AMENDED

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, Roger Sebesta
Name of the Holding Company Director and Official

Chief Financial Officer
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.*

Roger Sebesta
Signature of Holding Company Director and Official

August 01, 2017
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, 2016
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

WALLIS BANCSHARES, INC
Legal Title of Holding Company

6510 RAILROAD
(Mailing Address of the Holding Company) Street / P.O. Box

WALLIS	TX	77485
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

IDALINA LIMON	VP CONTROLLER/WALLIS STATE BANK
Name	Title

713-935-3783
Area Code / Phone Number / Extension

713-239-9603
Area Code / FAX Number

idalina.limon@wallisbank.com
E-mail Address

N/A
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.

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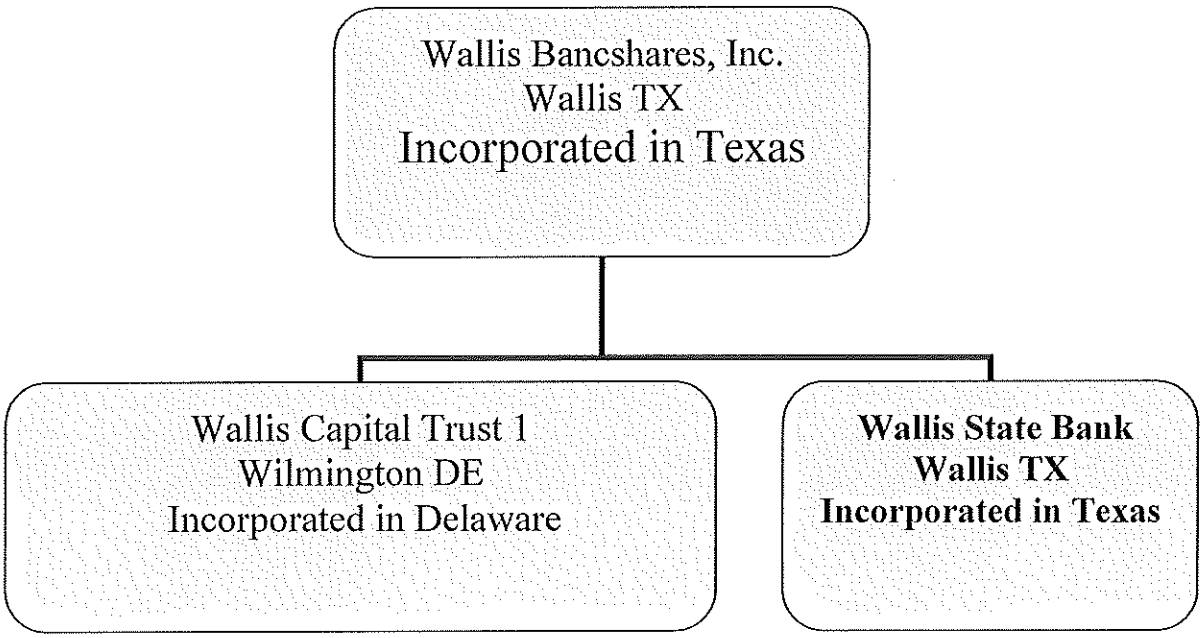
Form FRY-6

Wallis Bancshares, Inc.
Wallis TX 77485

Report Item

2 (a): Organizational Chart



Wallis Bancshares, Inc. owns 100% of Wallis Capital Trust 1
And 100% of The Wallis State Bank.

LEI for all entities is not available.

AMENDED

Form FRY-6
Wallis Bancshares, Inc.
Fiscal Year Ending December 31, 2016

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

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31/2017			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2017		
(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
Musa A. Dakri Houston, TX, US	USA	621,534- 80.52930% Common Stock	N/A		

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Form FRY-6
Wallis Bancshares, Inc.
Fiscal Year Ending December 31, 2016

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

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company (include names of subsidiaries)	(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)
Asif M. Dakri Houston TX	N/A	Director/President/Vice Chairman of the Board	Director/CEO Vice Chairman of the Board (Wallis State Bank)/President	N/A	.28400%	N/A	N/A
Faizel Dakri Houston, TX	N/A	Director/Executive Vice President	Director/Executive Vice President /Chief Information Officer (Wallis State Bank)	N/A	N/A	N/A	N/A
Musa A. Dakri Houston TX	N/A	Director/Chairman of the Board	Director of the Bank and Chairman of the Board (Wallis State Bank)	Member/ Energy Corp Exploration Group LC Member/ 4507 Ivanhoe LLC Member/ Kempwood MBA Investments LLC	80.52930%	N/A	EnergyCorp Exploration LTD 33% 4507 Ivanhoe LLC 100% Kempwood MBA Investments LLC 33%

AMENDED

Form FRY-6
Wallis Bancshares, Inc.
Fiscal Year Ending December 31, 2016

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

Ayaz I. Nasser Houston TX	Real Estate Developer	Director	Director (Wallis State Bank)	Member/Invest Corp Capital Holdings LLC Member/Zenith International Holdings Group Ltd Member/ EnergyCorp Exploration Group LC Member/Zenith Institutional Group Ltd Member/InvestCorp International Holdings Ltd. Member/ Kempwood MBA Investments LLC	N/A	N/A	InvestCorp Capital Holdings LLC-50% Zenith International Holdings Group Ltd 39.56% Energycorp Exploration Group LC 33.33% Zenith Institutional Group Ltd. 39.56% InvestCorp International Holdings Ltd 50% Kempwood MBA Investments LLC 33.00%
Roger Sebesta Houston TX	N/A	Director/Executive Vice President	Director/Chief Financial Officer (Wallis State Bank)	N/A	.23322%	N/A	N/A

AMENDED

Form FRY-6
Wallis Bancshares, Inc.
Fiscal Year Ending December 31, 2016

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

Robert Adam Houston TX	N/A	Director	Director (Wallis State Bank)	President/Adam & Bing P.C. Director/Gessner @ Hempstead Ltd Owner/ Robert & Linda Adam, Ltd	N/A	N/A	Adam & Bing P.C. 100% Gessner @ Hempstead LTD 25% Robert and Linda Adam, Ltd 100%
William Burge Houston TX	Real Estate Developer	Director	Director (Wallis State Bank	President/Ayrshire Corporation Managing Partner/Ashley Point Development, LP Member/ Kempwood MBA Investments LLC	N/A	N/A	Ayrshire Corporation 100% Ashley Point Development, L.P. 75% Kempwood MBA Investments LLC 33%
Guido Piggott Houston, TX	N/A	Director	Director/Executive Vice President (Wallis State Bank)	Manager/Bucklong LLC	N/A	N/A	Bucklong LLC 50%
Nasrullah Khan Houston, TX	N/A	Director	Director/Executive Vice President (Wallis State Bank)	Partner/Southmore Partners, Ltd.	.13876%	N/A	Southmore Partners, Ltd 50%
Jeff Moseley Houston, TX	N/A	Director	Director (Wallis State Bank)	Vice President/ Pearl Valley (S Corp)	N/A	N/A	Pearl Valley (S Corp) 49%

AMENDED

Form FRY-6
Wallis Bancshares, Inc.
Fiscal Year Ending December 31, 2016

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

Umit Pecen Houston, TX	N/A	Advisory Director	Advisory Director (Wallis State Bank)	N/A	N/A	N/A	N/A
Manuel R. Gonzalez Houston, TX	N/A	Advisory Director	Advisory Director (Wallis State Bank)	N/A	N/A	N/A	N/A

WALLIS BANCSHARES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

CONTENTS

HARPER & PEARSON
COMPANY, P.C. CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Wallis Bancshares, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Wallis Bancshares, Inc. (the Company) which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wallis Bancshares, Inc. as of December 31, 2016 and 2015, 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.

Harper & Pearson Company, P.C.

