2016 ANNUAL REPORT

THE QUEENSBOROUGH COMPANY

March 13, 2017

To the Owners of The Queensborough Company,

The attached report for 2016 reveals another year of successful community banking operations. During the first six months of last year we completed the acquisition of an additional branch in our Savannah market making three branch acquisitions in that market in the past 15 months. Mid-year we learned that one of our toughest competitors in the Augusta market agreed to be purchased by an out of state bank. That move created substantial opportunities for Queensborough as we are now the largest locally owned community bank serving the Augusta area. This new position gives us opportunities for growth that are beneficial to the bank, our stockholders and the Augusta market.

Our annual report shows you that for 2016 loans increased some 11% to $639 million while deposits increased to $861 million. Profits increased 10% to $6.7 million while total assets for the year ended at $958 million, a 7.5% jump. Subsequent to year end we reached a milestone in community banking - our total assets surpassed $1 Billion for the first time.

I know that Frank Easterlin, my father and long-time president, would have been mighty proud of the recent accomplishments, as I am. The staff who work here are smart, thoughtful and loyal people to whom we owe all the success of the bank. When you get a chance, thank them for all of their hard work.

Sincerely,

William F. Easterlin, III

President

bill@qnbtrust.com
478-494-0614

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THE QUEENSBOROUGH COMPANY AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

BOARD OF DIRECTORS

QUEENSBOROUGH NATIONAL BANK & TRUST COMPANY

J. Thomas Battle

L. J. Bowles, III

W. Abbot Easterlin

William F. Easterlin, III

Thomas W. Jones, CPA

Sam S. Pennington

D. Phil Polhill, CPA

James B. Polhill, IV, M.D.

Edith W. Pundt

Charles E. Smith, Jr.

W. Jeffrey Weichsel

THE QUEENSBOROUGH COMPANY

Louisa Abbot

W. Abbot Easterlin

William F. Easterlin, III

Olin R. Jackson *(1943 - 2016)*

Thomas W. Jones, CPA

Sam S. Pennington

D. Phil Polhill, CPA

Edith W. Pundt

Porter Keadle Moore
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
The Queensborough Company
Louisville, Georgia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Queensborough Company and subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Porter Keadle Moore, LLC

Atlanta, Georgia
March 8, 2017

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THE QUEENSBOROUGH COMPANY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

ASSETS		2016	2015
Cash and due from banks, including reserve requirements of $1,068,000 and $599,000, respectively	$	26,670,053	20,983,427
Interest-bearing deposits with banks		28,462,099	15,075,094
Federal funds sold		10,000,000	12,740,000
CASH AND CASH EQUIVALENTS		65,132,152	48,798,521
Certificates of deposit with other banks		19,984,000	17,779,000
Investment securities available for sale		116,295,519	148,869,736
Investments securities held to maturity (estimated market value of $62,239,490 and $43,043,198, respectively)		63,463,964	43,386,455
Other investments		2,114,490	2,070,778
Loans, less allowance for loan losses of $10,017,739 and $10,810,478, respectively		629,102,858	564,983,603
Loans held for sale		5,138,134	7,167,060
Premises and equipment, net		26,610,762	25,848,889
Goodwill and core deposit intangible		3,904,402	3,719,207
Other real estate		748,196	2,570,616
Cash surrender value of life insurance		16,463,604	16,029,336
Accrued interest receivable and other assets		10,038,661	10,328,683
TOTAL ASSETS	$	958,996,742	891,551,884

LIABILITIES AND SHAREHOLDERS' EQUITY			
DEPOSITS:			
Noninterest-bearing	$	244,951,360	219,612,768
NOW and money market accounts		308,144,415	285,870,890
Savings		45,385,826	36,807,334
Time deposits, $250,000 or more		44,742,035	32,161,647
Other time deposits		218,314,388	221,927,187
TOTAL DEPOSITS		861,538,024	796,379,826
Junior subordinated debentures		12,372,000	12,372,000
Accrued interest payable and other liabilities		3,165,002	2,463,798
TOTAL LIABILITIES		877,075,026	811,215,624
COMMITMENTS			
Shareholders' equity:			
Preferred stock, no par value, $12,350,000 and $12,600,000 liquidation value;			
10,000,000 shares authorized;			
Series A; 11,750 and 12,000 shares issued and outstanding		11,750,000	12,000,000
Series B; 600 shares issued and outstanding		600,000	600,000
Common stock, $1 par value; 10,000,000 shares authorized; and 1,264,682 and 1,264,060 shares issued and outstanding		1,264,682	1,264,060
Additional paid-in capital		7,042,030	7,256,575
Retained earnings		62,402,113	59,284,623
Accumulated other comprehensive (loss)		(1,137,109)	(68,998)
TOTAL SHAREHOLDERS' EQUITY		81,921,716	80,336,260
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	958,996,742	891,551,884

