939,392	$927,437,287

Loans Past Due and Nonaccruals

As of December 31, 2017

	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due and Still Accruing	Total Past Due	Current	Nonaccruals	Total Loans
Residential Real Estate							
Single family	—	—	—	—	$112,338,222	$ 90,745	$112,428,967
Multifamily	—	—	—	—	13,366,435	—	13,366,435
Commercial Real Estate							
Owner Occupied	—	—	—	—	99,172,912	1,939,391	101,112,303
Non-owner occupied	—	—	—	—	149,222,755	—	149,222,755
Construction and Land Development	—	—	—	—	103,591,969	—	103,591,969
Commercial - Non Real Estate							
Commercial & Industrial	—	—	—	—	90,152,045	—	90,152,045
Consumer - Non Real Estate							
Unsecured	$ 12,277	$ 45,193	$ 10,415	$ 67,885	2,314,411	—	2,382,296
Secured	91,589	22,985	3,851	118,425	88,258,219	—	88,376,644
Total	$ 103,866	$ 68,178	$ 14,266	$ 186,310	$658,416,968	$2,030,136	$660,633,414

Note 6 - ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses are summarized as follows for the year ended December 31, 2018 and 2017:

Allowance for Credit Losses By Portfolio Segment

As of December 31, 2018

	Real Estate					
	Residential	Commercial	Construction	Consumer	Commercial	Total
Allowance for credit losses:						
Beginning Balance	$ 789,330	$ 2,338,778	$ 833,356	$ 741,541	$1,002,446	$ 5,705,451
Charge-offs	—	—	—	(44,048)	—	(44,048)
Recoveries	431	38,334	—	2,637	1,821	43,223
Provision	229,618	1,921,487	635,105	126,170	213,620	3,126,000
Ending Balance	$ 1,019,379	$ 4,298,599	$ 1,468,461	$ 826,300	$1,217,887	$ 8,830,626
Ending Balance:						
Individually evaluated for Impairment	—	$ 732,892	—	—	—	$ 732,892
Collectively evaluated for Impairment	$ 1,019,379	$ 3,565,707	$ 1,468,461	$ 826,300	$ 1,217,887	$ 8,097,734
Loans Receivable:						
Ending Balance:						
Individually evaluated for Impairment	$ 1,510,104	$ 1,939,392	—	—	—	$ 3,449,496
Collectively evaluated for Impairment	$148,117,428	$375,821,002	$183,551,129	$102,277,349	$114,220,883	$923,987,791

Allowance for Credit Losses By Portfolio Segment

As of December 31, 2017

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

No loans were modified under the terms of a TDR during the years ended December 31, 2018 and 2017, and there were no loans modified as TDR's that subsequently defaulted during the years ended December 31, 2018 and 2017 that were modified as TDR's within the twelve months prior to default.

Note 7 - RELATED PARTY TRANSACTIONS

The Bank grants loans and letters of credit to its executive officers, directors and their affiliated entities. Such loans are made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated persons, and, in the opinion of management, do not involve more than normal risk or present other unfavorable features.

The aggregate amount of such loans outstanding at December 31, 2018 was approximately $1.1 million, compared to $3.1 million at December 31, 2017. During 2018, new loans and line of credit advances to such related parties was approximately $159,975 compared to $241,000 during 2017. Repayments on loans to directors and officers were $1.4 million and $469,000 during 2018 and 2017, respectively. There was approximately $700,000 in loans that was no longer classified as related party credits. The Bank maintains deposit accounts with some of its executive officers, directors and their affiliated entities. Such deposit accounts at December 31, 2018 and December 31, 2017 amounted to approximately $3.2 million and $2.7 million, respectively.

Note 8 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows at December 31:

	2018	2017
Cost		
Building	$ 12,346,994	$ 9,727,109
Land	2,855,518	2,407,018
Leasehold improvements	147,580	461,879
Furniture, fixtures and equipment	2,318,793	1,591,958
Computer software and equipment	1,082,768	1,549,515
	18,751,653	15,737,479
Less accumulated depreciation	(4,529,724)	(4,128,463)
Construction in progress	–	2,355,873
Premises and equipment, net	$ 14,221,929	$ 13,964,889

Depreciation and amortization charged to operations was $977,738 and $822,262 during the years ended December 31, 2018 and December 31, 2017, respectively.

