EDGEWATER

BANCORP, INC.

2016

AUDITED FINANCIAL STATEMENT

FOR STOCKHOLDERS

BKD LLP
CPAs & Advisors
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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Edgewater Bancorp, Inc.
St. Joseph, Michigan

We have audited the accompanying consolidated balance sheets of Edgewater Bancorp, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Edgewater Bancorp, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Fort Wayne, Indiana
March 29, 2017

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
Assets		
Cash And Due From Banks	$ 879,168	$ 877,780
Interest-Earning Demand Accounts	13,360,600	10,029,113
Cash and Cash Equivalents	14,239,768	10,906,893
Available-For-Sale Securities	9,615,090	11,713,738
Loans Held for Sale	148,000	—
Loans Receivable, Net of Allowance for Losses of $1,251,647 and $1,075,374, Respectively	122,787,789	106,955,455
Premises and Equipment, Net	3,318,566	3,606,170
Federal Home Loan Bank (FHLB) Stock	686,200	686,200
Other Real Estate, Net	273,167	262,100
Interest Receivable	313,234	314,174
Mortgage Servicing Rights	394,527	408,715
Other Assets	450,581	521,943
Total Assets	$ 152,226,922	$ 135,375,388
Liabilities And Stockholders' Equity		
Liabilities		
Deposits: Noninterest-Bearing	$ 15,509,534	$ 13,940,853
Deposits: Interest-Bearing	111,596,297	99,390,003
Total Deposits	127,105,831	113,330,856
Federal Home Loan Bank Advances	11,000,000	8,000,000
Accrued and Other Liabilities	599,360	672,470
Total Liabilities	138,705,191	122,003,326
Commitments and Contingencies		
Temporary Equity		
ESOP Shares Subject to Mandatory Redemption	73,474	46,197
Stockholders' Equity		
Preferred Stock-Shares Authorized 1,000,000-2016 and 5,000,000-2015: None Issued or Outstanding at $.01 Par Value	—	—
Common Stock-Shares Authorized 4,000,000-2016 and 50,000,000-2015: Shares Issued and Outstanding 667,898 at $.01 Par Value	6,679	6,679
Paid-In-Capital & Surplus	4,683,434	4,683,434
Retained Earnings	8,800,092	8,650,052
Accumulated Other Comprehensive Loss	(41,948)	(14,300)
Total Equity	13,448,257	13,325,865
Total Liabilities and Stockholders' Equity	$ 152,226,922	$ 135,375,388

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Consolidated Statements of Income

	December 31, 2016	December 31, 2015
Interest Income		
Loans, Including Fees	$ 4,984,390	$ 4,578,300
Debt Securities: Taxable	110,996	117,293
Debt Securities: Tax-Exempt	31,010	44,689
Federal Home Loan Bank Stock	28,884	36,735
Other	51,977	18,720
Total Interest Income	5,207,257	4,795,737
Interest Expense		
Deposits	519,339	410,222
Federal Home Loan Bank Advances	128,149	125,664
Total Interest Expense	647,488	535,886
Net Interest Income	4,559,769	4,259,851
Provision for Loan Losses	183,000	65,000
Net Interest Income After Provision for Loan Losses	4,376,769	4,194,851
Noninterest Income		
Service Charges, Deposits	366,592	376,218
Mortgage Banking Activities	481,922	451,036
Other	98,927	117,181
Total Noninterest Income	$ 947,441	$ 944,435
Noninterest Expense		
Salaries and Employee Benefits	2,728,975	2,641,966
Occupancy and Equipment	751,934	776,886
Data Processing	569,042	553,075
Loss on Sale of Other Real Estate, Net	36,600	5,167
Interchange	112,171	95,221
Advertising	65,379	73,332
FDIC Insurance Premiums	92,418	106,764
Other Real Estate	22,951	27,311
Professional Fees	432,110	491,195
Insurance	58,843	59,355
Other	303,747	266,876
Total Noninterest Expense	5,174,170	$ 5,097,148
Net Income Before Income Taxes	150,040	42,138
Provision for Income Taxes	—	—
Net Income	$ 150,040	$ 42,138
Basic and Diluted Income Per Share	$ 0.24	$ 0.07

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Consolidated Statements of Comprehensive Income

	2016	2015
Net Income	$ 150,040	$ 42,138
Other Comprehensive Income		
Net Change in Unrealized Gains (Losses) on Investment Securities Available for Sale	(27,648)	2,460
Less: Reclassification Adjustment for Realized Gains (Losses) Included in Net Income (Loss)	—	—
Other Comprehensive Income (Loss) Before Income Tax	(27,648)	2,460
Tax Expense (Benefit), Net of Deferred Tax Asset Valuation Impact of ($9,400) and ($836), Respectively	—	—
Comprehensive Income	$ 122,392	$ 44,598

Consolidated Statements of Changes in Equity

	Shares	Common Stock	Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2015	667,898	$ 6,679	$ 4,683,434	$ 8,607,914	$ (16,760)	$ 13,281,267
Net Income	—	—	—	42,138	—	42,138
Other Comprehensive Income	—	—	—	—	2,460	2,460
Balance at December 31, 2015	667,898	6,679	4,683,434	8,650,052	(14,300)	13,325,865
Net Income	—	—	—	150,040	—	150,040
Other Comprehensive Loss	—	—	—	—	(27,648)	(27,648)
Balance at December 31, 2016	667,898	$ 6,679	$ 4,683,434	$ 8,800,092	$ (41,948)	$ 13,448,257

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows

	2016	2015
Operating Activities		
Net income	$ 150,040	$ 42,138
Items Not Requiring (Providing) Cash:		
Depreciation and Amortization	403,468	430,079
Provision for Loan Losses	183,000	65,000
Net Amortization of Available-for-Sale Securities	103,824	97,367
ESOP Shares Earned	27,277	24,004
Change in Fair Value of Mortgage Servicing Rights	15,861	31,017
Loss On Sale of Other Real Estate	36,600	5,167
Amortization of Mortgage Servicing Rights	141,677	123,011
Loans Originated for Sale	(16,712,529)	(14,701,610)
Proceeds from Loans Sold	16,717,351	14,898,145
Gain on Sale of Loans	(296,171)	(278,873)
Gain on Sale of Premises and Equipment	(3,929)	(6,424)
Change in Interest Receivable and Other Assets	72,300	(72,779)
Change in Interest Payable and Other Liabilities	(73,110)	124,920
Net Cash Provided By Operating Activities	765,659	781,162
Investing Activities		
Purchases of Available-for-Sale Securities	(2,969,750)	(999,000)
Proceeds from Calls and Maturities of Available-for-Sale Securities	4,936,926	1,908,420
Proceeds Sale of FHLB Stock	—	392,700
Net Change in Loans	(16,081,501)	(17,639,930)
Proceeds from Sale of Other Real Estate	18,500	298,733
Proceeds from Sale of Premises and Equipment	4,500	47,035
Purchases of Premises and Equipment	(116,435)	(164,569)
Net Cash Used in investing Activities	(14,207,760)	(16,156,611)
Financing Activities		
Net Change in Deposits	13,774,976	14,837,745
Proceeds from Short Term Federal Home Loan Bank Advances	6,000,000	11,100,000
Proceeds from Long Term Federal Home Loan Bank Advances	5,000,000	—
Repayment of Short Term Federal Home Loan Bank Advances	(6,000,000)	—
Repayment of Long Term Federal Home Loan Bank Advances	(2,000,000)	(13,100,000)
Net Cash Provided By Financing Activities	16,774,976	12,837,745
Net Change in Cash and Cash Equivalents	3,332,875	(2,537,704)
Cash and Cash Equivalents, Beginning of Period	10,906,893	13,444,597
Cash and Cash Equivalents, End of Period	$ 14,239,768	$ 10,906,893
Additional Cash Flows information		
Interest Paid	$ 645,277	$ 536,005
Loans Transferred to Other Real Estate	66,167	99,000
Capitalization of Mortgage Serving Rights	143,349	130,638

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Conversion

Edgewater Bank, a federally chartered mutual savings association (the "Bank") is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in the Berrien, Van Buren and to a lesser extent Cass Counties, Michigan. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of the certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

The Banks' wholly-owned subsidiaries, Explorer Financial Service Corporation (EFSC) and Edgewater Insurance Agency, Inc. (EIA) are included in the consolidated financial statements. EFSC is primarily engaged in providing title insurance services and EIA is used to collect premiums and receive commissions for insurance related benefits the Bank offers its employees.