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

		2016	2015
INTEREST INCOME:			
Interest and fees on loans	$	32,892,246	29,870,848
Interest on investment securities:			
Taxable		3,708,357	3,816,777
Tax exempt		267,940	230,068
Other investments		119,187	122,578
Interest on federal funds sold and interest-bearing deposits with banks		458,785	229,246
Total interest income		37,446,515	34,269,517
INTEREST EXPENSE:			
Deposits:			
Interest-bearing demand		806,525	656,416
Savings		21,312	19,381
Time		2,380,699	2,649,333
Borrowed funds		90,718	224,969
Junior subordinated debentures		369,110	318,645
Total interest expense		3,668,364	3,868,744
Net interest income		33,778,151	30,400,773
PROVISION FOR LOAN LOSSES		650,000	-
Net interest income after provision for loan losses		33,128,151	30,400,773
OTHER INCOME:			
Service charges on deposit accounts		6,546,835	6,032,149
Mortgage origination fees		4,518,730	2,979,785
Net gains on sale of investment securities		362,139	54,630
Net (loss) gains on sale of other real estate		(122,059)	440,993
Other		1,535,272	1,363,132
Total other income		12,840,917	10,870,689
OTHER EXPENSES:			
Salaries and employee benefits		20,008,184	17,841,509
Occupancy and equipment		2,801,521	2,702,503
Federal deposit insurance assessment		683,576	713,070
Loan expense		641,033	608,697
Impairment losses on other real estate		410,826	96,771
Other		11,244,950	10,106,793
Total other expenses		35,790,090	32,069,343
Earnings before income taxes		10,178,978	9,202,119
INCOME TAX EXPENSE		3,399,184	3,048,040
Net earnings	$	6,779,794	6,154,079
Net earnings per share:			
Basic	$	4.49	3.98
Diluted	$	4.43	3.91

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

		2016	2015
Net earnings	$	6,779,794	6,154,079
OTHER COMPREHENSIVE (LOSS), NET OF INCOME TAXES:			
Unrealized (losses) on investment securities available for sale:			
Holding losses arising during period, net of tax benefit of $516,222 and $247,863 in 2016 and 2015, respectively		(843,440)	(405,072)
Losses (gains) on investment securities available for sale included in net earnings, net of tax expense of $137,468 and $20,737 in 2016 and 2015, respectively		(224,671)	(33,893)
Total other comprehensive (loss)		(1,068,111)	(438,965)
Comprehensive income	$	5,711,589	5,715,114

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

THE QUEENSBOROUGH COMPANY

		SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BALANCE, DECEMBER 31, 2014	$	12,000,000	600,000	1,261,985	7,220,025	55,526,529	369,967	76,978,506
Preferred dividends ($90 per share)		-	-	-	-	(1,134,000)	-	(1,134,000)
Common dividends ($1.00 per share)		-	-	-	-	(1,261,985)	-	(1,261,985)
Exercise of warrants for 3,500 shares		-	-	3,500	107,800	-	-	111,300
Common stock redeemed, 1,425 shares		-	-	(1,425)	(71,250)	-	-	(72,675)
Change in net unrealized loss on securities, net		-	-	-	-	-	(438,965)	(438,965)
Net earnings		-	-	-	-	6,154,079	-	6,154,079
BALANCE, DECEMBER 31, 2015	$	12,000,000	600,000	1,264,060	7,256,575	59,284,623	(68,998)	80,336,260
Preferred dividends ($91.79 per share)		-	-	-	-	(1,133,562)	-	(1,133,562)
Common dividends ($2.00 per share)		-	-	-	-	(2,528,742)	-	(2,528,742)
Exercise of warrants for 15,660 shares		-	-	15,660	515,653	-	-	531,313
Common stock redeemed, 15,038 shares		-	-	(15,038)	(731,448)	-	-	(746,486)
Preferred stock redeemed, 250 shares		(250,000)	-	-	1,250	-	-	(248,750)
Change in net unrealized loss on securities, net		-	-	-	-	-	(1,068,111)	(1,068,111)
Net earnings		-	-	-	-	6,779,794	-	6,779,794
BALANCE, DECEMBER 31, 2016	$	11,750,000	600,000	1,264,682	7,042,030	62,402,113	(1,137,109)	81,921,716

See accompanying notes to consolidated financial statements.