Note 9 - DEPOSITS

Time deposits in denominations of $250,000 or more totaled approximately $117.3 million and $63.4 million at December 31, 2018 and 2017, respectively.

At December 31, 2018, maturities of time deposits are as follows:

	Year ended December 31,
2019	$ 287,911,839
2020	50,775,065
2021	29,198,456
2022	7,216,767
2023	24,853,152
Thereafter	58,321,031
Total	$ 458,276,310

Brokered deposits, as defined by the FDIC, totaled approximately $140.8 million and $102.9 million at December 31, 2018 and December 31, 2017, respectively.

Note 10 – BORROWED FUNDS

On October 25, 2005, the Bank entered into a fifteen-year principal reducing credit agreement ("PRC") with the FHLB in the amount of $750,000. Interest accrues at the rate of 5.24% and is due October 26, 2020. Principal reductions occur monthly commencing on November 25, 2005, in the amount of $4,167. The balance on the PRC as of December 31, 2017 was $141,666, and was paid off during 2018.

On July 23, 2015, the Bank entered into a six-month callable fixed rate credit ("FRC") floater with the FHLB in the amount of $10.0 million. Interest accrues at a rate of 2.32% with a maturity date of July 23, 2020 and a next option date of January 23, 2019.

On July 23, 2015, the Bank entered into a nine-month callable FRC floater with the FHLB in the amount of $10.0 million. Interest accrues at a rate of 2.46% with a maturity date of October 23, 2020 and a next option date of April 23, 2018.

On July 23, 2015, the Bank entered into a one-year callable FRC floater with the FHLB in the amount of $10.0 million. Interest accrues at a rate of 2.59% with a maturity date of July 23, 2020 and a next option date of July 23, 2019.

On November 4, 2015, the Bank entered into two three-month callable FRC floaters with the FHLB in the amount of $5.0 million each. Interest accrues at a rate of 1.33% with a maturity date of November 4, 2020. The balance on each of the FRCs were paid off during 2018.

On December 29, 2017, the Bank entered into a daily rate credit ("DRC") with the FHLB in the amount of $8.0 million. Interest accrues at a rate of 1.59% with a maturity date of December 31, 2018. The balance on the DRC was paid off during 2018.

On December 31, 2018, the Bank entered into a DRC with the FHLB in the amount of $10.0 million. Interest accrues at a rate of 2.65% with a maturity date of December 31, 2019. The balance on the DRC was subsequently paid off on January 3, 2019.

The Bank also has a credit availability agreement with the FHLB based on a percentage of total assets. As of December 31, 2018, the credit availability with FHLB is approximately $264.1 million. This credit availability agreement provides the Bank with access to a myriad of advance products offered by the FHLB. The rate of interest charged is based on market conditions. At December 31, 2018, there were 158 specific loans comprised of commercial real estate and multi-family loans totaling $174.2 million were used to collateralize FHLB advances. There was one security pledged as collateral to secure FHLB advances for the amount of $258,046 at December 31, 2018.

The following summarizes the contractual maturities of long-term FHLB advances at December 31, 2018:

2019	$ 10,000,000
2020	30,000,000
	$ 40,000,000

The average balance on FHLB advances for the years ending December 31, 2018 and December 31, 2017 was approximately $39.0 million and $42.4 million, respectively. The weighted average interest rate paid at December 31, 2018 and 2017 was 2.51% and 1.43%, respectively. The weighted average rate of borrowings outstanding at December 31, 2018 and 2017 was 1.98% and 1.06%, respectively.

On December 31, 2017, the Bank purchased $5.6 million in federal funds for four days from Community Bankers Bank at a rate of 2.25%. There were no such purchases at December 31, 2018.

Note 11 – INCOME TAXES

The Company files tax returns in the U.S. Federal jurisdiction. With few exceptions, the Bank is no longer subject to tax examination by tax authorities for years prior to 2014.