Houston, Texas
March 30, 2017

One Riverway · Suite 1900 · Houston, Texas 77056-1973 · 713.622.2310 · 713.622.5613 fax
harperpearson.com

ASSETS	**2016**	**2015**
Cash and noninterest-bearing deposits at other banks	$ 34,683,658	$ 28,767,726
Interest-bearing deposits at other banks	10,831,054	19,656,008
Total cash and cash equivalents	45,514,712	48,423,734
Securities available for sale	12,715,946	10,182,596
Federal Home Loan Bank stock	651,900	1,646,800
Loans, net of unearned fees and unearned discounts	405,241,426	355,782,359
Less allowance for possible credit losses	(3,872,584)	(3,225,760)
Loans, net	401,368,842	352,556,599
Premises and equipment, net	23,002,747	22,885,429
Other real estate owned	150,000	2,949,309
Bank owned life insurance	4,224,248	4,112,059
Loan servicing rights	2,859,325	2,681,156
Accrued interest receivable	1,224,222	1,063,593
Investment in Trust I	310,000	310,000
Prepaid expenses	304,042	387,042
Other assets	995,531	486,478
Total Assets	$ 493,321,515	$ 447,684,795
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing demand	$ 157,930,436	$ 131,669,395
Interest-bearing demand and savings	139,761,127	129,780,478
Interest-bearing time	125,757,014	111,451,124
Total Deposits	423,448,577	372,900,997
Federal Home Loan Bank advances	11,451,986	25,238,247
Subordinated debt	14,230,246	10,310,000
Accrued interest payable	261,738	177,549
Property taxes payable	1,720	151
Other liabilities	1,118,387	1,685,864
Total Liabilities	450,512,654	410,312,808
Commitments and Contingent Liabilities		
Shareholders' Equity		
Common stock, $0.01 par value, 1,500,000 class A voting shares and 1,500,000 class B non-voting shares authorized, 771,811 and 765,224 class A shares and 741,818 and 735,231 class B shares issued and outstanding at December 31, 2016, and 2015, respectively	15,137	15,005
Capital surplus	18,252,270	17,831,901
Retained earnings	24,945,151	19,762,387
Accumulated other comprehensive loss	(403,697)	(237,306)
Total Shareholders' Equity	42,808,861	37,371,987
Total Liabilities and Shareholders' Equity	$ 493,321,515	$ 447,684,795

See accompanying notes to consolidated financial statements.

	2016	2015
INTEREST INCOME		
Interest and fees on loans	$ 24,014,506	$ 20,991,498
Securities available for sale	172,695	186,957
Deposits at other banks	189,268	97,712
Other investments	20,431	9,528
Total interest income	24,396,900	21,285,695
INTEREST EXPENSE		
Interest-bearing demand and savings	909,407	870,788
Interest-bearing time	1,164,925	888,107
Federal Home Loan Bank advances	293,379	500,887
Subordinated debt and other borrowed funds	291,976	170,582
Total interest expense	2,659,687	2,430,364
NET INTEREST INCOME	21,737,213	18,855,331
PROVISION FOR POSSIBLE CREDIT LOSSES	900,000	850,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	20,837,213	18,005,331
NONINTEREST INCOME		
Service charges	2,630,239	2,211,690
Loan servicing fees, net	596,251	582,681
Other fee income	193,653	197,241
Bank owned life insurance	112,189	113,556
Gain on sale of loans	4,953,579	5,546,611
Gain on sale of securities	135,150	-
Loss on disposition and write downs of other real estate owned, net	(322,507)	(500,000)
Gain (loss) on disposition of premises and equipment, net	27,393	(4,780)
Other income	534,795	334,135
Total noninterest income	8,860,742	8,481,134
NONINTEREST EXPENSES		
Salaries and employee benefits	11,727,803	10,746,752
Occupancy and equipment expense	1,809,961	1,742,202
Depreciation and amortization	1,614,706	1,460,111
Data processing	899,596	732,858
Regulatory and insurance	357,606	285,621
Office and communications expense	455,813	571,855
Audit and legal fees	372,554	392,133
Other professional and outside service fees	321,102	324,586
Other real estate owned	26,837	175,338
Marketing and business development	268,875	264,511
Courier and postage	379,217	323,733
Other operating expenses	506,121	463,537
Total noninterest expenses	18,740,191	17,483,237
CONSOLIDATED NET INCOME	$ 10,957,764	$ 9,003,228

See accompanying notes to consolidated financial statements.

WALLIS BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Consolidated net income	$ 10,957,764	$ 9,003,228
Change in net unrealized losses on securities available for sale	(31,241)	146,631
Reclassification adjustment, net gains included in income	(135,150)	-
Other comprehensive (loss) income	(166,391)	146,631
Total comprehensive income	$ 10,791,373	$ 9,149,859

See accompanying notes to consolidated financial statements.

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2014	$ 15,005	$17,831,901	$15,859,159	$ (383,937)	$33,322,128
Distributions paid	-	-	(5,100,000)	-	(5,100,000)
Consolidated net income	-	-	9,003,228	-	9,003,228
Change in net unrealized loss on available for sale securities	-	-	-	146,631	146,631
Balance, December 31, 2015	15,005	17,831,901	19,762,387	(237,306)	37,371,987
Common stock issued	132	420,369	-	-	420,501
Distributions paid	-	-	(5,775,000)	-	(5,775,000)
Consolidated net income	-	-	10,957,764	-	10,957,764
Change in net unrealized loss on available for sale securities	-	-	-	(166,391)	(166,391)
Balance, December 31, 2016	$ 15,137	$18,252,270	$24,945,151	$ (403,697)	$42,808,861

See accompanying notes to consolidated financial statements.

WALLIS BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	$ 10,957,764	$ 9,003,228
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Provision for possible credit losses	900,000	850,000
Depreciation and amortization	1,614,706	1,460,111
Amortization of loan servicing rights	981,495	723,825
Net amortization on securities	104,437	24,669
Increase in cash value bank owned life insurance	(112,189)	(113,556)
Gain on sale of loans	(4,953,579)	(5,546,611)
Gain on sale of securities	(135,150)	-
Loss on disposition and write downs of other real estate owned, net	322,507	500,000
(Gain) loss on sale of premises and equipment, net	(27,393)	4,780
Change in operating assets and liabilities:		
Increase in loan servicing rights	(1,159,664)	(1,303,165)
Accrued interest receivable	(160,629)	(171,374)
Prepaid expenses and other assets	(464,104)	(266,098)
Accrued interest payable	84,189	11,984
Property taxes payable	1,569	(504,349)
Other liabilities	(146,976)	226,437
Total adjustments	(3,150,781)	(4,103,347)
Net cash provided by operating activities	7,806,983	4,899,881
CASH FLOWS FROM INVESTING ACTIVITIES:		
Securities available for sale:		
Purchases, net	(9,391,784)	(1,612,262)
Proceeds from paydowns	550,734	86,820
Proceeds from sales	6,172,021	-
Sale (purchase) of Federal Home Loan Bank stock	994,900	(966,800)
Net increase in loans	(44,758,665)	(49,699,964)
Proceeds from sale of premises and equipment	34,526	36,000
Purchases of premises and equipment	(1,701,104)	(1,360,929)
Proceeds from disposition of other real estate owned	2,476,802	-
Net cash used by investing activities	(45,622,570)	(53,517,135)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	26,261,041	20,786,659
Net increase in interest-bearing deposits	9,980,649	13,135,730
Net increase in interest-bearing time deposits	14,305,890	113,720
Repayment of Federal Home Loan Bank advances	(13,786,261)	(1,230,259)
Federal Home Loan Bank borrowings	-	15,000,000
Proceeds from issuance of subordinated debt, net	3,920,246	-
Distributions to shareholders	(5,775,000)	(5,100,000)
Net cash provided by financing activities	34,906,565	42,705,850
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,909,022)	(5,911,404)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	48,423,734	54,335,138
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 45,514,712	$ 48,423,734

See accompanying notes to consolidated financial statements.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of Operations - The Company, through its bank subsidiary, operates eleven banking offices in Wallis, Fulshear, City of Meadows Place, San Antonio, Dallas, Richardson and Houston, Texas and Los Angeles, California. The Bank is primarily engaged in the business of accepting retail deposits and funding real estate, commercial and consumer loans. The Bank operates under a state charter and is subject to regulation by the Texas Department of Banking and the Federal Deposit Insurance Corporation (FDIC). The Company is regulated by the Federal Reserve Board. The Company's primary source of revenue comes from activities of the Bank subsidiary.

Basis of Presentation - The accompanying consolidated financial statements include the accounts of the Wallis Bancshares, Inc. (the Company) and its wholly owned subsidiary Wallis State Bank (the Bank). Trust I is also a wholly owned subsidiary of the Company. The accounts of Trust I are not included in the consolidated financial statements which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Instead, the Company's financial statements reflect an investment in Trust I along with the debt owed to the subsidiary trust. See Note K for additional disclosures related to Trust I. All significant intercompany transactions and accounts have been eliminated.