THE QUEENSBOROUGH COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

		2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$	6,779,794	6,154,079
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion		2,622,060	2,263,754
Amortization of purchase accounting adjustment		81,092	12,148
Provision for loan losses		650,000	-
Provision for deferred income tax expense		542,883	780,072
Loss on sale of fixed assets		35,880	19,086
Net (gain) on sale and paydown of investment securities available for sale		(362,139)	(54,630)
Net loss (gain) on sales of other real estate		122,059	(440,993)
Impairment losses on other real estate		410,826	96,771
Change in:			
Loans held for sale		2,028,926	(288,311)
Accrued interest receivable and other assets		(26,121)	(474,403)
Accrued interest payable and other liabilities		(563,478)	251,079
Net cash provided by operating activities		12,321,782	8,318,652
CASH FLOWS FROM INVESTING ACTIVITIES, NET OF EFFECT OF BRANCH ACQUISITIONS:			
Purchase of certificates of deposit with other banks		(2,205,000)	(17,779,000)
Proceeds from pay downs, calls and maturities of securities available for sale		25,392,190	27,607,230
Proceeds from pay downs, calls and maturities of securities held to maturity		13,828,695	7,108,504
Purchases of securities available for sale		(8,593,884)	-
Purchases of securities held to maturity		(34,394,282)	(50,486,973)
Proceeds from sales of securities available for sale		13,381,645	1,038,415
Purchases of other investments		(43,712)	(53,741)
Proceeds from sales of other investments		-	669,220
Net change in loans		(65,152,102)	(24,377,635)
Purchases of premises and equipment		(1,689,711)	(1,402,650)
Proceeds from sales of premises and equipment		-	121,230
Proceeds from sale of other real estate		1,673,516	1,983,381
Net cash received in branch acquisitions		13,256,343	24,910,776
Net cash used in investing activities		(44,546,302)	(30,661,243)
CASH FLOWS FROM FINANCING ACTIVITIES, NET OF EFFECT OF BRANCH ACQUISITIONS:			
Net change in deposits		51,419,696	8,706,523
Proceeds from FHLB advances		20,000,000	-
Repayment of FHLB advances		(20,000,000)	(15,000,000)
Redeem and retire common stock		(746,486)	(72,675)
Redeem and retire preferred stock		(248,750)	-
Exercise of warrants		531,313	111,300
Cash dividends paid		(2,397,622)	(2,395,985)
Net cash provided by (used in) financing activities		48,558,151	(8,650,837)
Net change in cash and cash equivalents		16,333,631	(30,993,428)
Cash and cash equivalents at beginning of year		48,798,521	79,791,949
Cash and cash equivalents at end of year	$	65,132,152	48,798,521
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:			
Change in unrealized gain/loss on securities available for sale, net of tax	$	1,068,111	438,965
Loans transferred to other real estate	$	913,057	1,493,171
Financed sales of other real estate	$	529,076	180,583
Change in dividends payable	$	1,264,682	-
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$	3,712,169	4,133,109
Cash paid for income taxes	$	2,760,000	2,000,000

See accompanying notes to consolidated financial statements.

1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of The Queensborough Company ("Queensborough") and its wholly owned subsidiary, Queensborough National Bank and Trust Company (the "Bank") (collectively the "Company"). The accounts of Queensborough National Bank and Trust Company include the accounts of the Bank and its wholly owned subsidiary, Queensborough Insurance Agency, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company's primary market is comprised of Jefferson, Bulloch, Burke, Candler, Chatham, Columbia, Effingham, Emanuel, Jenkins, McDuffie, Richmond, Screven, Washington and contiguous counties of east central and southeast Georgia. Queensborough National Bank and Trust has its home office in Louisville, Georgia with branch banks in Augusta, Evans, Garden City, Grovetown, Martinez, Metter, Midville, Millen, Rincon, Sandersville, Savannah, Statesboro, Swainsboro, Sylvania, Tennille, Thomson, Wadley, Waynesboro and Wrens, Georgia.

The Bank commenced business in 1902 upon receipt of its banking charter from the Office of the Comptroller of the Currency (the "OCC"). The Bank is primarily regulated by the OCC and undergoes periodic examinations by this regulatory agency. The Company is regulated by the Federal Reserve Bank and is also subject to periodic examinations. The Bank provides a full range of commercial and consumer banking services throughout its Georgia trade area.

The accounting principles followed by the Company, and the methods of applying these principles, conform with accounting principles generally accepted in the United States of America ("GAAP") and with general practices in the banking industry. In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from these estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of collateral dependent impaired loans, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans and valuation allowances associated with the realization of deferred tax assets which are based on future taxable income.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through March 8, 2017, the date on which the financial statements were available to be issued.

CASH AND CASH EQUIVALENTS

Cash equivalents include due from banks, interest-bearing deposits with banks, time deposits with banks and federal funds sold. Generally, federal funds are sold for one to three day periods and interest-bearing deposits have maturities less than 90 days.

CERTIFICATES OF DEPOSIT WITH OTHER BANKS

Certificates of deposit with other banks are certificates of deposits obtained from other financial institutions with maturities greater than 90 days.

INVESTMENT SECURITIES

The Company may classify its securities in one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which the Company has the ability and intent to hold the securities until maturity. All other securities not included in trading or held to maturity are classified as available for sale. At December 31, 2016 and 2015, there were no trading securities.

Available for sale securities are recorded at fair value. Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on securities available for sale are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer.

Management evaluates investment securities for other-than-temporary impairment on an annual basis. A decline in the market value of any investment below cost that is deemed other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income.