On January 16, 2014, in accordance with a Plan of Conversion and Reorganization, the Bank completed a mutual–to-stock conversion pursuant to which the Bank became the wholly owned subsidiary of Edgewater Bancorp, Inc. (the "Company"), a Maryland stock holding corporation. In connection with the Conversion, the Company sold 667,898 shares of common stock, at an offering price of $10 per share. The Company's stock began being quoted on the OTC Bulletin Board on January 17, 2014 under the symbol "EGDW," and is currently quoted on the OTCQB operated by OTC Markets Group, Inc. under the symbol "EGDW."

The net proceeds from the stock offering, net of offering costs of approximately $1,455,000, amounted to approximately $4,690,000.

Also, in connection with the Conversion, the Bank established an employee stock ownership plan (the "ESOP"), which purchased 53,431 shares of the Company's common stock at a price of $10 per share.

In accordance with the OCC regulations, at the time of the Conversion of the mutual bank to a stock holding company, the Company was required to substantially restrict retained earnings by establishing a liquidation account and the Bank established a parallel liquidation account. The liquidations account will be maintained for the benefit of eligible holders who continue to maintain their accounts at the Bank after conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holders' interest in the liquidation account. In the event of a complete liquidation of the Bank, and only in such event, each account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held. The Bank may not pay dividends if those dividends would reduce equity capital below the required liquidation account amount.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and fair values of financial instruments.

Cash and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, the Company had no cash equivalents.

At December 31, 2016, none of the Company's cash accounts at nonfederal government or governmental related entities exceeded federally insured limits, which is $250,000 per covered institution.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is applied to the principal balance until the loan can be returned to an accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

For all loan portfolio segments, the Company promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

When cash payments are received on impaired loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In restructuring the loan, the Company attempts to work out an alternative payment schedule with the borrower in order to optimize collectability of the loan. A troubled debt restructuring (TDR) occurs when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status, and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.

Nonaccrual loans, including TDRs that have not met the six month minimum performance criterion, are reported in this report as non-performing loans. For all loan classes, it is the Company's policy to have any restructured loans which are on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance, at which time management would consider its return to accrual status. A loan is generally classified as nonaccrual when the Company believes that receipt of principal and interest is questionable under the terms of the loan agreement. Most generally, this is at 90 or more days past due.

With regard to determination of the amount of the allowance for credit losses, restructured loans are considered to be impaired. As a result, the determination of the amount of impaired loans for each portfolio segment within troubled debt restructurings is the same as detailed previously above.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for premises and equipment are as follows:

- Buildings: 39 years
- Building and land improvements: 10 years
- Furniture, fixtures and equipment: 3-7 years

Other Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from other real estate.

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using either the fair value or the amortization method. Under the fair value method, the servicing rights are carried in the balance sheet at fair value and the changes in fair value are reported in earnings in the period in which the changes occur. Amortized mortgage servicing rights include commercial mortgage servicing rights. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances, if any, are reported with mortgage banking activities on the statements of operations. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights and servicing fee income are included with mortgage banking activities on the statements of operations.

Note 1: continued

Off-Balance Sheet Instruments

In the ordinary course of business, the Company has entered into commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets

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

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2013.

The Company recognizes interest and penalties, if any, on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities.

Note 2: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required was $1,115,000 and $757,000 at December 31, 2016 and 2015, respectively.

Note 3: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2016				
U.S. Government and Federal Agency	$ 5,403,528	$ 2,794	$ 36,317	$ 5,370,005
State and Political Subdivisions	2,052,453	3,460	2,248	2,053,665
Mortgage-Backed Government-Sponsored Enterprise (GSE) Residential	1,833,231	7,664	19,750	1,821,145
Collateralized Mortgage Obligations-GSE	367,826	2,449	—	370,275
Total Available-for-Sale Securities	$ 9,657,038	$ 16,367	$ 58,315	$ 9,615,090
2015				
U.S.. Government and Federal Agency	$ 5,952,239	$ 925	$ 28,222	$ 5,924,942
State and Political Subdivisions	2,555,544	8,357	5,015	2,558,886
Mortgage-Backed Government-Sponsored Enterprise (GSE) Residential	2,566,762	14,222	10,728	2,570,256
Collateralized Mortgage Obligations-GSE	653,493	6,161	—	659,654
Total Available-for-Sale Securities	$ 11,728,038	$ 29,665	$ 43,965	$ 11,713,738

The amortized cost and fair value of available-for-sale securities at December 31, 2016, by contractual maturity, are shown below. 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.

December 31, 2016	Amortized Cost	Fair Value
Within One Year	$ 2,976,817	$ 2,979,065
After One Through Five Years	4,479,164	4,444,605
	7,455,981	7,423,670
Mortgage-Backed Government-Sponsored Enterprise (GSE) Residential	1,833,231	1,821,145
Collateralized Mortgage Obligations-GSE	367,826	370,275
	$ 9,657,038	$ 9,615,090

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $184,348 and $246,401 at December 31, 2016 and 2015, respectively.

For the years ended December 31, 2016 and December 31 2015, there were no sales of securities available for sale.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2016 and 2015, was $6,559,338 and $6,612,243, which is approximately 68% and 56%, respectively, of the Company's available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates since the securities were purchased.

Management believes the declines in fair value for these securities are temporary.

Note 3: continued

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016 and 2015:

2016	Less Than 12 Months		12 Months or Longer		Total	
Available-for-Sale Securities:	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
U.S. Government and Federal Agency	$ 4,492,473	$ 36,317	$ —	$ —	$ 4,492,473	$ 36,317
State and Political Subdivisions	797,752	2,248			797,752	2,248
Mortgage-Backed Government-Sponsored Enterprise (GSE) Residential	1,267,605	19,725	1,508	25	1,269,113	19,750
	$ 6,557,830	$ 58,290	$ 1,508	$ 25	$ 6,559,338	$ 58,315

2015	Less Than 12 Months		12 Months or Longer		Total	
Available-for-Sale Securities	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
U.S. Government and Federal Agency	$ 3,524,074	$ 19,656	$ 990,379	$ 8,566	$ 4,514,453	$ 28,222
State and Political Subdivisions	—	—	494,985	5,015	494,985	5,015
Mortgage-Backed Government-Sponsored Enterprise (GSE) Residential						
Collateralized Mortgage Obligations-GSE	1,602,805	10,728	—	—	1,602,805	10,728
	$ 5,126,879	$ 30,384	$ 1,485,364	$ 13,581	$ 6,612,243	$ 43,965

The unrealized losses on the Company's investments in direct obligations of U.S. Government, state and political subdivision and federal agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

Note 4: Loans and Allowance for Loan Losses

Classes of loans at December 31, 2016 and 2015, include:

	2016	2015
Real Estate Loans:		
Residential 1-4 Family	$ 48,959,756	$ 45,402,431
Commercial Real Estate	41,101,468	32,374,013
Construction and Land Development	1,193,824	1,975,842
Total Real Estate	91,255,048	79,752,286
Commercial and Industrial Loans	10,387,698	8,147,480
Warehouse Line Loans	14,119,027	10,000,000
Consumer Loans:		
Home Equity Loans and Lines of Credit	7,283,873	9,003,016
Other Consumer Loans	962,458	1,101,856
Total Consumer	8,246,331	10,104,872
Total Loans	124,008,104	108,004,638
Less Other Items:		
Net Deferred Loan Fees	31,332	26,191
Allowance for Loan Losses	(1,251,647)	(1,075,374)
Total Loans, Net	$ 122,787,789	$ 106,955,455

Risk Characteristics

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Residential 1-4 Family, Home Equity Loans and Lines of Credit and Other Consumer:

The residential 1-4 family real estate loans are generally secured by owner-occupied 1-4 family residences. Home equity loans and lines of credit are typically secured by a subordinate interest in 1-4 family residences and consumer loans are secured by consumer assets such as automobiles and other personal property. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial Real Estate including Construction and Land:

Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Construction and land real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Commercial and Industrial:

The commercial and industrial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Warehouse Line:

The residential mortgage warehouse line is a wholesale mortgage line participation. The lending is done with a specific mortgage company that is a customer with the participating bank. The participating bank underwrites each individual mortgage and the related mortgagee. Financing is provided to an approved mortgage company for the origination and sale of residential mortgage loans. A portion of each individual mortgage is assigned to the Edgewater Bank until the loans is sold on the secondary market. These loans are typically sold within 30 days and are seldom held more than 90 days. Interest income is accrued during this period and collected at the time each loan is sold. Edgewater Bank has established several controls to minimize potential risks including reviewing documents provided on the approved mortgage warehouse participants. Also, certain loan documents are received and reviewed on each loan in which Edgewater Bank is asked to participate in that allows Edgewater Bank to accept or reject the individual loan participation.

Note 4: continued

The following tables present by portfolio segment, the activity in the allowance for loan losses for the years ended December 31, 2016 and 2015, and the recorded investment in loans and impairment method as of December 31, 2016 and 2015:

2016	Residential 1-4 Family	Commercial Real Estate	Commercial and Industrial	Warehouse Line	Consumer	Total
Allowance for Loan Losses:						
Balance at Beginning of Period	$ 337,230	$ 504,023	$ 69,337	$ 60,787	$ 103,997	$ 1,075,374
Provision (Credit) for Loan Losses	32,294	218,711	(25,431)	13,810	(56,384)	183,000
Loans Charged to the Allowance	(12,683)	(293)	—	—	—	(12,976)
Recoveries of Loans Previously Charged Off	3,618	2,631	—	—	—	6,249
Balance at End of Year	$ 360,459	$ 725,072	$ 43,906	$ 74,597	$ 47,613	$ 1,251,647
Ending Balance Individually Evaluated for Impairment	$ 11,782	$ 345	—	—	$ 336	$ 12,463
Ending Balance Collectively Evaluated for Impairment	$ 348,677	$ 724,727	$ 43,906	$ 74,597	$ 47,277	$ 1,239,184
Loans:						
Ending Balance	$ 48,959,756	$ 42,295,292	$ 10,387,698	$ 14,119,027	$ 8,246,331	$ 124,008,104
Ending Balance Individually Evaluated for Impairment	$ 1,691,123	$ 26,606	$ —	$ —	$ 137,500	$ 1,855,229
Ending Balance Collectively Evaluated for Impairment	$ 47,268,633	$ 42,268,686	$ 10,387,698	$ 14,119,027	$ 8,108,831	$ 122,152,875

2015	Residential 1-4 Family	Commercial Real Estate	Commercial and Industrial	Warehouse Line	Consumer	Total
Allowance for Loan Losses:						
Balance at Beginning of Period	$ 222,618	$ 503,621	$ 248,388	$ —	$ 100,724	$ 1,075,351
Provision (Credit) for Loan Losses	101,517	59,817	(179,051)	60,787	21,930	65,000
Loans Charged to the Allowance	(570)	(62,015)	—	—	(18,657)	(81,242)
Recoveries of Loans Previously Charged Off	13,665	2,600	—	—	—	16,265
Balance at End of Year	$ 337,230	$ 504,023	$ 69,337	$ 60,787	$ 103,997	$ 1,075,374
Ending Balance Individually Evaluated for Impairment	$ 13,969	$ 302	$ —	$ —	$ 372	$ 14,643
Ending Balance Collectively Evaluated for Impairment	$ 323,261	$ 503,721	$ 69,337	$ 60,787	$ 103,625	$ 1,060,731
Loans:						
Ending Balance	$ 45,402,431	$ 34,349,855	$ 8,147,480	$ 10,000,000	$ 10,104,872	$ 108,004,638
Ending Balance Individually Evaluated for Impairment	$ 2,051,278	$ 315,658	$ —	$ —	$ 122,809	$ 2,489,745
Ending Balance Collectively Evaluated for Impairment	$ 43,351,153	$ 34,034,197	$ 8,147,480	$ 10,000,000	$ 9,982,063	$ 105,514,893

Internal Risk Categories

In adherence with policy, the Bank uses the following internal risk grading categories and definitions for loans:

RISK RATING 1 – EXCELLENT

General: The highest quality asset rating reflects superior, in-depth management, and superior financial flexibility. Conservative balance sheets are both strong and liquid, and historic cash flows (last five years) have provided exceptionally large and stable margins of protection.

Specific: Financial statements are current, audited, of superior quality and in complete detail. Financial condition is superior and compares favorably to the industry average. Cash flow is outstanding relative to historical and projected debt service requirements. The borrower adheres to all loan covenants. Management (or individual) integrity and ability are outstanding.

RISK RATING 2 – STRONG

General: The borrower is fully responsible for the credit. Asset quality and liquidity are very good, and debt capacity and coverage are strong. The company has strong management in all positions, and is highly regarded with excellent financial flexibility including access to other sources of financing.

Specific: Financial statements are current, of excellent quality and in adequate detail. Financial condition is very good and compares favorably to the industry average. Statements reflect a stable record of earnings over time and consistent profitability. Cash flow is strong relative to historical and projected debt service requirements. The borrower consistently adheres to the repayment schedules for both principal and interest. The borrower adheres to all loan covenants. Management (or individual) integrity and ability are outstanding.

RISK RATING 3 – GOOD

General: Asset quality and liquidity are strong, and debt capacity and coverage are good to above average. General financial trends are stable to favorable and financial and profitability ratios are consistent with industry peers. Management strength is apparent. The industry is average. Some modest elements of uncertainty may be present due to liquidity, margin and cash flow stability, asset of customer concentrations, dependence on one business type, or cyclical trends that may affect the borrower.

Specific: The financial statements are generally current, of adequate detail, and of good quality. Publication of statements is at least once annually but in most cases more frequent. Financial condition is good relative to the industry. The earnings record is stable and consistent, although modest year-to-year earnings may fluctuate more than for borrowers rated Excellent (1) or Strong (2). Cash flow may vary during the repayment of the loan but does not fall below debt service requirements. Historical profitability may be inconsistent but losses are typically nonexistent or infrequent. Liquidity and leverage are at the industry average. The borrower consistently adheres to repayment schedules for both principal and interest, and adheres to all loan covenants. Any waivers are immaterial, and do not negatively impact the strength of the credit. Management (or individual) integrity and ability are sound. Depth and breadth of management is also sound.