The accounting and reporting policies of the Company and the Bank conform, in all material respects, to U.S. GAAP and to prevailing practices within the financial services industry. A summary of significant accounting and reporting policies follows.

Subsequent Events - The Company has evaluated subsequent events for potential recognition and/or disclosure through March 30, 2017, the date the consolidated financial statements were available to be issued, and has determined that no material subsequent events have occurred which would require adjustment or disclosure to the consolidated financial statements at December 31, 2016.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for possible credit losses and the estimated fair values of securities and other financial instruments.

Cash Flow Reporting - Cash and cash equivalents include cash, interest-bearing and noninterest-bearing deposits with other financial institutions that have an initial maturity of 90 days or less, and federal funds sold. Cash flows are reported net for loans, deposits and short-term borrowings. Supplemental cash flow information follows:

	2016	2015
Cash paid during the year for interest	$ 2,575,498	$ 2,418,380
Real estate assets acquired through foreclosure	$ -	$ 1,691,809

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Securities Available for Sale - Securities available for sale are accounted for on a trade date basis. Premiums and discounts are amortized and accreted to operations using the level-yield method of accounting, adjusted for prepayments as applicable. Interest earned on these assets is included in interest income. The specific identification method of accounting is used to compute gains or losses on the sales of these assets.

Securities available for sale are carried at fair value. Unrealized gains and losses are excluded from earnings and reported as other comprehensive income or loss as a separate component of shareholders' equity until realized. Securities within the available for sale portfolio may be used as part of management's asset/liability strategy and may be sold in response to changes in liquidity, interest risk, prepayment risk or other similar economic factors.

Investment securities classified as available for sale are generally evaluated for other-than-temporary impairment (OTTI) as required under U.S. GAAP. In determining OTTI, management considers many factors, including: (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and the ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether the Company intends to sell the security or will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or it is likely that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the consolidated balance sheet dates. If the Company does not intend to sell the security and it is not likely that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors shall be recognized in other comprehensive income. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment.

Federal Home Loan Bank Stock - Banks that are members of the Federal Home Loan Bank (FHLB) are required to maintain a stock investment in the FHLB calculated as a percentage of aggregate outstanding mortgages, outstanding FHLB advances, and other financial instruments. FHLB stock is capital stock that is bought from and sold to the FHLB at $100 par value. Both stock and cash dividends may be received on FHLB stock and are recorded when received as interest income.

Investment in stock of the FHLB is considered a restricted investment with limited marketability and is stated at cost as management believes the par value is ultimately recoverable.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Loans - Loans are stated at unpaid principal balances, less the allowance for possible credit losses, unearned discount, and net deferred loan fees. Interest on loans is recognized by using the simple interest method.

Government Guaranteed Loans - The Company originates loans that are partially guaranteed by the United States Government through the U.S. Small Business Administration (SBA) and the U.S. Department of Agriculture (USDA) and, as is customary with these loans, the Company will often sell the guaranteed portion of these loans as market conditions and pricing allow for a gain to be recorded on the sale. Loan sales are recorded when control over the transferred asset has been relinquished. Control over the transferred portion is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

In calculating the gain on the sale of government guaranteed loans, the Company's investment in the loan is allocated among the unguaranteed portion of the loan, the servicing amount retained, and the guaranteed portion of the loan sold, based on the relative fair market value of each portion. The gain on the sold portion of the loan is recognized based on the difference between the sale proceeds and the allocated investment.

Loan Servicing - Servicing assets are recognized as separate assets when servicing rights are acquired through the sale of financial assets. Servicing assets are initially recorded at fair market value and amortized in proportion to and over the remaining life of the loan and assessed for impairment based on fair value at each reporting date. Fair market value is based on the gross rate less an assumed contractual servicing cost.

The Company accounts for its servicing rights under the amortization method with an impairment assessment performed annually. At December 31, 2016 and 2015, management determined the servicing rights asset was not impaired.

Servicing fee income is recorded for fees earned from servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of the loan servicing rights is netted against loan servicing fee income.

Nonrefundable Fees and Costs Associated with Lending Activities - Loan origination and commitment fees in excess of management's estimate of related costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the straight-line method. Management does not deem the effect of this method of deferring origination fees to be substantially different from deferring origination fees and direct origination costs and amortizing those fees and costs separately over the life of the loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status. If the loan is subject to charge off, the remaining balance of deferred fees is applied against the principal balance.

Nonperforming Loans - Included in the nonperforming loan category are loans which have been categorized by management as nonaccrual because of delinquency status or because collection of interest is doubtful and loans which have been restructured to provide a below market reduction in the interest rate or a deferral of interest or principal payments.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

When the payment of principal or interest on a loan is delinquent for 90 days, or earlier in some cases, the loan is placed on nonaccrual status, unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan and the probability that the Company will collect all principal and interest amounts outstanding.

When a loan is placed on nonaccrual status, interest accrued and uncollected during the current year prior to the judgment of uncollectibility, is charged to operations unless the loan is well secured with collateral values sufficient to ensure collection of both principal and interest. Generally, any payments received on nonaccrual loans are applied first to outstanding loan amounts and next to the recovery of charged-off loan amounts. Any excess is treated as recovery of lost interest. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is defined as impaired if, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments.

The allowance for possible credit losses related to impaired loans is determined based on the difference between the carrying value of loans, or recorded investment, and the present value of expected cash flows discounted at the loan's effective interest rate or, as a practical expedient, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Interest income received on impaired loans is either applied against principal or realized as interest income, according to management's judgment as to the collectability of principal.

<u>Troubled Debt Restructurings</u> - The Company will classify a loan as a troubled debt restructuring if both (i) the borrower is experiencing financial difficulties and (ii) the borrower has been granted a concession. Concessions may include interest rate reductions below market interest rates, principal forgiveness, restructuring payment schedules and other actions intended to minimize potential losses. Interest is generally accrued on such loans in accordance with the new terms.

<u>Allowance for Possible Credit Losses</u> - The allowance for possible credit losses is a reserve established through a provision for possible credit losses charged to expense, which represents management's best estimate of probable losses within the existing portfolio of loans. All losses are charged to the allowance for possible credit losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries are credited to the allowance at the time of recovery.

The allowance, in the judgment of management, is necessary to reserve for the estimated loan losses and risks inherent in the loan portfolio and is calculated in accordance with regulatory guidance and U.S. GAAP. Therefore, the level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Portions of the allowance may be allocated for specific credits; however, generally, the entire allowance is available for any credit that, in management's judgment, should be charged-off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications.

Concentrations of Risk - The Company's investments are subject to various levels of risk associated with economic and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Company's investments. In determining fair value of these investments, management obtains information, which is considered reliable, from third parties in order to value its investments. Due to the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks could materially impact the amounts reflected herein.

The Company's loans and loan commitments have been granted to customers in the Company's market area. The Company's loans are typically secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. The concentrations of credit by type of loan are set forth in Note D. It is the Company's policy to not extend credit to any single borrower or group of related borrowers in excess of the Bank's legal lending limit as defined by state and federal banking regulations.

Interest Rate Risk - The Company is principally engaged in providing short-term and intermediate term commercial loans and real estate loans with fixed interest rates or with interest rates that fluctuate with various market indices. These loans are primarily funded through short-term demand deposits and longer-term certificates of deposit with fixed rates. Deposits that are not utilized to fund loans are invested in securities or other short term instruments that meet the Company's investment quality guidelines. Unrealized gains and losses on securities available for sale resulting from changing market interest rates are reflected in other comprehensive income. When deposits are not at a level sufficient to fund the Company's loan portfolio, management will utilize available sources of borrowings from correspondent banks, such as the FHLB. From time to time, the Company may manage its interest rate risk on long-term fixed rate loans through the matched funding services offered by the FHLB.

A portion of the Company's investments that are available for sale have contractual maturity dates through the year 2042, bear fixed rates of interest and are collateralized by residential mortgages. Repayment of principal on these bonds is primarily dependent on the cash flows from payments made on the underlying mortgage collateral to the bond issuer and therefore the likelihood of prepayment is influenced by the current national economic environment. Reduced prepayments extend the Company's original anticipated holding period and thus increases interest rate risk over time, should market rates increase.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Premises and Equipment - Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Land is carried at cost. Leasehold improvements are amortized on a straight-line basis over the periods of the leases or the estimated useful lives of the related assets, whichever is shorter. Gains and losses on dispositions are included in other operating income.