Premiums and discounts are amortized or accreted over the life of the related securities as adjustments to the yield. Realized gains and losses for securities classified as available for sale and held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

OTHER INVESTMENTS

Other investments include equity investments in the Federal Home Loan Bank ("FHLB"), the Federal Reserve Bank and other equity securities with no readily determinable market value. These investments are carried at cost, which approximates market value.

1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

LOANS, INTEREST INCOME AND ALLOWANCE FOR LOAN LOSSES

Loans are stated at principal amount outstanding, net of unearned interest and the allowance for loan losses. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Payments on nonaccrual loans are generally recorded as reductions against the principal balance outstanding. When a borrower has demonstrated the capacity to service the debt for a reasonable period of time, management may elect to resume the accrual of interest on the loan.

Nonrefundable loan fees are recognized in income immediately due to the fact that the fees generated at loan origination approximate the cost incurred to originate the loans.

A loan is considered impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price, or at the fair value of the collateral of the loan if the loan is collateral dependent. Impaired loans below the threshold for individual evaluation for impairment are reserved for using a general allocation. Interest income on accruing impaired loans is accrued according to the contractual terms of the loan agreement, while interest payments on nonaccrual impaired loans are applied to principal.

The allowance for loan losses is established through a provision for loan losses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectable.

Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality and review of specific problem loans. In determining the adequacy of the allowance for loan losses, management estimates the probable losses in the existing portfolio through consideration of factors including, but not limited to, past loan loss experience, estimated losses in significant credits, current national and local economic conditions, including unemployment rates, and the ability and experience of lending management and collections personnel. The allowance is composed of general and specific allocations of the allowance for loan losses. General allocations are determined by applying loss percentages to segments of the portfolio. The loss percentages are based on each segment's most recent eight quarter historical loss experience and adjustment factors for conditions in the Company's internal and external environment. All loans considered to be impaired are evaluated on an individual basis. The combination of these results are compared quarterly to the recorded allowance for loan losses and material differences are adjusted by increasing or decreasing the provision for loan losses. Management uses an external loan reviewer to challenge and corroborate the loan grading system and provide additional analysis in determining the adequacy of the allowance for loan losses and the future provisions for estimated loan losses.

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgments different than those of management.

LOANS HELD FOR SALE AND MORTGAGE ORIGINATION FEES

The Company originates mortgage loans on behalf of third parties. Such loans are originated pursuant to commitments from third parties to acquire the loans that are in place prior to extension of a commitment to make the loan. These loans are carried at the lower of aggregate cost or market value. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes, if any, in the valuation allowance are included in the determination of net earnings in the period in which the change occurs. As of December 31, 2016 and 2015, the Company has recorded no valuation allowance related to its mortgage loans held for sale as their cost approximates market value. The Company receives revenue from the charges and fees generated in making these loans to borrowers. Gains and losses from the sale of loans are determined using the specific identification method.

PREMISES AND EQUIPMENT

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Significant additions and improvements are capitalized. Maintenance and repairs are charged to expense. The range of estimated useful lives for premises and equipment are:

Buildings and improvement	10-40 years
Furniture and fixture	5-30 years

GOODWILL AND CORE DEPOSIT INTANGIBLE

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. The goodwill is subject to an annual impairment test and if found to be impaired will be written down to fair value through a charge to earnings. The core deposit intangible represents the value of the acquired core deposit base related to branch acquisitions. Core deposit intangibles are amortized over the estimated useful life of the deposit base, generally on a straight-line basis. The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant revision of the remaining period of amortization.

1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

OTHER REAL ESTATE
Other real estate represents properties acquired through or in lieu of loan foreclosure and is initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate is charged to the allowance for loan losses. Write-downs for a decline in fair value less estimated costs to sell subsequent to acquisition are charged to earnings. Costs of improvements are capitalized, whereas costs relating to holding other real estate are expensed.

CASH SURRENDER VALUE OF LIFE INSURANCE
Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the beneficiary of these policies. These contracts are reported at their cash surrender value and changes in the cash surrender value are included in other noninterest income.

INCOME TAXES
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, the recognition of future tax benefits, such as net operating loss and tax credit carryforwards, is required to the extent that the realization of such benefits is more likely than not to occur. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the assets and liabilities result in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies.

The Company currently evaluates income tax positions judged to be uncertain. GAAP requires that a loss contingency reserve be accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred, and the amount of such loss can be reasonably estimated.

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 (i.e., 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.

BUSINESS COMBINATIONS
The Company accounts for business combinations under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") 805, Business Combinations. The Company recognizes the full fair value of the assets acquired and liabilities assumed and immediately expenses transaction costs. There is no separate recognition of the acquired allowance for loan losses on the acquirer's balance sheet, as credit-related factors are incorporated directly into the fair value of the net tangible and intangible assets acquired. If the amount of consideration exceeds the fair value of assets purchased less the fair value of liabilities assumed, goodwill is recorded. Alternatively, if the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid, a gain is recorded. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Results of operations of the acquired business are included in the statement of income from the effective date of the acquisition. Additional information regarding acquisitions is provided in Note 2.