RISK RATING 4 – ACCEPTABLE

General: Asset quality and liquidity are good, and debt capacity and coverage are average to good. General financial trends are stable to favorable and financial and profitability ratios are consistent with industry peers. Management strength is apparent but may be limited to key positions. The industry is average. Some elements of uncertainty may be present due to liquidity, margin and cash flow stability, asset of customer concentrations, dependence on one business type, or cyclical trends that may affect the borrower. Adverse economic conditions may lead to declining trends.

Specific: The financial statements are generally current, of adequate detail, and of average quality. Publication of statements is at least once annually. Financial condition is average relative to the industry. The earnings record is satisfactory, although year-to-year earnings patterns may fluctuate more than for borrowers rated Good (3). Cash flow may vary during the repayment of the loan but does not fall below debt service requirements. Historical profitability may be inconsistent and may have losses in recent years. Liquidity and leverage may be below the industry average, and the borrower may be highly leveraged. The borrower consistently adheres to repayment schedules for both principal and interest, and adheres to all loan covenants. Any waivers are immaterial, and do not negatively impact the strength of the credit. Management (or individual) integrity and ability are sound. Depth and breadth of management is also sound.

RISK RATING 5 – WATCH

General: Loans in this category are considered to be acceptable credit quality, but contain greater credit risk than Risk Rating 4 loans due to weak balance sheets, marginal earnings or cash flow, lack of financial information, weakening markets, insufficient or questionable collateral coverage, or other uncertainties. These loans warrant a higher than average level of monitoring to ensure that potential weaknesses do not emerge. The level of risk in a Watch loan is within acceptable underwriting guidelines so long as the loan is given the proper level of management supervision.

Specific: The financial statements may be missing, outdated, of poor quality, or lacking in important details. Financial condition is below the industry average. The borrower may be experiencing negative trends and/or erratic or unstable financial performance. The borrower may have suffered a loss in a recent period; however, losses have not been of the magnitude to have adversely affected the balance sheet. The borrower generally adheres to repayment schedules for principal and consistently for interest. Cash flow from primary sources has generally been adequate but, if existing trends continue may not be adequate to meet projected debt service requirements in the future. The borrower may have violated one or more financial or other covenants, but such has not materially impacted financial condition or performance. Industry outlook may be unfavorable. The integrity and quality of management remains good; however, management depth may be limited.

RISK RATING 6 – SPECIAL MENTION

General: Assets in this category have potential weaknesses that deserve the Bank's close attention. If potential weaknesses are left unchecked or uncorrected, they may result in deterioration of the repayment prospects for the asset or inadequately protect the Bank's credit position at some future date. These assets pose elevated risk, but their weakness does not expose the Bank to sufficient risk to warrant adverse classification.

Specific: Borrowers may be experiencing adverse operating trends (declining revenues or margins) or an ill-proportioned balance sheet (increasing inventory without an increase in sales, high leverage, tight liquidity). Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a Special Mention (6) rating. Nonfinancial reasons for rating a credit Special Mention (6) include management problems, pending litigation, an ineffective loan agreement or other material structural weaknesses, and any other significant deviation from prudent lending practices.

RISK RATING 7 – SUBSTANDARD

General: Assets in this category are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. These assets have a well-defined weakness or weaknesses that jeopardize the timely liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Specific: Substandard assets have a high probability of payment default, or they have other well-defined weaknesses. The financial statements may be missing, seriously outdated, of poor quality, or lacking in important details. Financial condition is less than satisfactory. The borrower is experiencing negative trends and material losses. The primary source of cash flow is inadequate to meet current debt service requirements, and unless present conditions improve is potentially inadequate to meet projected debt service requirements. The borrower may have reached the point of employing its secondary source of cash flow. The borrower inconsistently adheres to repayment schedules for either principal or interest. The borrower may have violated one or more financial or other covenants, reflecting unsatisfactory liquidity and/or capitalization. Either the integrity or the ability of management may be in question. For some Substandard (7) assets, the likelihood of full collection of interest and principal may be in doubt; such assets should be placed on nonaccrual.

RISK RATING 8 – DOUBTFUL

General: Assets in this category have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Specific: An asset in this category has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity and capital, and lack the resources necessary to remain an operating entity. Pending events can include mergers, acquisitions, liquidations, capital injections, and the perfection of liens on additional collateral, the valuation of collateral and refinancing. Generally, pending events should be resolved within a relatively short period and the ratings will be adjusted based on new information. Because of high probability of loss, nonaccrual accounting treatment is required for Doubtful (8) assets.

RISK RATING 9 – LOSS

General: Assets in this category are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be obtained in the future.

Specific: With Loss (9) assets, the underlying borrowers are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Once an asset is classified Loss (9), there is little prospect of collecting either its principal or interest. Losses are to be recorded in the period an obligation becomes uncollectable.

Note 4: continued

The following table presents the credit risk profile of the Bank's loan portfolio based on internal rating category and payment activity as of December 31, 2016 and 2015:

	Residential 1-4 Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Warehouse Line	Home Equity	Other Consumer	Total
2016								
Pass (1-5)	$ 48,091,750	$ 39,226,251	$ 1,126,278	$ 10,387,698	$ 14,119,027	$ 7,222,720	$ 962,458	$ 121,136,182
Special Mention (6)	—	401,286	49,796	—	—	—	—	451,082
Substandard (7)	868,006	1,473,931	17,750	—	—	61,153	—	2,420,840
Doubtful (8)	—	—	—	—	—	—	—	—
Loss (9)	—	—	—	—	—	—	—	—
Total	$ 48,959,756	$ 41,101,468	$ 1,193,824	$ 10,387,698	$ 14,119,027	$ 7,283,873	$ 962,458	$ 124,008,104
2015								
Pass (1-5)	$ 44,838,588	$ 30,037,894	$ 1,966,182	$ 8,147,480	$ 10,000,000	$ 9,003,016	$ 1,101,856	$ 105,095,016
Special Mention (6)	—	1,553,936	—	—	—	—	—	1,553,936
Substandard (7)	563,843	782,183	9,660	—	—	—	—	1,355,686
Doubtful (8)	—	—	—	—	—	—	—	—
Loss (9)	—	—	—	—	—	—	—	—
Total	$ 45,402,431	$ 32,374,013	$ 1,975,842	$ 8,147,480	$ 10,000,000	$ 9,003,016	$ 1,101,856	$ 108,004,638

The Bank evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the past year.

The following tables present the Bank's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2016 and 2015:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Total 90+ Days & Accruing
2016							
Residential 1-4 family	$ 514,598	$ 52,929	$ 921,381	$ 1,488,908	$ 47,470,848	$ 48,959,756	$ —
Commercial Real Estate	—	—	8,856	8,856	41,092,612	41,101,468	—
Construction And Land	—	—	17,750	17,750	1,176,074	1,193,824	—
Commercial And Industrial	—	—	—	—	10,387,698	10,387,698	—
Warehouse Line	—	—	—	—	14,119,027	14,119,027	—
Home Equity	29,732	6,737	61,153	97,622	7,186,251	7,283,873	—
Other Consumer	23,352	—	—	23,352	939,106	962,458	—
	$ 567,682	$ 59,666	$ 1,009,140	$ 1,636,488	$ 122,371,616	$ 124,008,104	$ —
2015							
Residential 1-4 Family	$ 1,124,518	$ 312,454	$ 555,497	$ 1,992,469	$ 43,409,962	$ 45,402,431	$ —
Commercial Real Estate	9,715	—	—	9,715	32,364,298	32,374,013	—
Construction and Land	—	23,118	9,660	32,778	1,943,064	1,975,842	—
Commercial and Industrial	99,541	—	—	99,541	8,047,939	8,147,480	—
Warehouse Line	—	—	—	—	10,000,000	10,000,000	—
Home Equity	72,128	10,288	8,309	90,725	8,912,291	9,003,016	—
Other Consumer	—	2,852	—	2,852	1,099,004	1,101,856	—
	$ 1,305,902	$ 348,712	$ 573,466	$ 2,228,080	$ 105,776,558	$ 108,004,638	$ —

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings.