Other Real Estate Owned - Real estate and other assets acquired through repossession or foreclosure are held for sale and are initially recorded at the fair value of the asset less any selling costs, establishing a new cost basis. Outstanding loan balances are reduced to reflect this value through charges to the allowance for possible credit losses. Subsequent to repossession or foreclosure, the asset is carried at the lower of its new cost basis or fair value, less estimated costs to sell. Subsequent adjustments to reflect changes in value below the recorded amounts are recognized in income in the period such determinations are assessed. Required developmental costs associated with foreclosed property under construction are capitalized and considered in determining the fair value of the property. Operating expenses of these assets and gains and losses on their disposition are included in other noninterest income or expense.

Bank Owned Life Insurance - The Company owns cash value life insurance policies which pay benefits to the Company upon the death of certain employees. For each policy, the Company is a general creditor of the insurance company. Increases to the cash surrender value of the policies are noncash earnings and are recorded in noninterest income.

Prepaid Expenses - Prepaid expenses are amortized into noninterest expense over the estimated useful life of the expenditure.

Deferred Leasing Costs - The Bank as lessor of a portion of one of its facilities, will incur costs associated with the successful negotiation of leases, both external commissions and internal direct costs, which are capitalized and amortized on a straight-line basis over the terms of the respective leases. If an applicable lease terminates prior to the expiration of its initial lease term, the carrying amount of the costs are written-off to depreciation and amortization expense. As of December 31, 2016 and 2015 deferred leasing costs of $294,895 net of accumulated amortization of $91,957 and $53,906, respectively, were included in Other Assets on the consolidated balance sheets. The amortization of deferred leasing costs included in the depreciation and amortization expense for premises and equipment totaled $38,051 for each of the years ended December 31, 2016 and 2015.

Income Taxes - The Company was organized for federal income tax purposes as a Subchapter S Corporation effective January 1, 2006. Accordingly, there is no federal income tax expense provided for the transactions reported in the consolidated financial statements.

U.S. GAAP states that an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination. The Company believes that all significant tax positions utilized by the Company will more likely than not be sustained upon examination. As of December 31, 2016, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from 2013 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as tax expense in the consolidated statements of income.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

The Company is subject to state income taxes. The Company recorded approximately $42,000 and $36,000 of state tax expense for the years ended December 31, 2016 and 2015, respectively.

Comprehensive Income - Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from transactions with shareholders. Besides net income, other components of the Company's comprehensive income include the effect of changes in the net unrealized gain/loss on securities available for sale.

Fair Value Measurements - U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the entity's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

The Company has not elected to account for any financial assets or liabilities as trading instruments for which changes in market value on these instruments would be recorded in the Company's consolidated statements of income.

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 (i) the assets have been isolated from the Company, (ii) 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 (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

If a transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset does not meet the conditions for sale treatment, or if a transfer of a portion of an entire financial interest does not meet the definition of a participating interest, the transferor and the transferee shall account for the transfer as a secured borrowing with pledge of collateral. The transferor shall continue to report the transferred financial assets in its financial statements with no change in their measurement.

At December 31, 2016 and 2015, all transfers of financial assets subject to this guidance met the conditions to be treated as a sale.

Reclassifications - Certain reclassifications were made to the 2015 consolidated financial statement presentation in order to conform to the 2016 consolidated financial statement presentation with no effect on reported income or equity.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Recent Accounting Standards and Disclosure Requirements - *ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09* implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was originally going to be effective for year beginning after December 15, 2016; however, *ASU 2015-14, Revenue from Contracts with Customers (Topic 606)* – Deferral of the Effective Date deferred the effective date of ASU 2014-09 by one year for years beginning after December 15, 2017 (for nonpublic business entities for years beginning after December 15, 2018). We are currently evaluating the potential impact of ASU 2014-09 on our financial statements.

ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30) – Simplify the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 became effective for years beginning after December 15, 2015 and unamortized debt issuance costs are now presented as a direct deduction from the carrying amount of the related debt liability in our accompanying consolidated balance sheets.

ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. ASU 2016-01 will be effective for years beginning after December 15, 2017 (for nonpublic business entities implementation is for years beginning after December 31, 2018) and is not expected to have a significant impact on our financial statements

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

ASU 2016-02, Leases (Topic 842). ASU 2016-02 will, among other things, require lessees to recognize a lease liability for virtually all significant leases, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 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. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, Revenue from Contracts with Customers. ASU 2016-02 will be effective for years beginning after December 15, 2018 (For nonpublic business entities implementation is for years beginning after December 15, 2019) and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the potential impact of ASU 2016-02 on our financial statements.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires 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 and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for years beginning after December 15, 2019 (For nonpublic business entities implementation is for years beginning after December 15, 2020). We are currently evaluating the potential impact of ASU 2016-13 on our financial statements.

NOTE B CASH AND CASH EQUIVALENTS

Cash and cash equivalents are maintained with major financial institutions in the United States. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Company periodically evaluates the stability of the financial institutions with which it has deposits. The Company has interest-bearing cash deposits in correspondent financial institutions in excess of the amount insured by agencies of the federal government in the amount of $56,568 and $4,967,873 at December 31, 2016 and 2015, respectively.

The Bank, as a correspondent of the Federal Reserve Bank, is required to maintain reserves for the purpose of facilitating the implementation of monetary policy. These reserves may be maintained in the form of balances at the Federal Reserve Bank or by vault cash maintained at the Bank. The Bank's reserve requirements were $8,677,000 and $6,814,000 on December 31, 2016 and 2015, respectively. Accordingly, cash balances were restricted to that extent.

NOTE C SECURITIES AVAILABLE FOR SALE

Securities have been classified according to management's intent. The amortized cost and estimated fair values of investment securities at December 31, 2016 and 2015 are summarized in the following table:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2016				
U.S. Government Agency:				
Mortgage-backed securities	$ 3,646,932	$ -	$ (162,677)	$ 3,484,255
Municipal Securities	9,472,711	-	(241,020)	9,231,691
	$ 13,119,643	$ -	$ (403,697)	$ 12,715,946
2015				
U.S. Government Agency:				
Debt Securities	$ 6,039,780	$ -	$ (112,440)	$ 5,927,340
Mortgage-backed securities	4,099,872	-	(121,938)	3,977,934
Municipal Securities	280,250	-	(2,928)	277,322
	$ 10,419,902	$ -	$ (237,306)	$ 10,182,596

The amortized cost and estimated fair values of debt securities at December 31, 2016, by contractual maturities, are shown below. For mortgage-backed securities, expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities will generally receive both principal and interest payments on a monthly basis.

Amounts Maturing In:	Amortized Cost	Estimated Fair Value
1 year or less	$ 226,873	$ 226,181
1 year through 5 years	8,984,356	8,750,631
5 years through 10 years	-	-
After 10 years	3,908,414	3,739,134
	$ 13,119,643	$ 12,715,946

At December 31, 2016 and 2015, certain investment securities with a carrying value of $6,184,313 and $5,915,416, respectively, were pledged to secure public deposits.

NOTE C SECURITIES AVAILABLE FOR SALE (CONTINUED)

The Company had gross realized gains on sale of securities of $135,150 and $0 at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, thirty-three and four securities were in an unrealized loss position, respectively.

Information pertaining to debt securities with gross unrealized losses at December 31, 2016 and 2015 aggregated by investment category are as follows:

	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
2016				
U.S. Government Agency:				
Mortgage-backed securities	$ 30,316	$ 1,218,361	$ 132,360	$ 2,265,894
Muncipal Securities	237,748	8,964,296	3,273	267,395
	$ 268,064	$ 10,182,657	$ 135,633	$ 2,533,289
2015				
U.S. Government Agency:				
Debt Securities	$ -	$ -	$ 112,440	$ 5,927,340
Mortgage-backed securities	-	-	121,938	2,651,858
Muncipal Securities	2,928	277,322	-	-
	$ 2,928	$ 277,322	$ 234,378	$ 8,579,198

Management does not have the intent to sell any of the securities in an unrealized loss position and believes that it is more likely than not the Company will not have to sell any of these securities before a recovery of cost. The unrealized losses are attributable primarily to changes in market interest rates relative to those available when the securities were acquired. The fair value of these securities is expected to recover as the securities reach their maturity or re-pricing date, or if market rates for such investments decline. Management does not believe that any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2016 and 2015, management believes the impairments detailed above are temporary and no impairment loss has been realized in the Company's consolidated statements of income for the years then ended.