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

For the tax years 2018 and 2017, the Company filed and will file a consolidated federal income tax returns and will for the foreseeable future.

The provision for income taxes consists of the following components:

	2018	2017
Current expense	$ 3,129,520	$ 2,601,020
Deferred (benefit)	(1,035,922)	(1,018,020)
Deferred tax adjustment for enacted change in tax rate	–	751,555
Total	$ 2,093,598	$ 2,334,555

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

Income tax expense differed from amounts computed by applying the U.S. federal income tax rate of 21% in 2018 and 34% in 2017 to income before income tax expense as a result of the following:

	Year ended December 31, 2018	2017
Computed "expected" income tax expense	$ 2,384,722	$ 2,115,182
Increase (decrease)in income taxes resulting from:		
Non-deductible expense	22,380	27,384
Tax exempt Interest	(173,002)	(253,989)
BOLI Income	(89,762)	(147,815)
Restricted Stock Adjustment	(50,740)	(144,855)
Deferred Tax Asset Adjustment	–	751,555
Other Adjustments	–	(12,907)
Total	$ 2,093,598	$ 2,334,555

The tax effects of temporary differences result in deferred tax assets and liabilities as presented below:

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Allowance for loan losses	$ 1,728,888	$ 978,443
Restricted stock	199,266	97,591
Nonaccrual interest	50,412	24,600
Net loan fees	293,954	74,774
Organizational Costs	6,866	7,420
Depreciation	—	12,023
Unrealized loss on securities available for sale	77,417	—
Unrealized losses on securities transferred to held to maturity	22,978	38,100
Gross deferred tax assets	2,379,781	1,232,951
Deferred tax liabilities:		
Depreciation	45,173	—
Unrealized gain on securities available for sale	—	32,909
Prepaid expense	10,280	6,841
Gross deferred tax liabilities	55,453	39,750
Net deferred tax asset	$ 2,324,328	$ 1,193,201

Note 12 – EARNINGS PER SHARE

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock which then shared in the earnings of the Bank. There were no such potentially dilutive securities outstanding in 2018 or 2017. On April 30, 2018, the Company issued a 5% stock dividend to stockholders on record as of April 9, 2018.

The weighted average number of shares used in the calculation of basic and diluted earnings per share includes unvested restricted shares of the Company's common stock outstanding. Applicable guidance requires that outstanding un-vested share based payment awards that contain voting rights and rights to non-forfeitable dividends participate in undistributed earnings with common shareholders.

	2018	2017
Net income	$ 9,209,184	$ 3,882,210
Weighted average number of shares, basic and diluted *(1)*	6,652,979	4,778,748
Basic and diluted EPS (weighted average shares)	$ 1.38	$ 0.81

(1) All share and per share amounts for 2018 and 2017 reflect the effect of the 5% stock dividend on April 30, 2018.

Note 13 - COMMITMENTS AND CONTINGENCIES

The Bank was obligated under a non-cancelable operating lease, which expired in 2014, for its office facility located at 727 Elden Street. After this lease expiration, the Bank entered into a lease for 3,400 square feet on the first floor. The lease commenced on May 1, 2014 and expires on April 30, 2019. The Herndon lease provides for monthly payments of $7,667 that increase 2% annually over the lease term. The lease also includes three renewal periods of 60 months each. The Bank is liable for payment of the pro-rata portion of general operating expenses of the leased property.

The Bank entered into a lease for the branch in Fairfax, Virginia during 2007. The lease commenced on January 1, 2007 and expired on December 31, 2016. The lease includes two renewal option periods of five years each. The Bank exercised the first five-year renewal option on November 3, 2015. Under this option, the lease agreement commenced on November 1, 2016 and expires on November 1, 2021, and will provide for monthly payments of $7,957 that increase 3% annually over the lease term.

The Bank entered into a lease with D.C. Stadium, LLC in 2018. The lease commenced on January 1, 2018 and expires on December 31, 2027. The lease agreement provides for annual payments of $100,000 that increase 3% annually after the first five years for the remainder of the lease.

Total rent expense for the occupancy leases for the years ended December 31, 2018 and 2017 was $212,820 and $206,348, respectively.