The following table presents impaired loans and specific valuation allowance based on class level for the years ended December 31, 2016 and 2015:

2016	Residential 1-4 Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Warehouse Line	Home Equity	Total
Impaired Loans Without a Specific Allowance							
Recorded Investment	$ 567,527	$ —	$ —	$ —	$ —	$ 76,347	$ 643,874
Unpaid Principal Balance	648,109	—	—	—	—	76,347	724,456
Impaired Loans With a Specific Allowance							
Recorded Investment	1,123,596	8,856	17,750	—	—	61,153	1,211,355
Unpaid Principal Balance	1,175,516	10,438	20,352	—	—	66,010	1,272,316
Specific Allowance	11,781	146	199	—	—	337	12,463
Total Impaired Loans							
Recorded Investment	1,691,123	8,856	17,750	—	—	137,500	1,855,229
Unpaid Principal Balance	1,823,625	10,438	20,352	—	—	142,357	1,996,772
Specific Allowance	11,781	146	199	—	—	337	12,463

2015	Residential 1-4 Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Warehouse Line	Home Equity	Total
Impaired Loans Without a Specific Allowance							
Recorded Investment	$ 848,467	$ 273,166	$ —	$ —	$ —	$ 79,097	$ 1,200,730
Unpaid Principal Balance	921,718	273,166	—	—	—	79,097	1,273,981
Impaired Loans With a Specific Allowance							
Recorded Investment	1,202,811	9,715	32,777	—	—	43,712	1,289,015
Unpaid Principal Balance	1,259,063	11,111	36,696	—	—	45,687	1,352,557
Specific Allowance	13,969	129	173	—	—	372	14,643
Total Impaired Loans							
Recorded Investment	2,051,278	282,881	32,777	—	—	122,809	2,489,745
Unpaid Principal Balance	2,180,781	284,277	36,696	—	—	124,784	2,626,538
Specific Allowance	13,969	129	173	—	—	372	14,643

The following presents by portfolio class, information related to the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2016 and 2015:

	Residential 1-4 Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Warehouse Line	Home Equity	Total
2016							
Average Recorded Investment in Impaired Loans	$ 1,333,526	$ 9,286	$ 3,723	$ —	$ —	$ 119,767	$ 1,466,302
Interest Income Recognized	27,056	—	—	—	—	2,758	29,814
Interest Income Recognized on a Cash Basis	26,796	—	—	—	—	2,704	29,500
2015							
Average Recorded Investment in Impaired Loans	$ 1,920,676	$ 290,494	$ 38,295	$ —	$ —	$ 127,281	$ 2,376,746
Interest Income Recognized	23,914	15,554	—	—	—	2,614	42,082
Interest Income Recognized on a Cash Basis	23,798	15,328	—	—	—	2,614	41,740

The following table presents the Bank's nonaccrual loans at December 31, 2016 and 2015. This table excludes performing troubled debt restructurings.

	Residential 1-4 Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Warehouse Line	Home Equity	Other Consumer	Total
2016	$ 921,381	$ 8,856	$ 17,750	$ —	$ —	$ 61,153	$ —	$ 1,009,140
2015	$ 1,233,905	$ 9,715	$ 32,777	$ —	$ —	$ 43,712	$ —	$ 1,320,109

For periods ended at December 31, 2016 and December 31, 2015, the Company did not have any new loans that were modified in troubled debt restructurings.

As of December 31, 2016, borrowers with loans designated as TDRs and totaling $815,346 of residential 1-4 family loans and $76,347 of home equity loans, of which $846,088 met the criteria for placement on accrual status.

This criteria is a minimum of six months of payment performance under existing or modified terms.

The Company has had, and may be expected to have in the future, lending transactions in the ordinary course of business with principal stockholder, directors, executive officer and their affiliates (related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and which do not represent more than the normal risk of collectability or present other unfavorable features.

At December 31, 2016, the Company held one residential real estate for approximately $47,000 as foreclosed property. Also, at December 31, 2016, there were no consumer mortgage loans in the process of foreclosure according to local requirements of the applicable jurisdictions.

Note 4: continued

Aggregate loan transaction with related parties for the year ended December 31, 2016 and year ended December 31, 2015:

	2016	2015
Balance at January 1	$ 2,389,824	$ 1,746,535
New Loans and Advances on Lines	970,819	535,893
Repayments	(1,041,229)	(540,712)
Other Newly Established Related Party	—	648,108
Balance at December 31	$ 2,319,414	$ 2,389,824
Balance Available on Lines of Credit or Loan Commitments	$ 389,925	$ 290,558

None of these loans are past due, in nonaccrual status or have been restructured to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. These were no loans to a related party that were considered classified at December 31, 2016 and December 31, 2015.

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2016	2015
Land	$ 864,420	$ 864,420
Land Improvements	322,809	322,809
Building and Improvements	4,523,329	4,513,402
Furniture, Fixtures and Equipment	3,333,517	3,326,148
Total Cost	9,044,075	9,026,779
Accumulated Depreciation	(5,725,509)	(5,420,609)
Net Premises and Equipment	$ 3,318,566	$ 3,606,170

Note 6: Loan Servicing

The Company accounts for loan servicing rights applicable to serviced loans originated prior to January 1, 2011, using the fair value method of accounting and are considered a specific class. Loan servicing rights applicable to serviced loans originated after January 1, 2011, are valued using the amortization method and are considered a different specific class. Under both methods, the mortgage servicing rights are recorded at fair value at inception. Under the fair value method, the asset continues to be recorded at fair value each reporting period, with changes in fair value being recorded through noninterest income. Under the amortization method, the recorded asset is amortized over its estimated life.

The fair value method approach of accounting was adopted because the Company believed the fair values of servicing rights were substantially undervalued and thus understated on the balance sheet. The fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Subsequent valuation adjustments for servicing assets related to loan originations prior to January 1, 2011, will be made to noninterest income and included in mortgage banking activities in the statement of operations.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of mortgage loans serviced for others was $79,513,000 and $77,187,000 at December 31, 2016 and 2015, respectively.

The following summarizes the activity pertaining to mortgage servicing rights measured using the amortization method. There were no valuation allowance recorded or reversed during 2016 or 2015.

	2016	2015
Balance at Beginning of Year	$ 325,539	$ 317,912
Additions	143,349	130,638
Amortization	(141,676)	(123,011)
Balance at End of Year	$ 327,212	$ 325,539
Fair Value at Beginning of Year	$ 612,290	$ 526,647
Fair Value at End of Year	628,191	612,290

The following summarizes the activity in mortgage servicing rights measured using the fair value method for the years ended December 31, 2016 and 2015:

	2016	2015
Balance at Beginning of Year	$ 83,176	$ 114,193
Additions	—	—
Change in Fair Value Adjusted Through Earnings	(15,861)	(31,017)
Balance at End of Year	$ 67,315	$ 83,176

Note 7: Deposits

	2016	2015
Noninterest Bearing Demand Deposits	$ 15,509,534	$ 13,940,853
Interest Bearing Deposits	48,756,006	37,751,724
Money Market	20,714,524	20,465,720
Savings Accounts	15,684,212	13,660,368
Certificates of Deposit	26,441,555	27,512,191
Total Deposits	$ 127,105,831	$ 113,330,856

Interest-bearing time deposits in denominations of $250,000 or more were $5,784,981 at December 31, 2016, and $3,714,258 at December 31, 2015.