NOTE D LOANS

Loans at December 31, 2016 and 2015, by portfolio segment, are summarized as follows:

	2016	2015
Real estate	$ 368,206,314	$ 323,205,571
Commercial and industrial	39,401,625	33,953,825
Consumer	2,159,982	2,582,240
Agricultural	359,910	345,186
Other loans	62,310	145,665
	410,190,141	360,232,487
Less allowance for possible credit losses	(3,872,584)	(3,225,760)
Less unearned discount	(3,590,092)	(3,349,461)
Less deferred loan fees	(1,358,623)	(1,100,667)
Loans, net	$ 401,368,842	$ 352,556,599

The Company may, from time to time, purchase participations in loans originated by other financial institutions, and sell participations in loans originated by the Company. There were no participations purchased at December 31, 2016 and 2015. Loan participation balances outstanding at December 31, 2016 and 2015 are as follows:

	2016	2015
Participations sold, end of year	$ 1,095,373	$ 900,172

Loan Portfolio Segments and Loan Classes

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. Diversification of the loan portfolio is a means of managing the risks associated with fluctuations in economic conditions. In order to manage the diversification of the portfolio, the Company sub-segments loans into classes. The real estate loan segment is sub-segmented into classes that primarily include commercial real estate mortgage loans, construction and land development loans, loans secured by farmland, 1-4 family residential loans, and multi-family residential loans. The Company sub-segments consumer loans into classes that primarily include revolving credit cards and other consumer loans. Management has not identified any significant sub-segments, or classes, for the other loan segments identified in the preceding tables. Information and risk management practices specific to the Company's loan segments and classes follows.

NOTE D LOANS (CONTINUED)

Real estate - The Company makes commercial real estate mortgage loans which are primarily viewed as cash flow loans and secondarily as loans secured by real estate. The properties securing the Company's commercial real estate mortgage loans can be owner occupied or nonowner occupied. Concentrations within the various types of commercial properties are monitored by management in order to assess the risks in the portfolio. The repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. The Company seeks to minimize these risks in a variety of ways in connection with underwriting these loans, including giving careful consideration to the property's operating history, future operating projections, current and projected occupancy, location and physical condition.

Construction and land development loans are generally nonowner occupied and are subject to certain risks attributable to the fact that loan funds are advanced over the construction phase and the project is of uncertain value prior to its completion. Construction loans are generally based upon estimates of costs and value associated with the completed project with repayment dependent, in part, on the success of the ultimate project rather than the ability of the borrower or guarantor to repay the loan. The Company has underwriting and funding procedures designed to address what it believes to be the risks associated with such loans; however, no assurance can be given the procedures will prevent losses resulting from the risks described above.

Loans secured by farmland are generally made to facilitate crop production or other farming activities of local farmers. The Company evaluates these loans on creditworthiness of the borrower and collateral value.

The Company's real estate lending activities also include the origination of 1-4 family residential and multi-family residential loans. The terms of these loans typically range from five to thirty years and are secured by the properties financed. The Company requires the borrowers to maintain mortgage title insurance and hazard insurance. The Company has elected to keep all 1-4 family residential loans for its own portfolio rather than selling such loans into the secondary market. By doing so, the Company is able to realize a higher yield on its mortgage operations by maintaining a small portion of originated loans; however, the Company also incurs interest rate risk by holding the selected mortgages for its own portfolio.

NOTE D LOANS (CONTINUED)

Commercial and industrial - The Company's commercial and industrial loans represent credit extended to small to medium sized businesses generally for the purpose of providing working capital and equipment purchase financing. Commercial and industrial loans often are dependent on the profitable operations of the borrower. These credits are primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may also incorporate a personal guarantee. Some shorter term loans may be extended on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The cash flows of borrowers may not be as expected and the collateral securing these loans may fluctuate, increasing the risk associated with this loan segment. As a result of the additional complexities, variables, and risks, commercial loans typically require more thorough underwriting and servicing than other types of loans.

Consumer - The Company's consumer loans include credit card debt, and other consumer loans such as automobile loans, home improvement loans, home equity loans, personal loans (collateralized and uncollateralized) and deposit account collateralized loans. The terms of these loans typically range from 1 to 7 years and vary based on the nature of collateral and size of the loan. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus more likely to be adversely affected by job loss, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as deemed appropriate by management. Consumer loans also include overdraft lines of credit principally extended to individuals.

Agricultural - The Company provides crop production loans, farm equipment loans, and cattle loans to local farmers. These individuals may have outside income in addition to their agricultural income. The Company evaluates these loans based on creditworthiness of the borrower and collateral value.

Other loans - Other loans consist primarily of smaller loans to business entities and individuals for various personal and business purposes.

NOTE D LOANS (CONTINUED)

Loans Guaranteed by the United States Government

The Company participates in the United States Small Business Administration (SBA) and the U.S. Department of Agriculture (USDA) loan programs.

At December 31, 2016 and 2015, the Company held loans originated under government guaranty programs which allow for federal guarantees up to 85% of principal and accrued interest. When advantageous, the Company will sell the guaranteed portions of these loans with servicing retained. During the years ended December 31, 2016 and 2015 the Company sold the guaranteed portions of government guaranteed loans amounting to $47,110,628 and $50,002,440, respectively. The Company retains the nonguaranteed portion. The majority of the nonguaranteed portion of these loans are reported as commercial real estate loans. At December 31, 2016 and 2015, balances relating to SBA loans, subject to sale, are as follows:

	2016	2015
Sold and serviced	$ 164,268,894	$ 142,388,375
Nonguaranteed portion retained	$ 54,380,658	$ 46,533,892

At December 31, 2016 and 2015, the balance of loan servicing rights in the Company's consolidated balance sheets related to SBA loans are as follows:

	2016	2015
Servicing rights asset	$ 5,314,708	$ 4,155,045
Accumulated amortization of servicing rights asset	(2,455,383)	(1,473,889)
Servicing rights asset, net	$ 2,859,325	$ 2,681,156

	2016	2015
Loan servicing rights net, beginning of year	$ 2,681,156	$ 2,101,816
Servicing rights additions	1,159,663	1,303,165
Amortization of servicing rights	(981,495)	(723,825)
Loan servicing rights net, end of year	$ 2,859,324	$ 2,681,156

NOTE D LOANS (CONTINUED)

For the years ending December 31, 2016 and 2015, the Company recorded activity related to SBA loans in the consolidated statements of income as follows:

	2016	2015
Gain on sale of SBA loans	$ 4,953,579	$ 5,546,611
Servicing income and fees on SBA loans sold	$ 1,527,353	$ 1,202,879
Accretion of unearned discount	$ 1,235,798	$ 944,790
Commissions and fees paid related to SBA loans	$ 328,863	$ 348,460

Past Due and Nonaccrual Loans

The following is an aging analysis of loans, segregated by loan class, as of December 31, 2016 and 2015:

	Current & accruing	30 - 89 days past due & accruing	90 or more days past due & accruing	Nonaccrual loans	Total loans
2016					
Commercial real estate mortgage loans	$ 257,301,785	$ 125,330	$ -	$ -	$ 257,427,115
Construction and land development	80,471,289	-	-	-	80,471,289
Secured by farmland	1,474,327	-	-	-	1,474,327
1-4 family residential	12,137,006	-	-	-	12,137,006
Multi-family residential	16,696,577	-	-	-	16,696,577
Commercial and industrial	37,704,774	62,882	11,604	1,622,365	39,401,625
Consumer credit cards	570,690	6,184	-	-	576,874
Other consumer loans	1,583,108	-	-	-	1,583,108
Agriculture	359,910	-	-	-	359,910
Other loans	62,310	-	-	-	62,310
	$ 408,361,776	$ 194,396	$ 11,604	$ 1,622,365	$ 410,190,141

A loan in the amount of $1,573,577 is considered nonaccrual in the table above and carries a government guaranty in the amount of $1,180,183.