Minimum annual rental commitments under the lease obligations are as follows for the years ended December 31:

2019	$ 201,627
2020	198,837
2021	184,413
2022	100,000
Thereafter	571,841
	$ 1,256,718

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

The amounts of loan commitments and standby letters of credit are set forth in the following table as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
Loan commitments	$ 253,032,763	$ 158,553,160
Standby letters of credit	$ 711,700	$ 1,060,642
Commercial letters of credit	$ —	$ 27,278

Commitments to extend credit and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the statements of financial condition. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank. The Bank has not incurred any losses on commitments in 2018 or 2017.

Note 14 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Substantially all the Bank's loans, commitments and standby letters of credit have been granted to customers located in the greater Washington, D.C. Metropolitan Area. The concentrations of credit by type of loan are set forth in Note 5.

The Bank maintains its cash and federal funds sold in correspondent bank deposit accounts. The amount on deposit at December 31, 2018 exceeded the insurance limits of the Federal Deposit Insurance Corporation by $7.9 million. The Bank has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks.

Note 15 - REGULATORY MATTERS

The Bank, as a state bank, is subject to the dividend restrictions set forth by federal and state banking regulations. Under such restrictions, the Bank may not, without the prior approval of regulatory agencies, declare dividends in excess of the sum of the current year's earnings plus the retained earnings from the prior two years. As of December 31, 2018, the Bank declared a 5% stock dividend that did not exceed the current year's earnings. As of December 31, 2017 there were no declared dividends.

As a member of the Federal Reserve Bank system, the Bank is required to subscribe to shares of $100 par value Federal Reserve Bank Stock equal to 6% of the Bank's capital and surplus. The Bank is only required to pay for one-half of the subscription. The remaining amount is subject to call when deemed necessary by the Board of Governors of the Federal Reserve.

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

The Basel III Capital Rules, a new comprehensive capital framework for U.S. banking organizations, became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2018 is 1.875% and 1.25% for 2017. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total capital, Common Equity Tier 1 capital, and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018, the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2018 and 2017, the most recent notification from the Federal Reserve Bank of Richmond categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum total risk-based, Common Equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Company's and the Bank's category.

The Company's and the Bank's actual regulatory capital amounts and ratios as of December 31, 2018 and 2017 are presented in the table below.

(000's except for percentages)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2018						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 143,728	13.89%	$ 82,807	>8.0%	N/A	N/A
Bank	$ 142,360	13.75%	$ 82,807	>8.0%	$ 103,509	>10.0%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 121,621	11.75%	$ 46,579	>4.5%	N/A	N/A
Bank	$ 133,529	12.90%	$ 46,579	>4.5%	$ 82,807	>8.0%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 121,254	11.71%	$ 62,105	>6.0%	N/A	N/A
Bank	$ 133,529	12.90%	$ 62,105	>6.0%	$ 82,807	>8.0%
Tier 1 Capital						
(to Average Assets)						
Consolidated	$ 121,621	11.30%	$ 43,056	>4.0%	N/A	N/A
Bank	$ 133,529	12.41%	$ 43,056	>4.0%	$ 53,820	>5.0%

As of December 31, 2017						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 88,287	12.09%	$ 58,402	>8.0%	N/A	N/A
Bank	$ 83,457	11.43%	$ 58,402	>8.0%	$ 73,003	>10.0%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 68,834	9.43%	$ 32,851	>4.5%	N/A	N/A
Bank	$ 77,752	10.65%	$ 32,851	>4.5%	$ 58,402	>8.0%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 68,834	9.43%	$ 43,802	>6.0%	N/A	N/A
Bank	$ 77,752	10.65%	$ 43,802	>6.0%	$ 58,402	>8.0%
Tier 1 Capital						
(to Average Assets)						
Consolidated	$ 68,834	9.23%	$ 29,836	>4.0%	N/A	N/A
Bank	$ 77,752	10.42%	$ 29,836	>4.0%	$ 37,295	>5.0%

Note 16 – DEFINED CONTRTIBUTION BENEFIT PLAN

The Bank adopted a 401(k) defined contribution plan on October 1, 2004, which is administered by UBS Securities. Participants have the right to contribute up to a maximum of 15% of pretax annual compensation or the maximum allowed by the Internal Revenue Code, whichever is less. The Bank began making a matching contribution to the plan on January 1, 2010. The Bank matches dollar for dollar up to 3% of the employee's contribution and then fifty cents on the dollar on the next two percentage points up to the employee contribution of 5%. The total amount the Bank matched during 2018 and 2017 was $332,762 and $277,575, respectively.