PURCHASED LOANS
Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. When the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. The Company must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in expected cash flows result in a reversal of the provision for loan losses to the extent of prior provisions and an adjustment to accretable discount if no prior provisions have been made. This increase in accretable discount will have a positive impact on interest income. In addition, purchased loans without evidence of credit deterioration are also handled under this method.

ACCUMULATED OTHER COMPREHENSIVE INCOME
At December 31, 2016 and 2015, accumulated other comprehensive income consisted of net unrealized gains (losses) on investment securities available-for-sale.

1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

NET EARNINGS PER SHARE

Net earnings per share is based on the weighted average number of common shares outstanding during the period, while the effects of potential common shares outstanding during the period are included in diluted earnings per share. The average market price during the year is used to compute equivalent shares.

The reconciliations of the amounts used in the computation of both "basic earnings per common share" and "diluted earnings per common share" for the years ended December 31, 2016 and 2015 are as follows

FOR THE YEAR ENDED DECEMBER 31, 2016		NET EARNINGS	WEIGHTED AVERAGE COMMON SHARES	WEIGHTED AVERAGE PER SHARE AMOUNT
Net earnings	$	6,779,794		
Preferred stock dividends		(1,133,562)		
Net earnings available to common shareholders for basic earnings per common share		5,646,232	1,256,635	$ 4.49
Effect of dilutive securities – warrants		-	16,467	
Diluted earnings per common share	$	5,646,232	1,273,102	$ 4.43

FOR THE YEAR ENDED DECEMBER 31, 2015		NET EARNINGS	WEIGHTED AVERAGE COMMON SHARES	WEIGHTED AVERAGE PER SHARE AMOUNT
Net earnings	$	6,154,079		
Preferred stock dividends		(1,134,000)		
Net earnings available to common shareholders for basic earnings per common share		5,020,079	1,260,732	$ 3.98
Effect of dilutive securities – warrants		-	24,299	
Diluted earnings per common share	$	5,020,079	1,285,031	$ 3.91

2 | BRANCH ACQUISITION

On April 8, 2016, the Company purchased the Savannah, Georgia branch of Atlantic Coast Bank. The Company assumed approximately $13,739,000 in Atlantic Coast Bank deposits. The Company also acquired approximately $207,000 in premises and equipment from Atlantic Coast Bank, which resulted in goodwill of approximately $168,000. The Company received approximately $13,203,000 as a net payment related to the acquisition.

The transaction was accounted for using the purchase method of accounting, and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair values on the acquisition dates. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information relative to fair values become available.

Preliminary goodwill of approximately $168,000 is calculated as the purchase premium after adjusting for the fair value of net assets acquired and represents the value expected from the synergies created from combining the two banking operations as well as the economies of scale expected from combining the operations of the acquired bank branch with those of the Company. In addition, a core deposit intangible of $98,000 was recognized based on the fair value of the deposits acquired. This core deposit intangible will be amortized over the estimated life of the deposits of seven years. The amortization expense for intangible assets related to the purchase of Atlantic Coast Bank for 2016 was $8,204, with resulting amortization expense of $14,060 per year through 2023.

On October 23, 2015, the Company purchased the Rincon and Savannah, Georgia branches of CertusBank, National Association ("Certus"). The Company acquired at fair value approximately $21,761,000 in performing loans and assumed $49,427,000 in Certus deposits. The Company also acquired approximately $2,500,000 in premises and equipment from Certus, which resulted in goodwill of approximately $598,000. The Company received approximately $24,910,000 as a net payment related to the acquisition.

The transaction was accounted for using the purchase method of accounting, and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair values on the acquisition dates. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information relative to fair values become available.

2 | BRANCH ACQUISITION, CONTINUED

Preliminary goodwill of approximately $598,000 is calculated as the purchase premium after adjusting for the fair value of net assets acquired and represents the value expected from the synergies created from combining the two banking operations as well as the economies of scale expected from combining the operations of the acquired bank branches with those of the Company. In addition, a core deposit intangible of $510,000 was recognized based on the fair value of the deposits acquired. This core deposit intangible will be amortized over the estimated life of the deposits of seven years. The amortization expense for intangible assets for 2016 and 2015 related to the purchase of Certus was $72,888 and $12,148, with resulting amortization expense of $72,888 per year through 2022.