NOTE D LOANS (CONTINUED)

	Current & accruing	30 - 89 days past due & accruing	90 or more days past due & accruing	Nonaccrual loans	Total loans
2015					
Commercial real estate mortgage loans	$ 231,265,744	$ 288,767	$ -	$ -	$ 231,554,511
Construction and land development	64,594,842	-	-	-	64,594,842
1-4 family residential	15,528,715	-	-	-	15,528,715
Multi-family residential	11,527,503	-	-	-	11,527,503
Commercial and industrial	33,817,383	34,722	-	101,720	33,953,825
Consumer credit cards	526,545	9,052	-	-	535,597
Other consumer loans	2,046,643	-	-	-	2,046,643
Agriculture	345,186	-	-	-	345,186
Other loans	145,665	-	-	-	145,665
	$ 359,798,226	$ 332,541	$ -	$ 101,720	$ 360,232,487

Accrued and unpaid interest income on nonaccrual loans was reversed when the loan was placed on nonaccrual. Interest income that would have been earned under the original terms of nonaccrual loans for the years ended December 31, 2016 and 2015, amounted to $91,162 and $35,481, respectively.

Troubled Debt Restructurings

The following table presents loans modified under troubled debt restructuring, segregated by loan class, as of December 31, 2016 and 2015:

	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2016			
Commercial and industrial	1	$ 1,573,577	$ 1,573,577
		$ 1,573,577	$ 1,573,577
2015			
Commercial and industrial	1	$ 61,336	$ 61,336
		$ 61,336	$ 61,336

The modifications were primarily related to extending the amortization periods and reduction of interest rates of the loans, which includes loans modified during bankruptcy. The Company did not grant principal reductions on any restructured loan. For the year ended December 31, 2016 the Company added one new troubled debt restructurings. For the year ended December 31, 2015 the Company added no new troubled debt restructurings. Approximately $0 and $14,209 of specific reserves were associated with troubled debt restructurings at December 31, 2016 and 2015, respectively. The debt restructured in 2016 carries a government guaranty in the amount of $1,180,183. These modifications did not have a material impact on the Company's determination of the allowance for possible credit losses.

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES

For purposes of determining the allowance for possible credit losses, the Company considers the loans in its portfolio by segment and risk grade. Management uses significant judgment to determine the estimation method that fits the credit risk characteristics of each portfolio segment. To assist in the assessment of risk, management reviews reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. The Company utilizes an independent third party loan review service to review the credit risk assigned to loans on a periodic basis and the results are presented to management for review.

Rollforward of the Allowance for Possible Credit Losses

The following table presents a detail of the activity in the allowance for possible credit losses segregated by portfolio segment for the years ending December 31, 2016 and 2015. The allocation of the allowance within the loan portfolio is based on the dollar amount of loans in each category rather than an analysis of specific loans, unless a loan is impaired and requires a specific reserve. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. Generally, the total allowance is available to absorb losses from any category of loans.

	Balance, beginning of year	Provisions	Charge-offs	Recoveries	Balance, end of year
2016					
Real estate	$ 2,894,196	$ 613,817	$ (70,796)	$ 39,000	$ 3,476,217
Commercial and industrial	304,045	248,352	(192,756)	12,348	371,989
Consumer	23,123	17,555	(35,597)	15,311	20,392
Agricultural	3,091	307	-	-	3,398
Other loans	1,305	19,969	(28,251)	7,565	588
	$ 3,225,760	$ 900,000	$ (327,400)	$ 74,224	$ 3,872,584
2015					
Real estate	$ 2,226,381	$ 615,426	$ -	$ 52,389	$ 2,894,196
Commercial and industrial	246,610	178,606	(122,619)	1,448	304,045
Consumer	26,721	31,845	(47,057)	11,614	23,123
Agricultural	5,071	(1,980)	-	-	3,091
Other loans	1,629	26,103	(37,483)	11,056	1,305
	$ 2,506,412	$ 850,000	$ (207,159)	$ 76,507	$ 3,225,760

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

Risk Grading

As part of the on-going monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for possible credit losses, management assigns and tracks loan grades to be used as credit quality indicators. The following is a general description of the loan grades used as of December 31, 2016 and 2015.

Grades 1 through 3 - This category of assets are considered *"pass"* which indicates prudent underwriting and a normal amount of risk. The range of risk within these credits can vary from little to no risk with cash securing a credit, to a level of risk that requires a strong secondary source of repayment on the debt and are structured with predetermined and formal repayment programs. Pass credits with a higher level of risk may be to borrowers that are more highly leveraged, less well capitalized or in an industry or economic area that is known to carry a higher level of risk, volatility, or susceptibility to weaknesses in the economy.

Grade 4 - Assets in this category contain more than the normal amount of risk and are referred to as *"other assets especially mentioned",* or OAEM, in accordance with regulatory guidelines. These assets possess clearly identifiable temporary weaknesses or trends that, if not corrected or revised, will result in a condition that exposes the Company to a higher level of risk of loss.

Grades 5 and 6 - Assets in this category are *"substandard"* in accordance with regulatory guidelines and of unsatisfactory credit quality with well defined weaknesses or weaknesses that jeopardize the liquidation of the debt. Assets in this category are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. These credits are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Often, the assets in this category will have a valuation allowance representative of management's estimated loss that is probable to be incurred. Assets graded 6 are nonperforming and generally are on nonaccrual status.

Grade 7 - Assets in this category are considered *"doubtful"* in accordance with regulatory guidelines, are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. Generally, these credits will have a valuation allowance based upon management's best estimate of the losses probable to occur in the liquidation of the debt.

Grade 8 - Assets in this category are considered *"loss"* in accordance with regulatory guidelines and are considered uncollectible and of such little value as to question their continued existence as assets on the Company's consolidated financial statements. Such assets are to be charged off or charged down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. This category does not intend to imply that the debt, or some portion of it will never be paid, nor does it in any way imply that the debt will be forgiven.

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

The following table presents loans by risk grade and loan class at December 31, 2016 and 2015. The Company has no loans graded 8 (Loss), at December 31, 2016 and 2015.

	Grade 1-3	Grade 4	Grade 5-6	Grade 7	Total Loans
2016					
Commercial real estate mortgage loans	$ 257,268,013	$ -	$ 159,102	$ -	$ 257,427,115
Construction and land development	80,471,289	-	-	-	80,471,289
Secured by farmland	1,474,327	-	-	-	1,474,327
1-4 family residential	12,137,006	-	-	-	12,137,006
Multi-family residential	16,696,577	-	-	-	16,696,577
Commercial and industrial	37,779,260	-	1,622,365	-	39,401,625
Consumer credit cards	576,874	-	-	-	576,874
Other consumer loans	1,583,108	-	-	-	1,583,108
Agriculture	359,910	-	-	-	359,910
Other loans	62,310	-	-	-	62,310
	$ 408,408,674	$ -	$ 1,781,467	$ -	$ 410,190,141
2015					
Commercial real estate mortgage loans	$ 224,861,797	$ 5,259,938	$ 1,432,776	$ -	$ 231,554,511
Construction and land development	64,292,909	301,933	-	-	64,594,842
1-4 family residential	15,528,715	-	-	-	15,528,715
Multi-family residential	11,409,337	-	118,166	-	11,527,503
Commercial and industrial	31,320,709	2,012,251	606,656	14,209	33,953,825
Consumer credit cards	535,597	-	-	-	535,597
Other consumer loans	2,046,643	-	-	-	2,046,643
Agriculture	345,186	-	-	-	345,186
Other loans	145,665	-	-	-	145,665
	$ 350,486,558	$ 7,574,122	$ 2,157,598	$ 14,209	$ 360,232,487

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

Evaluation of Impairment

The Company's loans and allowance for possible credit losses as of December 31, 2016 and 2015 by portfolio segment and disaggregated on the basis of the Company's impairment methodology is as follows:

	Individually evaluated for impairment	Collectively evaluated for impairment	Total loans	Allowance related to loans individually evaluated for impairment
2016				
Real estate	$ 159,102	$ 368,047,212	$ 368,206,314	$ -
Commercial and industrial	1,622,365	37,779,260	39,401,625	18,592
Consumer	-	2,159,982	2,159,982	-
Agriculture	-	359,910	359,910	-
Other loans	-	62,310	62,310	-
	$ 1,781,467	$ 408,408,674	$ 410,190,141	$ 18,592
2015				
Real estate	$ 7,112,813	$ 316,092,758	$ 323,205,571	$ -
Commercial and industrial	2,633,116	31,320,709	33,953,825	67,579
Consumer	-	2,582,240	2,582,240	-
Agriculture	-	345,186	345,186	-
Other loans	-	145,665	145,665	-
	$ 9,745,929	$ 350,486,558	$ 360,232,487	$ 67,579

The following table presents the Company's recorded investment for impaired loans, segregated by loan class, with the associated allowance amount as of December 31, 2016 and 2015:

	Impaired loans without an allowance	Impaired loans with an allowance	Allowance related to impaired loans
2016			
Commercial real estate mortgage loans	$ 159,102	$ -	$ -
Commercial and industrial	1,585,181	37,184	18,592
	$ 1,744,283	$ 37,184	$ 18,592
2015			
Commercial and industrial	$ -	$ 159,366	$ 67,579
	$ -	$ 159,366	$ 67,579

NOTE E ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

For the years ended December 31, 2016 and 2015, the approximate average recorded investment in impaired loans is $970,416 and $1,497,750 respectively. At December 31, 2016, the Company has no commitments to loan additional funds to borrowers whose loans have been classified as impaired.