Note 17 - STOCK BASED COMPENSATION PLAN

ASC Topic 718, *Compensation – Stock Compensation,* requires the Bank to recognize expense related to the fair value of share-based compensation awards in net income. Total compensation expense for restricted stock recorded for the years ended December 31, 2018 and December 31, 2017 were $882,791 and $516,977, respectively.

On May 17, 2006, the Bank's stockholders approved the MainStreet Bank 2006 Incentive Stock Plan (the "2006 Plan"), which authorizes the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, and stock awards to employees and non-employee directors. Under the 2006 Plan, subject to capital adjustments, the maximum number of shares of the Bank's common stock that may be issued is 186,638 plus the number of shares of common stock represented by awards previously made under the MainStreet Bank 2004 Stock Option and Incentive Plan (the "2004 Plan") that were outstanding on, and that expire or are otherwise terminated or forfeited after, May 17, 2006. As a result of the stockholders' approval of the 2006 Plan, no additional awards have been or will be made under the Bank's 2004 Plan, although all awards that were outstanding under the 2004 Plan as of May 17, 2006 remained outstanding in accordance with their terms.

On March 16, 2015, there were 18,000 stock options under the 2004 Plan that expired. There are no remaining options outstanding under the 2004 or 2006 Plans at December 31, 2018. Stock options are no longer issued, and there have been no stock options exercised to date. All options were expired as of December 31, 2016.

At December 31, 2018, there were 133,869 restricted shares outstanding that were awarded under the 2006 Plan. During the year ended December 31, 2018, there were 70,193 restricted shares awarded, 2,163 restricted shares were forfeited, and no stock options were awarded under the 2006 Plan. The restricted shares awarded during 2018 vest equally on an annual basis over a three to five year period. Per share information reflects the stock dividend on April 30, 2018.

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

A summary of the status of the Bank's nonvested restricted stock shares as of December 31, 2018 and changes during the year ended December 31, 2018 is presented below:

Nonvested Restricted Stock Shares *(1)*	**Shares**	**Weighted Average Grant Date Fair Value**
Nonvested at January 1, 2018	111,358	$ 11.61
Granted	70,193	17.31
Forfeited	(2,163)	17.40
Vested	(45,519)	12.12
Nonvested at December 31, 2018 *(1)*	133,869	$ 14.34

(1) All share and per share amounts for 2018 and 2017 reflect the effect of the 5% stock dividend on April 30, 2018.

As of December 31, 2018, there was $1.1 million of total unrecognized compensation cost related to nonvested restricted stock awards. The cost is expected to be recognized over approximately five years. The total fair value of shares vested during the years ended December 31, 2018 and 2017 was $858,818 and $756,483, respectively.

NOTE 18: DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative financial instruments (or "derivatives") primarily to manage risks to the Bank associated with changing interest rates, and to assist customers with their risk management objectives. The Bank classifies these items as free standing derivatives consisting of customer accommodation loan swaps (or "loan swaps"). The Bank enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Bank simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Bank receives a floating rate. These back-to-back loan swaps qualify as financial derivatives with fair values reported in "Other assets" and "Other liabilities" in the Consolidated Financial Statements. Changes in fair value are recorded in other noninterest expense and net to zero because of the identical amounts and terms of the swaps.

The following tables summarize key elements of the Banks's derivative instruments as of December 31, 2018

	(000's) December 31, 2018				
	Notional Amount	Positions	Assets	Liabilities	Collateral Pledges
Customer-related interest rate contracts:					
Matched interest rate swap with borrower	36,607	5	1,192	—	1,290
Matched interest rate swap with counterparty	36,607	5	—	1,192	1,290

Note 19 – DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

In accordance with the guidance, a hierarchy of valuation techniques is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. The three levels of the fair value hierarchy under FASB ASC 820 based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

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

Securities available for sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. As of December 31, 2018 and 2017, the Bank's entire portfolio of available for sale securities are considered to be Level 2 securities.