At December 31, 2016 and 2015, the Bank had deposits from executive officers, directors and their affiliates (related parties), of $1,616,445 and $1,893,793, respectively. In management's opinion, such deposits were made in the ordinary course of business and were made on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

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

2016	$ 12,933,302
2017	6,876,032
2018	2,119,990
2019	3,220,807
2020	1,265,010
Therafter	26,414
Total	$ 26,441,555

Note 8: Federal Home Loan Bank Advances

Federal Home Loan Bank advances totaled $11,000,000 and $8,000,000 at December 31, 2016 and 2015, respectively. Federal Home Loan Bank advances and line of credit are secured by mortgage loans totaling approximately $21.9 million and $29.0 million at December 31, 2016 and 2015, respectively. Advances, at interest rates from .82 percent to 1.79 percent were subject to restrictions or penalties in the event of prepayment as of December 31, 2016. The Bank has a $5 million advance with a put option. The Bank has a $2.0 million line of credit with the Federal Home Loan Bank and a $2.0 million federal funds line with United Bankers Bank, none of which was outstanding at December 31, 2016.

Scheduled maturities on advances are as follows:

2017	$ 2,000,000
2018	2,000,000
2019	2,000,000
2020	—
2021	5,000,000
Total	$ 11,000,000

Note 9: Income Taxes

The provision (credit) for income taxes includes these components:

	2016	2015
Taxes Currently Payable	$ —	$ —
Deferred Income Taxes	—	—
Income Tax Expense (Benefit)	$ —	$ —

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2016	2015
Computed at the Statutory Rate (34%)	$ 51,013	$ 14,321
Increase (Decrease) Resulting from Tax Exempt Interest	—	—
Increase (Decrease) Resulting from Changes in the Deferred Tax Asset Valuation Allowance	(47,722)	(21,238)
Increase (Decrease) Resulting from Other	(3,291)	6,917
Actual Tax Expense (Benefit)	$ —	$ —

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

	2016	2015
Deferred Tax Assets		
Allowance for Loan Losses	$ 132,955	$ 432,755
Valuation of Other Real Estate	8,574	1,673
Net Operating Loss Carryforward	2,926,090	3,119,906
Charitable Contribution Carryforward	19,916	22,605
Unrealized Loss On Available-for-Sale Securities	14,262	4,862
Other	210,852	—
Total Assets	3,312,649	3,581,801
Deferred Tax Liability		
Depreciation	(119,465)	(170,778)
Deferred Loan Fees	(10,746)	(8,941)
Fhlb Stock Dividends	(23,103)	(23,065)
Other	—	(171,961)
Total Liabilities	(153,314)	(374,745)
Net Deferred Tax Asset Before Valuation Allowance	3,159,335	3,207,056
Variation Allowance		
Beginning Balance	(3,207,056)	(3,228,293)
Increase During the Period	47,721	21,237
Ending Balance	(3,159,335)	(3,207,056)
Net Deferred Tax Asset (Liability)	$ —	$ —

As of December 31, 2016, the Company has approximately $8.4 million of federal net operating loss carryforwards that begin expiring in 2029 and approximately $1.2 million of state net operating loss carryforwards that begin expiring in 2024.

Retained earnings at December 31, 2016 and 2015, include approximately $702,000 for which no deferred federal income tax liability has been recognized. These amounts represent an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate.

Note 10: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of December 31, 2016 and 2015, that the Company meets all capital adequacy requirements to which it is subject.

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

We opted-out of the accumulated other comprehensive income (AOCI) capital rule that went into effect on January 1, 2015. Implementation of the deductions and other adjustment to Common Equity Tier 1 (CET1) began on January 1, 2015, and will phase in over a four-year period (beginning at 40% on January 1, 2015, and an additional 20% per year thereafter). Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and will phase in over a four-year period (increasing by that amount on each subsequent January 1 until it reaches 2.5% on January 1, 2019).

The Bank's actual capital amounts and ratios are also presented in the following tables:

December 31, 2016	**Actual**		**Minimum Required: Adequate Capital**[1]		**Minimum Required: Well Capitalized**[1]	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital[1] (to Risk-Weighted Assets)	$ 14,331	13.96 %	$ 8,212	8.00 %	$ 10,265	10.00 %
Tier I Capital[1] (to Risk-Weighted Assets)	13,080	12.74 %	6,159	6.00 %	8,212	8.00 %
Common Equity Tier I Capital[1] (to Risk-Weighted Assets)	13,080	12.74 %	4,619	4.50 %	6,672	6.50 %
Tier I Capital[1] (to Average Assets)	13,080	8.49 %	6,162	4.00 %	7,703	5.00 %

December 31, 2015	**Actual**		**Minimum Required: Adequate Capital**[1]		**Minimum Required: Well Capitalized**[1]	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital[1] (to Risk-Weighted Assets)	$ 13,701	15.37 %	$ 7,133	8.00 %	$ 8,916	10.00 %
Tier I Capital[1] (to Risk-Weighted Assets)	12,630	14.16 %	5,350	6.00 %	7,133	8.00 %
Common Equity Tier I Capital[1] (to Risk-Weighted Assets)	12,630	14.16 %	4,012	4.50 %	5,795	6.50 %
Tier I Capital[1] (to Average Assets)	12,630	9.42 %	5,364	4.00 %	6,705	5.00 %

[1] *As defined by regulatory agencies.*

Note 11: Employee Benefits

The Company has a retirement savings 401(k) plan which covers all full-time employees who are age 21 or older and who have worked 1,000 hours and completed three months of service. Employees may contribute up to 25% of their compensation up to a maximum of $18,000 a year with the Company matching 50% of the employee's contribution on the first 6% of the employee's compensation. Employer contributions charged to expense for the years ended December 31, 2016 and 2015, were $67,365 and $62,948, respectively.

The Company participates in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra Plan), an industry-wide, tax-qualified defined-benefit pension plan. The Pentegra Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Pentegra Plan operates as a multiemployer plan for accounting purposes and as a multiple employer plan under the *Employee Retirement Income Security Act of 1974 and the Internal Revenue Code.* There are no collective bargaining agreements in place that require contributions to the Pentegra Plan. The Pentegra Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities.

The risks of participating in a multiemployer plan are different from a single-employer plan in the following aspects:

1. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company froze the benefits in the Pentegra Plan effective June 1, 2010. Full-time employees of the Company who had attained at least 21 years of age and completed one year of service were eligible to participate in the Pentegra Plan. In addition, employees who would have been eligible after June 1, 2010, are not eligible to participate. No further benefits will accrue subsequent to the freeze, and the freeze does not reduce the benefits accrued up to the date of the freeze.

Pension expense related to this plan was $157,296 and $140,729 for years ended December 31, 2016 and 2015.

Calculations to determine full-funding status are made annually by the third-party plan administrator as of June 30. At June 30, 2016 and 2015, the funding target, which is defined as the market value of plan assets divided by the plan liabilities, of the Company's portion of the Pentegra Plan was 80.00% and 75.72%, respectively, funded.