NOTE F PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Land	$ 3,753,474	$ 3,753,474
Buildings	18,480,859	18,475,285
Leasehold improvements	2,664,186	1,937,720
Furniture and equipment	4,622,613	4,312,529
Automobiles	804,857	688,770
Software	514,886	347,995
	30,840,875	29,515,773
Less accumulated depreciation and amortization	(7,838,128)	(6,630,344)
	$ 23,002,747	$ 22,885,429

Lease Commitments

Pursuant to the terms of noncancelable lease agreements pertaining to banking premises, future minimum rent commitments under various operating leases are as follows at December 31, 2016:

2017	$ 509,628
2018	483,389
2019	486,911
2020	367,640
2021	200,842
Thereafter	414,284
	$ 2,462,694

The leases are subject to normal operating cost escalation clauses that have been included in the above future minimum rent commitments. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on approximately the same terms and conditions, if available.

Total rent expense for facility and equipment operating leases for the years ended December 31, 2016 and 2015 amounted to $496,603 and $415,384, respectively.

NOTE F PREMISES AND EQUIPMENT (CONTINUED)

Lease Income

During the year ended December 31, 2014, the Company entered into an agreement as lessor to lease approximately 32% of the Kempwood location. Future minimum rental income related to this lease is as follows:

2017	$ 448,052
2018	457,636
2019	467,220
2020	476,804
2021	486,388
Thereafter	122,196
	$ 2,458,296

Rental income in the amount of $473,206 and $333,894 for the years ended December 31, 2016 and 2015, respectively, is included in other noninterest income.

NOTE G OTHER REAL ESTATE OWNED

The following table presents activity in other real estate owned for the years ended December 31, 2016 and 2015:

	2016	2015
Balance, beginning of year	$ 2,949,309	$ 1,757,500
Noncash foreclosure and repossession of real estate in partial satisfaction of debt	-	1,691,809
Market value adjustments subsequent to foreclosure	(100,000)	-
Disposition of other real estate, carrying value	(2,699,309)	(500,000)
Balance, end of year	$ 150,000	$ 2,949,309

For the years ended December 31, 2016 and 2015, the Company recorded a net loss on the sales of other real estate owned as follows:

	2016	2015
Proceeds from sale	$ 2,476,802	$ -
Carrying value recorded	(2,699,309)	(500,000)
Loss on disposition of other real estate owned, net	$ (222,507)	$ (500,000)

During the year ended December 31, 2015, the Company donated other real estate owned in the amount of $500,000 to a 501(c)(3) tax exempt corporation and recognized a loss on disposition in the amount of $500,000.

NOTE H BANK OWNED LIFE INSURANCE

To assist with the funding of survivor income agreements (see Note M), the Company purchased life insurance policies under split-dollar arrangements covering employees for which the Company had an insurable interest at the date of purchase. For each policy, the Bank is a general creditor of the insurance company. Bank owned life insurance policies and the net increase in cash surrender value at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Balance, beginning of year	$ 4,112,059	$ 3,998,503
Increase in cash surrender value	112,189	113,556
Balance, end of year	$ 4,224,248	$ 4,112,059

NOTE I ACCRUED INTEREST RECEIVABLE

Accrued interest receivable at December 31, 2016 and 2015 consists of the following:

	2016	2015
Loans	$ 1,132,492	$ 996,031
Securities	91,730	67,562
	$ 1,224,222	$ 1,063,593

NOTE J DEPOSITS

The aggregate amount of time deposits in the amount of $250,000 or more at December 31, 2016 was $45,607,303. The following table presents information relating to deposits at December 31, 2016 and 2015:

	2016	2015
Brokered deposits	$ 17,398,663	$ 19,256,429
Deposits from public entities with collateral pledged as described in Note C	$ 16,590,180	$ 5,707,781
Overdraft deposits reclassified as loan balances	$ 234,875	$ 276,254

NOTE J DEPOSITS (CONTINUED)

At December 31, 2016, the scheduled maturities of all time deposits are as follows:

2017	$ 98,972,550
2018	17,143,286
2019	6,989,040
2020	1,856,520
2021	795,618
	$ 125,757,014

NOTE K SUBORDINATED DEBT AND INVESTMENT IN SUBSIDIARY TRUSTS

In January 2006, the Company formed a wholly-owned statutory business trust, Trust I, which issued $10,000,000 in capital securities to a third party. Trust I invested the proceeds along with its capitalization funds of $310,000 in an equivalent amount of the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures. The debentures will mature in 2036, which may be shortened if certain conditions are met, including prior approval of the Federal Reserve and other required regulatory approvals.

The debentures, which are the only assets of Trust I, are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The debentures accrue interest at a floating rate equal to the three-month LIBOR (the London Interbank Offered Rate) plus 1.37%, or 2.30% and 1.79% at December 31, 2016 and 2015, respectively. Interest payments on the debentures and the capital securities of Trust I are due quarterly. The Company has fully and unconditionally guaranteed the Trust's obligations.

During the year ending December 31, 2016, Wallis Bancshares, Inc. issued $4,000,000 in 6.99% fixed rate subordinated debt due December 31, 2026. Interest only payments due quarterly. The debt may be redeemed without premium or penalty beginning December 31, 2021. The debt is carried on the Company's consolidated balance sheet net of issuance cost in the amount of $79,754 that is being amortized over 10 years.

NOTE L BORROWINGS AND AVAILABLE BORROWINGS LINES

At December 31, 2016 and 2015, the Company had $20,000,000 available in Federal Funds lines of credit with a correspondent bank.

The outstanding advances from the FHLB consist of $10,000,000 at an interest rate of 1.86% and $1,451,986 at an interest rate of 5.32%. At December 31, 2016, these borrowings mature in 2020 and 2026, respectively. The scheduled approximate principal payments related to FHLB advances as of December 31, 2016 are as follows:

2017	$ 127,777
2018	134,739
2019	142,081
2020	10,149,822
2021	157,985
Thereafter	739,582
	$ 11,451,986

The Company had available borrowings through the FHLB at December 31, 2016 and 2015 of approximately $156,000,000 and $132,000,000, respectively. Further, at December 31, 2016, the Company has letter of credit commitments available from the FHLB in the aggregate amount of $9,765,000.

NOTE M EXECUTIVE SURVIVOR INCOME AGREEMENT

In 2003 and 2011, the Company entered into survivor income life insurance benefit agreements with certain key employees. Upon death, and provided employment has not terminated before reaching age 65, the benefit from the life insurance policy will be used to pay a benefit to a beneficiary designated by the employee. The benefit decreases at age 85, and is eliminated at age 95. The agreements also provide an early termination benefit, whereby employees receive a benefit which vests 20% each year over a period of five years, beginning with a service date outlined in each contract.

The Company had accrued the retirement age benefit liability for each participant. At December 31, 2016 and 2015 the accrual was $774,000, and was fully vested. The Bank will pay the benefits from its general assets, but only so long as one of its general assets is a life insurance policy on the participant employee's life.

NOTE N RELATED PARTY TRANSACTIONS

Related parties are defined as executive officers, directors, and significant shareholders of the Company. A shareholder is considered significant if they and their affiliates own 5% or more of the Company's stock. In the ordinary course of business, the Company has and expects to continue to conduct routine banking business with related parties. Such activities with related parties are identified as follows:

Loans - In the opinion of management, loans to related parties were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features. Loans to such borrowers at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Balance, beginning of year	$ 2,237,299	$ 1,991,684
New loans	440,000	368,000
Repayments	(170,350)	(121,250)
Net changes in lines of credit	20,486	(1,135)
Balance, end of year	$ 2,527,435	$ 2,237,299

Unfunded Commitments - The Company had $51,511 and $51,046 in unfunded loan commitments to related parties as of December 31, 2016 and 2015, respectively.