3 | INVESTMENT SECURITIES

Investment securities at December 31, 2016 and 2015 are as follows:

SECURITIES AVAILABLE FOR SALE
DECEMBER 31, 2016

		AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
State, county and municipals	$	6,077,128	174,343	57,849	6,193,622
Mortgage-backed securities		111,751,254	502,382	2,451,739	109,801,897
Trust preferred		300,000	-	-	300,000
Total	$	118,128,382	676,725	2,509,588	116,295,519

DECEMBER 31, 2015

		AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
State, county and municipals	$	6,105,332	275,066	22,252	6,358,146
Mortgage-backed securities		142,483,472	1,441,046	1,645,166	142,279,352
Equities		91,994	-	9,100	82,894
Trust preferred		300,000	-	150,656	149,344
Total	$	148,980,798	1,716,112	1,827,174	148,869,736

SECURITIES HELD TO MATURITY
DECEMBER 31, 2016

		AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Mortgage-backed securities	$	59,376,881	4,553	1,152,563	58,228,871
State, county and municipals		4,087,083	-	76,464	4,010,619
Total	$	63,463,964	4,553	1,229,027	62,239,490

DECEMBER 31, 2015

		AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U. S. Government Agencies	$	4,668,954	915	5,879	4,663,990
Mortgage-backed securities		34,571,024	6,199	372,380	34,204,843
State, county and municipals		4,146,477	31,801	3,913	4,174,365
Total	$	43,386,455	38,915	382,172	43,043,198

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

3 | INVESTMENT SECURITIES, CONTINUED

Details concerning both available for sale and held to maturity investment securities with unrealized losses as of December 31, 2016 and 2015 are as follows:

DECEMBER 31, 2016		LESS THAN 12 MONTHS FAIR VALUE	LESS THAN 12 MONTHS UNREALIZED LOSSES	12 MONTHS OR MORE FAIR VALUE	12 MONTHS OR MORE UNREALIZED LOSSES	TOTAL FAIR VALUE	TOTAL UNREALIZED LOSSES
State, county and municipals	$	6,302,434	134,314	-	-	6,302,434	134,314
Mortgage-backed securities		133,751,156	3,328,471	4,748,993	275,830	138,500,149	3,604,301
	$	140,053,590	3,462,785	4,748,993	275,830	144,802,583	3,738,615

DECEMBER 31, 2015		LESS THAN 12 MONTHS FAIR VALUE	LESS THAN 12 MONTHS UNREALIZED LOSSES	12 MONTHS OR MORE FAIR VALUE	12 MONTHS OR MORE UNREALIZED LOSSES	TOTAL FAIR VALUE	TOTAL UNREALIZED LOSSES
U. S. Government Agencies	$	2,493,075	5,879	-	-	2,493,075	5,879
State, county and municipals		689,338	3,913	983,690	22,252	1,673,028	26,165
Mortgage-backed securities		65,128,410	566,170	54,278,836	1,451,376	119,407,246	2,017,546
Equities		-	-	82,894	9,100	82,894	9,100
Trust preferred		-	-	149,344	150,656	149,344	150,656
	$	68,310,823	575,962	55,494,764	1,633,384	123,805,587	2,209,346

The market value of investment securities is based on quoted market values and is significantly affected by the interest rate environment. At December 31, 2016, 79 of 118 securities issued as mortgage-backed securities and 15 of 23 state, county and municipals contained unrealized losses. These unrealized losses are considered temporary because of acceptable investment grades on each security and the repayment sources of principal and interest are government backed. The Bank has the intent and ability to hold all securities at an unrealized loss position for the foreseeable future and no declines are deemed to be other-than-temporary.

3 | INVESTMENT SECURITIES, CONTINUED

The amortized cost and estimated fair value of investment securities at December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories in the following summary:

		INVESTMENT SECURITIES HELD TO MATURITY		INVESTMENT SECURITIES AVAILABLE FOR SALE	
INVESTMENT SECURITIES WITH MATURITIES:		AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
Within 1 year	$	-	-	-	-
1 to 5 years		1,624,465	1,605,785	519,414	541,315
5 to 10 years		2,462,618	2,404,834	1,537,174	1,614,135
Over 10 years		-	-	4,320,540	4,338,172
Mortgage-backed securities		59,376,881	58,228,871	111,751,254	109,801,897
	$	63,463,964	62,239,490	118,128,382	116,295,519

Proceeds from sales of securities available for sale for 2016 and 2015 were $13,381,645 and $1,038,415, respectively. Gross gains of $436,454 and gross losses of $74,315 were realized on sales and calls in 2016, while gross gains of $54,630 were realized on sales and calls in 2015.

No held to maturity securities were sold during 2016 or 2015.

Securities with a carrying value of approximately $114,969,000 and $114,630,000 at December 31, 2016 and 2015, respectively, were pledged to secure public deposits as required by law and for other purposes.

4 | LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans at December 31, 2016 and 2015 are summarized as follows:

		2016	2015
Commercial, financial and agricultural	$	69,157,565	68,838,657
Real estate – construction		54,175,899	43,164,987
Real estate – commercial		356,177,304	314,534,609
Real estate – residential		138,676,112	124,105,328
Installment loans to individuals and others		20,933,717	25,150,500
Total loans		639,120,597	575,794,081
Less allowance for loan losses		10,017,739	10,810,478
	$	629,102,858	564,983,603

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general trade area of Jefferson, Bulloch, Burke, Candler, Chatham, Columbia, Effingham, Emanuel, Jenkins, McDuffie, Richmond, Screven and Washington County, Georgia and contiguous counties of east central and southeast Georgia. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Portfolio segments utilized by the Bank are identified above. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans.