Derivative asset (liability) – interest rate swaps on loans

As discussed in "Note 18: Derivative Financial Instruments", the Bank recognizes interest rate swaps at fair value on a recurring basis. The Bank has contracted with a third party vendor to provide valuations for these interest rate swaps using standard valuation techniques and therefore classifies such interest rate swaps as Level 2.

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

		(000's) Fair Value Measurements at December 31, 2018 Using		
Description	**Balance as of December 31, 2018**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Available for sale securities:				
U.S. Treasury Securities	$ 29,998	—	$ 29,998	—
Collateralized Mortgage Backed	4,893	—	4,893	—
Subordinated Debt	2,015	—	2,015	—
Municipal Securities	8,833	—	8,833	—
U.S. Government Agencies	10,241	—	10,241	—
Derivative asset – interest rate swap on loans	1,192	—	1,192	—
Total	$ 57,172	—	$ 57,172	—
Liabilities:				
Derivative liability – interest rate swap on loans	$ 1,192	—	$ 1,192	—
Total	$ 1,192	—	$ 1,192	—

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

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

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

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

Impaired loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Bank because of marketability, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Statements of Income.

Other real estate owned

Other real estate owned ("OREO") is measured at fair value less cost to sell, based on an appraisal conducted by an independent, licensed appraiser outside of the Bank. If the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Bank because of marketability, then the fair value is considered Level 3. OREO is measured at fair value on a nonrecurring basis. Any initial fair value adjustment is charged against the Allowance for Loan Losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense on the Statements of Income. The Bank did not have other real estate owned as of December 31, 2018 and 2017.

The following table summarizes the value of the Bank's assets as of December 31, 2018 that were measured at fair value on a nonrecurring basis during the period:

(000's)

		Carrying Value at December 31, 2018 Using		
Description	**Balance as of December 31, 2018**	**Quoted Prices In Active Markets for Identical (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Impaired Loans				
Commercial Real Estate Owner Occupied	$ 1,207	—	—	$ 1,207

The following table summarizes the value of the Bank's assets as of December 31, 2017 that were measured at fair value on a nonrecurring basis during the period:

		(000's)		
		Carrying Value at December 31, 2017 Using		
Description	**Balance as of December 31, 2017**	**Quoted Prices In Active Markets for Identical (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Impaired Loans				
Residential Real Estate				
Single family	$ 71	—	—	$ 71

The following table summarizes how the Bank determined fair value for assets as of December 31, 2018 that were measured at fair value on a nonrecurring basis during the period:

		(000's)		
		Fair Value Measurements at December 31, 2018		
Description	**Fair Value**	**Valuation Technique(s)**	**Unobservable Inputs**	**Discount**
Assets:				
Impaired Loans				
Commercial Real Estate				
Owner Occupied	$ 1,207	Sales Comparison Approach	Adjustment for differences in comparable sales and age; selling costs	10% - 15%

The following table summarizes how the Bank determined fair value for assets as of December 31, 2017 that were measured at fair value on a nonrecurring basis during the period:

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

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

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

Cash and due from banks and federal funds sold or purchased

The carrying amount is a reasonable estimate of fair value.

Interest bearing deposits

The carrying amount is a reasonable estimate of fair value.

Securities

The fair value of securities is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. The carrying value of restricted stock approximates fair value based on the redemption provisions.

Loans

The fair value of performing loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar remaining maturities. This calculation ignores loan fees and certain factors affecting the interest rates charged on various loans such as the borrower's creditworthiness and compensating balances and dissimilar types of real estate held as collateral. The fair value of impaired loans is measured as described within the Impaired Loans section of this note.