Deposits - The Company held deposits from related parties of $2,287,209 and $2,051,869 at December 31, 2016 and 2015, respectively.

NOTE O COMMITMENTS AND CONTINGENT LIABILITIES

Unfunded Loan Commitments

The Company is party to various financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments primarily include commitments to extend credit for loans in process, commercial lines of credit, overdraft protection lines, and standby letters of credit at both fixed and variable rates of interest. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement the Company has in particular classes of financial instruments. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies and pricing decisions in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

NOTE O COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

The following is a summary of the various financial instruments whose contract amounts represent credit risk at December 31, 2016 and 2015:

	2016	2015
Commitments to extend credit	$ 93,861,690	$ 77,010,110
Standby letters of credit	$ 2,814,028	$ 2,313,028

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

Legal Matters

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the financial position of the Company.

NOTE P EMPLOYEE BENEFIT PLANS

The Company provides a retirement savings 401(k) plan in which substantially all employees may participate. Employees may elect to contribute a portion of their salary to the plan, subject to certain Federal Tax Code limitations. Additionally, the Company has agreed to match a percentage of the employee’s contribution based on a percentage of salary contributed by participants. Benefit plan expense recorded by the Company in 2016 and 2015 was $223,918 and $200,989, respectively.

NOTE Q REGULATORY MATTERS

Regulatory Capital

The Company and the Bank are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures and risk weighting of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors.

Failure to meet the minimum regulatory 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 financial statements. Management believes, as of December 31, 2016, that the Company and the Bank met all the capital adequacy requirements to which they are subject.

As of September 30, 2015, the most recent notification date from the regulators, and at December 31, 2016 and 2015, the Bank was categorized as well capitalized under the regulatory framework. To remain categorized as well capitalized, the Bank will have to maintain minimum Total risk-based capital, Tier I risk-based capital, Common Equity Tier 1, and Leveraged ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2016						
Total Risk Based Capital (to Risk Weighted Assets)	$ 57,722,000	12.8%	$ 36,054,000	8.0%	$ 45,067,000	10.0%
Tier I Capital (to Risk Weighted Assets)	$ 53,849,000	11.9%	$ 27,040,000	6.0%	$ 36,054,000	8.0%
Common Equity Tier I Capital (to Risk Weighted Assets)	$ 53,849,000	11.9%	$ 20,280,000	4.5%	$ 29,294,000	6.5%
Leverage Ratio (to Adjusted Total Assets)	$ 53,849,000	10.7%	$ 20,117,000	4.0%	$ 25,146,000	5.0%
2015						
Total Risk Based Capital (to Risk Weighted Assets)	$ 48,215,000	12.0%	$ 32,016,000	8.0%	$ 40,020,000	10.0%
Tier I Capital (to Risk Weighted Assets)	$ 44,989,000	11.2%	$ 24,012,000	6.0%	$ 32,016,000	8.0%
Common Equity Tier I Capital (to Risk Weighted Assets)	$ 44,989,000	11.2%	$ 18,009,000	4.5%	$ 26,013,000	6.5%
Leverage Ratio (to Adjusted Total Assets)	$ 44,989,000	9.8%	$ 18,292,000	4.0%	$ 22,865,000	5.0%

NOTE Q REGULATORY MATTERS (CONTINUED)

Dividend Restrictions

In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of tax and general distribution to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels.

NOTE R FAIR VALUE DISCLOSURES

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability.

Fair Value Hierarchy

U.S. GAAP specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are observable or unobservable. These inputs are summarized in the three broad levels listed below.

Level 1 - Level 1 inputs are based upon unadjusted quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 - Level 2 inputs are based upon other significant observable inputs (including quoted prices in active or inactive markets for similar assets and liabilities), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of a financial instrument.

Level 3 - Level 3 inputs are based upon unobservable inputs reflecting management's assumptions that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 measurements are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use observable market-based parameters as inputs. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

NOTE R FAIR VALUE DISCLOSURES (CONTINUED)

The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets or liabilities could result in a different estimate of fair value at the reporting date.

During the years ending December 31, 2016 and 2015, there were no transfers of assets or liabilities within the levels of fair value hierarchy.

Financial Instruments Recorded at Fair Value

Recurring - The fair values for the Company's securities available for sale as disclosed in Note C were recorded using Level 2 inputs at December 31, 2016 and 2015 on a recurring basis:

	2016	2015
Level 2:		
Securities available for sale	$ 12,715,946	$ 10,182,596

Nonrecurring - Certain financial instruments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). At December 31, 2016 and 2015, the fair value of impaired loans disclosed in Note E was measured on a nonrecurring basis.

	2016	2015
Level 2:		
Impaired loans with associated allowance	$ 37,184	$ 159,366

Nonfinancial Assets and Nonfinancial Liabilities Recorded at Fair Value

Recurring - The Company has no nonfinancial assets or nonfinancial liabilities measured at fair value on a recurring basis.

Nonrecurring - The Company has certain nonfinancial assets that are measured at fair value on a nonrecurring basis which include other real estate owned upon initial recognition or subsequent impairment. Additionally, for the years ended December 31, 2016 and 2015 properties held as other real estate owned were subject to write down and thereby measured at fair value. The related write downs have been disclosed at Note G.

	2016	2015
Level 2:		
Other real estate owned, net	$ 150,000	$ 2,949,309

NOTE R FAIR VALUE DISCLOSURES (CONTINUED)

The fair value of the Company's other real estate owned, upon initial recognition, is estimated using Level 2 inputs, based upon observable market input data, most commonly in the form of an appraisal. Other real estate owned measured at fair value upon initial recognition and subsequent re-measurement are described in Note G.

Fair Value Disclosure for all Financial Instruments

The Company is required to disclose the fair value of all financial instruments, including those financial assets and financial liabilities not recorded at fair value in its consolidated balance sheets, for which it is practicable to estimate fair value. Below is a table that summarizes the fair market values of all financial instruments of the Company at December 31, 2016 and 2015, followed by methods and assumptions that were used by the Company in estimating the fair value.

The estimated fair values of the Company's financial instruments are as follows at December 31, 2016 and 2015 (in thousands):

	2016		2015	
	Carrying Amount	Estimated Fair Values	Carrying Amount	Estimated Fair Values
Financial Assets				
Cash and cash equivalents	$ 45,515	$ 45,515	$ 48,424	$ 48,424
Securities available for sale	12,716	12,716	10,183	10,183
Federal Home Loan Bank stock	652	652	1,647	1,647
Loans, net	401,369	395,211	352,557	353,590
Loan servicing rights	2,859	3,673	2,681	3,411
Bank owned life insurance	4,224	4,224	4,112	4,112
	$ 467,335	$ 461,991	$ 419,604	$ 421,367
Financial Liabilities				
Deposits	$ 423,449	$ 423,595	$ 372,901	$ 372,145
Federal Home Loan Bank advances	11,452	11,619	25,238	24,799
Subordinated debt	14,230	14,230	10,310	10,310
	$ 449,131	$ 449,444	$ 408,449	$ 407,254

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

NOTE R FAIR VALUE DISCLOSURES (CONTINUED)

The fair values of all financial instruments have been determined as follows:

Cash and cash equivalents - For these short-term liquid investments, carry amounts is a reasonable estimate of fair value.

Securities - Fair value equals quoted market price, if available. If a quoted market price is not available, management's estimate of fair value considers measurements from an independent pricing service that may consider dealer quotes, market spreads, cash flows, and certain credit quality factors as applicable.

Federal Home Loan Bank stock - For these investments cost, which is generally carrying amount, is a reasonable estimate of fair value.

Loans - Fair values are estimated for portfolios of loans with similar financial characteristics. Each portfolio is further segmented into fixed and adjustable interest terms by performing and nonperforming categories. The fair value of performing loans is calculated by discounting estimated cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The estimated cash flows do not anticipate prepayments. Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

Loan servicing rights - Fair value is determined based upon current risk free rate of return and estimated current payout ratio assessed on the underlying loans.

Bank owned life insurance - The carrying amounts of these policies approximate their fair values.

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances - For these liabilities, the fair value is estimated using the rates currently offered for borrowings of similar terms and remaining maturities.

Subordinated debt - The fair value for these debentures is considered to be the carrying value due to the variable rate feature of the instruments issued in the Trust and the recent issuance date of the 2016 debentures.