4 | LOANS AND ALLOWANCE FOR LOAN LOSSES, CONTINUED

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

DECEMBER 31, 2016		COMMERCIAL, FINANCIAL, AND AGRICULTURAL	REAL ESTATE – CONSTRUCTION	REAL ESTATE – COMMERCIAL	REAL ESTATE – RESIDENTIAL	INSTALLMENT LOANS TO INDIVIDUALS AND OTHERS	UNALLOCATED	TOTAL
Balance, beginning of year	$	1,670,692	597,268	4,779,938	1,635,451	500,868	1,626,261	10,810,478
Provisions charged to operating expense		(34,519)	(231,933)	1,474,834	(95,669)	299,701	(762,413)	650,000
Loans charged off		(456,519)	(1,523)	(662,189)	(331,342)	(442,078)	-	(1,893,651)
Recoveries		149,842	13,569	47,887	197,530	42,083	-	450,912
Balance, end of year	$	1,329,496	377,381	5,640,470	1,405,970	400,574	863,848	10,017,739
Ending balance, individually evaluated for impairment	$	30,000	150,000	881,223	-	-	-	1,061,223
Ending balance, collectively evaluated for impairment	$	1,299,496	227,381	4,759,247	1,405,970	400,574	863,848	8,956,516
Loans:								
Individually evaluated for impairment	$	1,464,357	1,207,475	18,251,208	1,069,015	-	-	21,992,055
Collectively evaluated for impairment	$	67,693,208	52,968,424	337,926,096	137,607,097	20,933,717	-	617,128,542

DECEMBER 31, 2015		COMMERCIAL, FINANCIAL, AND AGRICULTURAL	REAL ESTATE – CONSTRUCTION	REAL ESTATE – COMMERCIAL	REAL ESTATE – RESIDENTIAL	INSTALLMENT LOANS TO INDIVIDUALS AND OTHERS	UNALLOCATED	TOTAL
Balance, beginning of year	$	1,069,730	1,160,881	5,452,981	1,523,996	482,952	1,999,151	11,689,691
Provisions charged to operating expense		613,619	(545,239)	(730,434)	633,212	401,732	(372,890)	-
Loans charged off		(138,844)	(64,408)	(95,062)	(731,818)	(418,214)	-	(1,448,346)
Recoveries		126,187	46,034	152,453	210,061	34,398	-	569,133
Balance, end of year	$	1,670,692	597,268	4,779,938	1,635,451	500,868	1,626,261	10,810,478
Ending balance, individually evaluated for impairment	$	80,900	175,000	622,711	66,286	-	-	944,897
Ending balance, collectively evaluated for impairment	$	1,589,792	422,268	4,157,227	1,569,165	500,868	1,626,261	9,865,581
Loans:								
Individually evaluated for impairment	$	1,129,490	1,253,000	11,550,901	2,658,825	-	-	16,592,216
Collectively evaluated for impairment	$	67,709,167	41,911,987	302,983,708	121,446,503	25,150,500	-	559,201,865

Management individually evaluates loans for impairment that are on nonaccrual status with a total relationship balance greater than $500,000. Additionally, all troubled debt restructurings are individually evaluated for impairment. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

4 | LOANS AND ALLOWANCE FOR LOAN LOSSES, CONTINUED

The following tables present impaired loans as of December 31, 2016 and 2015:

DECEMBER 31, 2016		RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
Impaired loans with related allowance:						
Commercial, financial and agricultural	$	1,153,613	1,183,914	30,000	1,223,638	62,236
Real estate-construction		1,207,475	3,497,475	150,000	1,230,225	-
Real estate-commercial		8,376,261	8,951,089	881,223	8,979,350	245,905
Real estate-residential		440,433	440,433	-	613,036	-
Installment loans to individuals and others		-	-	-	-	-
Impaired loans without related allowance:						
Commercial, financial and agricultural		1,047,794	3,527,786	-	1,333,432	-
Real estate-construction		-	298,488	-	21,038	-
Real estate-commercial		11,293,193	15,968,911	-	12,010,010	26,740
Real estate-residential		2,486,026	6,656,043	-	3,012,044	16,042
Installment loans to individuals and others		28,331	519,463	-	67,303	-
Total:						
Commercial, financial and agricultural		2,201,407	4,711,700	30,000	2,557,070	62,236
Real estate-construction		1,207,475	3,795,963	150,000	1,251,263	-
Real estate-commercial		19,669,454	24,920,000	881,223	20,989,360	272,645
Real estate-residential		2,926,459	7,096,476	-	3,625,080	16,042
Installment loans to individuals and others		28,331	519,463	-	67,303	-
	$	26,033,126	41,043,602	1,061,223	28,490,076	350,923