Total contributions by all employer participants in the Pentegra Plan, as reported on Form 5500, totaled $163,138,456 and $190,751,615, respectively, for the plan years ended June 30, 2015 and 2014. The Company's contributions to the Pentegra Plan totaled $155,731 and $152,078, respectively, for the years ended December 31, 2016 and 2015, respectively, and do not represent more than 5% of the total contributions made by all employer participants in the Pentegra Plan. There have been no significant changes that affect the comparability of 2016 and 2015 contributions. Given the current interest rate environment, the lower asset valuations, and other factors impacting the operations of the Pentegra Plan, it is likely that our future funding obligations could increase.

In connection with the conversion to an entity owned by stockholders, the Company established an Employee Stock Ownership Plan (ESOP) for the exclusive benefit of eligible employees (all salaried employees who have completed at least 1,000 hours of service in a consecutive twelve-month period and have attained the age of 21). The ESOP borrowed funds from the Company in an amount sufficient to purchase 53,431 shares (approximately 8% of the common stock issued in the stock offering). The loan is secured by the shares purchased and will be repaid by the ESOP with funds from contributions made by the Company and dividends received by the ESOP. Contributions will be applied to repay interest on the loan first, then the remainder will be applied to principal. The loan is expected to be repaid over a period of up to 25 years. Shares purchased with the loan proceeds are held in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants in proportion to their compensation, relative to total compensation of all active participants. Participants will vest in their accrued benefits under the employee stock ownership plan at the rate of 20 percent per year. Vesting is accelerated upon retirement, death or disability of the participant, or a change in control of the Association. Forfeitures will be reallocated to remaining plan participants. Benefits may be payable upon retirement, death, disability, separation from service, or termination of the ESOP.

The debt of the ESOP is eliminated in consolidation. Contributions to the ESOP shall be sufficient to pay principal and interest currently due under the loan agreement. As shares are committed to be released from collateral, the Company reports compensation expense equal to the average market price of the shares for the respective period, and the shares become outstanding for earnings per share computations. Dividends on unallocated ESOP shares, if any, are recorded as a reduction of debt and accrued interest. ESOP compensation expense was $31,389 and $24,494 the year ended December 31, 2016 and 2015.

A summary of ESOP shares are as of December 31 are as follows:

	2016	2015
Released Shares	4,278	2,141
Shares committed for release	2,142	2,137
Unreleased shares	47,011	49,153
Total	$ 53,431	$ 53,431
Fair value of unreleased shares	$ 747,475	$ 675,854

In the event the ESOP is unable to satisfy the obligation to repurchase the shares held by each beneficiary upon the beneficiary's termination or retirement, the Company is obligated to repurchase the shares. At December 31, 2016, the fair value of these shares is $33,517. In addition, there are 432 outstanding shares held by former employees that are subject to an ESOP related repurchase option.

Note 12: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value.

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

Assets		Fair Value Measurements		
December 31, 2016	**Fair Value**	**Quoted Price in Active Market for Identical Asset LEVEL 1**	**Significant Other Observable Inputs LEVEL 2**	**Significant Unobservable Inputs LEVEL 3**
Available-for-Sale Securities:				
U.S. Government and Federal Agency	$ 5,370,005	$ —	$ 5,370,005	$ —
State And Political Subdivisions	2,053,665	—	2,053,665	—
Mortgage-Backed GSE Residential	1,821,145	—	1,821,145	—
Collateralized Mortgage Obligations - GSE	370,275	—	370,275	—
Mortgage Servicing Rights	67,315	—	—	67,315

Assets		Fair Value Measurements		
December 31, 2015	**Fair Value**	**Quoted Price in Active Market for Identical Asset LEVEL 1**	**Significant Other Observable Inputs LEVEL 2**	**Significant Unobservable Inputs LEVEL 3**
Available-for-Sale Securities:				
U.S. Government and Federal Agency	$ 5,924,942	$ —	$ 5,924,942	$ —
State And Political Subdivisions	2,558,886	—	2,558,886	—
Mortgage-Backed GSE Residential	2,570,256	—	2,570,256	—
Collateralized Mortgage Obligations - GSE	659,654	—	659,654	—
Mortgage Servicing Rights	83,176	—	—	83,176

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2016 and 2015. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy including U.S. Government and federal agencies, state and political subdivisions, mortgage-backed securities, and collateralized mortgage obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company has no securities classified as Level 3.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Mortgage servicing rights are tested for impairment on a quarterly basis. The Chief Financial Officer's (CFO) office contracts with a pricing specialist to generate fair value estimates on at least an annual basis. The CFO's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable (Level 3) inputs.

	2016	2015
Balance At Beginning of Year	$ 83,176	$ 114,193
Total Changes in Fair Value Included in Earnings	(15,861)	(31,017)
Balance at End of Year	$ 67,315	$ 83,176

Nonrecurring Measurements

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015.

Assets		Fair Value Measurements		
December 31, 2016	**Fair Value**	**Quoted Price in Active Market for Identical Asset LEVEL 1**	**Significant Other Observable Inputs LEVEL 2**	**Significant Unobservable Inputs LEVEL 3**
Other Real Estate Owned	$ 207,000	$ —	$ —	$ 207,000
Collateral-Dependent Impaired Loans, Net of ALLL	712,236	—	—	712,236
December 31, 2015	**Fair Value**	**Quoted Price in Active Market for Identical Asset LEVEL 1**	**Significant Other Observable Inputs LEVEL 2**	**Significant Unobservable Inputs LEVEL 3**
Other Real Estate Owned	$ 202,100	$ —	$ —	$ 202,100
Collateral-Dependent Impaired Loans, Net of ALLL	1,274,372	—	—	1,274,372

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Other Real Estate Owned

Other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by the CFO's office. Appraisals are reviewed for accuracy and consistency by the CFO's office. Appraisers are selected from the list of approved appraisers maintained by management.

Collateral-Dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the CFO's office. Appraisals are reviewed for accuracy and consistency by the CFO's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the CFO's office by comparison to historical results.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill.

	Fair Value	Valuation Technique	Unbservable Inputs	Weighted Average
December 31, 2016				
Other Real Estate Owned	$ 207,000	Market comparable properties	Comparability adjustment (%)	Not available
Collateral-Dependent Impaired Loans, Net of ALLL	712,236	Market comparable properties	Marketability discount	10% - 15% (10.3%)
Mortgage Servicing Rights	67,315	Discounted cash flow	Constant prepayment rate	10.3% - 18.3% (14.4%)
			Probability of default	1% - 8% (2.9%)
			Discount rate	6.7% - 14.0% (10.7%)
December 31, 2015				
Other Real Estate Owned	$ 202,100	Market comparable properties	Comparability adjustment (%)	Not available
Collateral-Dependent Impaired Loans, Net of ALLL	1,274,372	Market comparable properties	Marketability discount	10% - 15% (11.4%)
Mortgage Servicing Rights	83,176	Discounted cash flow	Constant prepayment rate	8.8% - 16% (11.9%)
			Probability of default	1% - 8% (2.9%)
			Discount rate	5.6% - 12.0% (10.4%)

Note 12: continued

Fair Value of Financial Instruments

The following tables present estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015.