During 2018, the Company adopted ASU 2016-01, *"Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities."* ASU 2016-01 makes targeted improvements to several areas of U.S. GAAP including the disclosure of the fair value of financial instruments that are not measured at fair value on a recurring basis. The new guidance, among other things, (i) eliminates the requirements to disclose the methods and significant assumptions used to estimate the fair value and the description of the changes therein, if any, during the period, (ii) requires the use of the exit price notion in calculating the fair values of financial instruments not measured at fair value on a recurring basis and (iii) eliminates the guidance that allowed the use of the entry price notion to calculate the fair value of certain financial instruments, such as loans and long-term debt. Accordingly, the Company measured its loan portfolio as of December 31, 2018 using an exit price notion.

Bank Owned Life Insurance

The carrying amounts of bank owned life insurance approximate fair value.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Deposits

The fair values of non-interest-bearing demand deposits, interest-bearing demand deposits and savings and money market deposits are equal to their carrying amounts since the amounts are payable on demand. The fair value of fixed maturity certificates of deposit is estimated by discounting scheduled cash flows through maturity using interest rates currently offered for deposits of similar remaining maturities.

Borrowings

The fair values of long-term borrowings is estimated using a discounted cash flow calculation that applies to contracted interest rates being paid on the debt to the current market interest rate of similar debt. The carrying values of short-term borrowings maturing within ninety days are approximate to fair values.

Commitments to extend credit and standby letters of credit

The only amounts recorded for commitments to extend credit and standby letters of credit are the deferred fees arising from these unrecognized financial instruments. These deferred fees are not material at December 31, 2018 and 2017, and as such, the related fair values have not been estimated.

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

		(000's) Fair Value Measurements at December 31, 2018 Using			
	Carrying Value	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value Balance
Financial assets:					
Cash and due from banks	$ 58,076	$ 58,076	$ —	$ —	$ 58,076
Restricted equity securities	5,894	—	5,894	—	5,894
Securities					
Available for sale	55,979	—	55,979	—	55,979
Held to maturity	26,178	—	26,323	—	26,323
Loans, net	917,125	—	—	897,765	897,765
Derivative asset – interest rate swap on loans	1,192	—	1,192	—	1,192
Bank owned life insurance	14,064	—	14,064	—	14,064
Accrued interest receivable	4,333	—	4,333	—	4,333
Financial liabilities:					
Deposits	$ 920,137	$ —	$ 463,552	$ 457,365	$ 907,308
Federal Home Loan Bank	40,000	—	39,848	—	39,848
Derivative liability – interest rate swap on loans	1,192	—	1,192	—	1,192
Accrued interest payable	1,103	—	1,103	—	1,103

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

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-balance sheet and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred income taxes and bank premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Note 20 – OTHER REAL ESTATE OWNED

Other real estate owned is presented net of an allowance for losses. An analysis for the allowance for losses on other real estate owned is as follows:

		2018		2017
Balance, beginning of year	$	—	$	134,459
Sales		—		(134,459)
Balance, end of year	$	—	$	—

Expenses applicable to other real estate owned include the following:

		2018		2017
Net loss on sales of real estate	$	—	$	50,735
Operating expenses, net of rental income		—		2,731
Balance, end of year	$	—	$	53,466

As of December 31, 2018, there were no residential real estate loans in the process of foreclosure.

Note 21 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the cumulative balances of the components of accumulated other comprehensive income (loss) net of deferred taxes, as of December 31, 2018 and 2017:

		2018		2017
Unrealized gain/(loss) on securities	$	(357,892)	$	120,372
Unrealized loss on securities transferred to HTM		(109,420)		(145,091)
Tax effect		100,395		5,172
Total accumulated other comprehensive loss	$	(366,917)	$	(19,547)

Note 22 – CAPITAL OFFERING

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

On August 24, 2018, the Company completed a capital offering which raised $42.7 million net of offering costs. The Company sold an aggregate of 2,368,421 shares of common stock at a price of $19.00 per share. The issuance of additional shares of common stock is accretive to the Company's current book value. The Bank will use the proceeds of the offering to facilitate strategic initiatives, support organic growth and market expansion activities, and for general corporate purposes.

Note 23 – SUBORDINATED NOTES

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

Note 24 – CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

Condensed financial statements pertaining only to the Company are presented below. The investment in subsidiary is accounted for using the equity method of accounting.