		Fair Value Measurements		
December 31, 2016	**Carrying Amount**	**Quoted Price in Active Market for Identical Asset LEVEL 1**	**Significant Other Observable Inputs LEVEL 2**	**Significant Unobservable Inputs LEVEL 3**
Financial Assets:				
Cash and Cash Equivalents	$ 14,239,768	$ 14,239,768	$ —	$ —
Loans Held for Sale	148,000	—	148,000	
Loans, Net of Allowance For Loan Losses	122,787,789	—	—	122,783,000
FHLB Stock	686,200	—	686,200	—
Accrued Interest Receivable	313,234	—	313,234	—
Mortgage Servicing Rights	327,212	—	—	628,191
Financial liabilities:				
Deposits	127,105,831	15,509,534	111,585,297	—
Federal Home Loan Bank Advances	11,000,000		10,838,000	
Accrued Interest Payable	8,349	—	8,349	—

December 31, 2015	**Carrying Amount**	**Quoted Price in Active Market for Identical Asset LEVEL 1**	**Significant Other Observable Inputs LEVEL 2**	**Significant Unobservable Inputs LEVEL 3**
Financial Assets:				
Cash and Cash Equivalents	$ 10,906,893	$ 10,906,893	$ —	$ —
Loans Held for Sale	—	—	—	
Loans , Net of Allowance for Loan Losses	106,955,455	—	—	107,347,000
FHLB Stock	686,200	—	686,200	—
Accrued Interest Receivable	314,174	—	314,174	—
Mortgage Servicing Rights	325,539	—	—	612,290
Financial liabilities:				
Deposits	113,330,856	13,940,853	99,414,003	—
Federal Home Loan Bank advances	8,000,000	—	8,063,000	—
Accrued Interest Payable	6,137	—	6,137	—

Note 12: continued

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Loans Held For Sale

The carrying amount approximates fair value due to the insignificant time between origination and date of sale. The carrying amount is the amount funded and accrued interest.

Loans, Net of Allowance for Loan Losses

Fair value is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Banks would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

Accrued Interest Receivable and Payable

The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Deposits

Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the Company.

The estimated fair value of demand, savings and money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

Federal Home Loan Bank Advances

Fair value is estimated by discounting the future cash flows using rates of similar advances with similar maturities. These rates were obtained from current rates offered by the FHLB.

Note 13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk. Significant estimates associated with financial instruments are discussed in the footnote on fair value of financial instruments.

Note 14: Commitments and Credit Risk

The Company maintains off-balance sheet investments in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Loan 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. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized, if any, in the balance sheet. The Company's maximum exposure to loan loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the face amount of these instruments. Commitments to extend credit are recorded when they are funded and standby letters of credit are carried at fair value.

The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Collateral, such as accounts receivable, securities, inventory, property and equipment, is generally obtained based on management's credit assessment of the borrower.

Fair value of the Company's off-balance-sheet instruments (commitments to extend credit and standby letters of credit) is based on rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. At December 31, 2016 and 2015, the rates on existing off-balance-sheet instruments were equivalent to current market rates, considering the underlying credit standing of the counterparties.

Loan commitments and standby letters of credit outstanding as December 31, 2016 and 2015, were as follows:

	2016	**2015**
Commitments to extend credit - variable rate	$ 17,311,729	$ 15,520,785
Commitments to extend credit - fixed rate	2,489,631	3,372,791
Standby letters of credit	60,000	80,000

Note 15: Recent Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01 "*Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities.*" ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by requiring equity investments to be measured at fair value with changes in fair value recognized in net income; requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring 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; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured and amortized at cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The Company is assessing the impact of ASU 2016-01 on its accounting and disclosures. While it would be preferred to run fair value adjustment through other comprehensive income, the Company would choose to limit any further fair value presentation on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *"Leases (Topic 842)."* The provisions of ASU 2016-02 were issued to increase transparency and comparability among entities by requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases and disclosing key information about leasing arrangements with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of ASU 2016-02 on its consolidated financial statements however it would have very limited exposure to the rule.

In March 2016, the FASB issued ASU No. 2016-09, *"Compensation-Stock Compensation (Topic 718)-Improvements to Employee Share-Based Payment Accounting."* The provisions of ASU 2016-09 simplify several

aspects for share-based payment transactions, including income tax consequences, forfeitures, statutory tax withholding requirements and classifications of the income tax effects of certain share-based payment transactions in the statement of cash flows. ASU 2016-09 eliminates equity treatment for tax benefits or deficiencies that result from differences between compensation costs recognized for GAAP purposes and the related tax deduction and require such differences be recognized as income tax expense. Since excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method will exclude the amount of excess tax benefits when calculating earnings per share. Under ASU 2016-09, forfeitures can be estimated and considered in the accrual of compensation expense, as in current practice, or accounted for as they occur. In addition, for awards to qualify as equity instruments the employer must have a statutory obligation to withhold taxes on the employee's behalf and the withholdings cannot exceed the maximum statutory tax rates in the applicable jurisdictions. Excess tax benefits are now classified as operating activities and cash paid by an employer when directly withholding shares for tax-withholding purposes is classified as a financing activity. Since the Company qualifies as an emerging growth company, ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of ASU 2016-09 on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments-Credit Losses (Topic 326)."* The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable initial recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets. For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security. Since the Company qualifies as an emerging growth company, ASU 2016-13 is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company is currently gathering information, will review possible vendors and will form a committee to formulate the methodology to be used. Most importantly, the Company is gathering as much data as possible to enable review scenarios and determine which calculations will produce the most reliable results.

Note 16: Earnings per Share

Earnings per share amount is based on the weighted average number of shares outstanding for the period and the net loss applicable to common stockholders. ESOP shares are excluded from shares outstanding until they have been committed to be released.

	December 31, 2016	December 31, 2015
Net Income	$ 150,040	$ 42,138
Shares Outstanding For Basic EPS:		
Average Shares Outstanding	667,898	667,898
Less: Average Unearned ESOP Shares	48,172	50,309
	619,726	617,589
Additional Dilutive Shares	—	—
Shares Outstanding for Basic and Diluted EPS	619,726	617,589
Basic and Diluted Income Per Share	$ 0.24	$ 0.07

Note 17: Condensed Financial Information (Parent Company Only)

Presented below is condensed information as to the financial position, results of operations and cash flows of the company:

Condensed Balance Sheet	**2016**	**2015**
Assets:		
Cash and Due from Banks	$ 469,287	$ 733,318
Investment in Bank	13,037,855	12,615,381
Other Assets	15,172	28,177
Total Assets	$ 13,522,314	$ 13,376,876
Liabilities		
Other Liabilities	583	4,814
Temporary Equity		
ESOP Shares Subject to Mandatory Redemptions	73,474	46,197
Stockholders' Equity	13,448,257	13,325,865
Total Liability and Stockholders' Equity	$ 13,522,314	$ 13,376,876

Condensed Statement of Operations and Comprehensive Income	**2016**	**2015**
Income		
Other Income	$ 924	$ 7,071
Expense		
Other Expenses	301,006	330,273
Loss Before Income Tax and Equity in Undistributed Income of Subsidiary	(300,082)	(323,202)
Income Tax Benefit	—	—
Loss Before Equity in Undistributed Income (Loss) of Subsidiary	(300,082)	(323,202)
Equity in Undistributed Income of Subsidiary	450,122	365,340
Net Income	$ 150,040	$ 42,138
Comprehensive Income	$ 122,392	$ 44,598

Condensed Statement of Cash Flows	**2016**	**2015**
Operating Activities:		
Net Income	$ 150,040	$ 42,138
Items Not Requiring (Providing) Cash:		
Equity in Undistributed (Income) Loss of Subsidiary	(450,122)	(365,340)
Compensation Expense on Allocated ESOP Shares	27,277	24,004
Change in Other Assets	13,005	(28,177)
Change in Other Liabilities	(4,231)	1,319
Net Cash Used In Operating Activities	(264,031)	(326,056)
Investing Activities:		
Investment in Bank	—	—
Financing Activities:		
Net proceeds from stock conversion	—	—
Net Change in Cash and Due From Banks	(264,031)	(326,056)
Cash and Due From Banks at Beginning of Year	733,318	1,059,374
Cash and Due From Banks at End of Year	$ 469,287	$ 733,318

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