The Bank paid the Company a cash dividend of $100,000 on December 20, 2016, after the Reorganization became effective, in order to capitalize the bank holding company. The payment of dividends by the subsidiary is restricted by various regulatory limitations. Banking regulations also prohibit extensions of credit to the parent company unless appropriately secured by assets. For more detail on dividends see Note 15 – REGULATORY MATTERS.

Condensed Parent Company Only
Condensed Balance Sheet

December 31,	2018	2017
ASSETS		
Cash on deposit with subsidiary	$ 1,617,158	$ 5,099,542
Investment in subsidiary	133,162,111	77,735,261
Other receivables	1,247,960	713,904
Total Assets	$ 136,027,229	$ 83,548,707
Liabilities:		
Subordinated debt, net of debt issuance costs	$ 14,776,300	$ 14,747,525
Stockholders' equity	121,250,929	68,801,182
Total Liabilities and Stockholders' Equity	$ 136,027,229	$ 83,548,707

Condensed Statement of Income

For the Year Ended December 31,	2018	2017
INCOME		
Dividends from subsidiary	$ —	$ —
Income before equity in undistributed earnings of subsidiary	—	—
Undistributed earnings of subsidiary	9,974,219	4,518,164
Subordinated debt interest expense	966,275	963,567
Non-interest expense	1,670	—
NET INCOME BEFORE INCOME TAXES	$ 9,006,274	$ 3,554,597
Income tax expense (benefit)	(202,910)	(327,613)
NET INCOME	$ 9,209,184	$ 3,882,210

Condensed Statement of Cash Flows

Year Ended December 31,	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,209,184	$ 3,882,210
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of subsidiary	(9,974,219)	(4,518,164)
Stock based compensation	882,791	516,977
Subordinated debt amortization expense	28,775	28,775
Increase in other receivables	(537,552)	(1,230,881)
Net cash used in provided by operating activities	(391,021)	(1,321,083)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in bank subsidiary	(45,803,213)	(13,713,708)
Net cash used in investing activities	(45,803,213)	(13,713,708)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of subordinated debt, net of debt issuance costs	—	700,000
Net proceeds from sale of common stock, net of offering costs	42,711,858	17,815,583
Net cash provided by financing activities	42,711,858	18,515,583
NET INCREASE IN CASH AND CASH EQUIVALENTS	(3,482,384)	3,480,792
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,099,542	1,618,750
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,617,158	$ 5,099,542

Note 25 – SUBSEQUENT EVENTS

In accordance with ASC 855-10/SFAS 165, the Bank evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Bank evaluated subsequent events through February 15, 2019.

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

Note 26 - IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The FASB made subsequent amendments to Topic 842 in July 2018 through ASU 2018-10 ("Codification Improvements to Topic 842, Leases.") and ASU 2018-11 ("Leases (Topic 842): Targeted Improvements.") Among these amendments is the provision in ASU 2018-11 that provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 840, Leases). The effect of adopting this standard on January 1, 2019 was an approximate $2.7 million increase in assets and liabilities on our consolidated balance sheet.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

The amendments in this ASU are effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Company has formed an exploratory group to analyze our data and work with our projected vendor in order to run parallel allowance models to prepare for changes related to this accounting change.

In March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities." The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company does not expect the adoption of ASU 2017-08 to have a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this ASU modify the designation and measurement guidance for hedge accounting as well as provide for increased transparency regarding the presentation of economic results on both the financial statements and related footnotes. Certain aspects of hedge effectiveness assessments will also be simplified upon implementation of this update. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. This ASU was further amended in October 2018 by ASU 2018-16, which adds the Overnight Index Swap rate as a U.S. benchmark interest rate. These amendments will be effective concurrently with ASU 2017-12. The Company does not expect the adoption of ASU 2017-12 to have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, "Compensation- Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." The amendments expand the scope of Topic 718 to include share-based payments issued to non-employees for goods or services, which were previously excluded. The amendments will align the accounting for share-based payments to nonemployees and employees more similarly. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-07 to have a material impact on its consolidate financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.