DECEMBER 31, 2015		RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
Impaired loans with related allowance:						
Commercial, financial and agricultural	$	864,622	891,368	80,900	1,007,550	54,759
Real estate-construction		1,252,975	3,542,975	175,000	1,252,225	-
Real estate-commercial		7,724,434	7,833,029	622,711	8,184,952	234,193
Real estate-residential		2,303,770	2,403,770	66,286	2,318,757	82,804
Installment loans to individuals and others		-	-	-	-	-
Impaired loans without related allowance:						
Commercial, financial and agricultural		851,310	2,919,402	-	1,237,018	23,710
Real estate-construction		-	302,327	-	125,115	-
Real estate-commercial		6,496,898	10,881,175	-	8,522,139	143,864
Real estate-residential		3,035,283	6,707,993	-	3,878,550	19,209
Installment loans to individuals and others		67,922	519,550	-	111,143	-
Total:						
Commercial, financial and agricultural		1,715,932	3,810,770	80,900	2,244,568	78,469
Real estate-construction		1,252,975	3,845,302	175,000	1,377,340	-
Real estate-commercial		14,221,332	18,714,204	622,711	16,707,091	378,057
Real estate-residential		5,339,053	9,111,763	66,286	6,197,307	102,013
Installment loans to individuals and others		67,922	519,550	-	111,143	-
	$	22,597,214	36,001,589	944,897	26,637,449	558,539

4 | LOANS AND ALLOWANCE FOR LOAN LOSSES, CONTINUED

The following tables present the aging of the recorded investment in past due loans and nonaccrual loans as of December 31, 2016 and 2015 by class of loans:

DECEMBER 31, 2016		30-89 DAYS PAST DUE	>90 DAYS PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL	NON-ACCRUAL	RECORDED INVESTMENT >90 DAYS AND ACCRUING
Commercial, financial and agricultural	$	1,638,943	4,255,254	5,894,197	63,263,368	69,157,565	1,268,329	3,655,544
Real estate - construction		198,848	34,297	233,145	53,942,754	54,175,899	1,207,475	34,297
Real estate - commercial		15,063,449	6,827,115	21,890,564	334,286,740	356,177,304	14,350,347	414,106
Real estate - residential		3,754,880	1,192,715	4,947,595	133,728,517	138,676,112	2,739,521	237,326
Installment loans to individuals and others		85,637	17,553	103,190	20,830,527	20,933,717	28,331	17,035
	$	20,741,757	12,326,934	33,068,691	606,051,906	639,120,597	19,594,003	4,358,308

DECEMBER 31, 2015		30-89 DAYS PAST DUE	>90 DAYS PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL	NON-ACCRUAL	RECORDED INVESTMENT >90 DAYS AND ACCRUING
Commercial, financial and agricultural	$	524,766	1,843,746	2,368,512	66,470,145	68,838,657	907,157	1,651,394
Real estate - construction		249,743	65,504	315,247	42,849,740	43,164,987	1,252,975	65,504
Real estate - commercial		2,559,954	5,470,787	8,030,741	306,503,868	314,534,609	8,316,043	56,875
Real estate - residential		2,815,216	1,697,819	4,513,035	119,592,293	124,105,328	5,074,410	310,895
Installment loans to individuals and others		235,048	45,142	280,190	24,870,311	25,150,500	67,922	37,837
	$	6,384,727	9,122,998	15,507,725	560,286,356	575,794,081	15,618,507	2,122,505

The following tables present information on troubled debt restructurings that were modified during the year ended December 31, 2015, including the number of loan contracts restructured and the pre- and post-modification recorded investment. There were no modifications on troubled debt restructurings during the year ended December 31, 2016.

DURING THE YEAR ENDED DECEMBER 31, 2015	NUMBER OF CONTRACTS		PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT		POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
Real estate - commercial	1	$	812,833	$	808,775
Commercial, financial and agricultural	4	$	794,009	$	746,063

4 | LOANS AND ALLOWANCE FOR LOAN LOSSES, CONTINUED

The tables below present information on troubled debt restructurings as of December 31, 2016 and 2015.

DECEMBER 31, 2016	NUMBER OF CONTRACTS		OUTSTANDING RECORDED INVESTMENT
Commercial, financial and agricultural	6	$	933,078
Real estate - construction	3		1,207,475
Real estate - commercial	6		6,780,518
Real estate - residential	1		186,937
	16	$	9,108,008

DECEMBER 31, 2015	NUMBER OF CONTRACTS		OUTSTANDING RECORDED INVESTMENT
Commercial, financial and agricultural	6	$	808,775
Real estate - construction	3		1,252,975
Real estate - commercial	6		7,325,501
Real estate - residential	2		1,782,775
	17	$	11,170,026

The Bank has allocated approximately $291,000 and $515,000 of specific allowances to customers whose loan terms have been modified in a troubled debt restructuring as of December 31, 2016 and 2015, respectively. During 2016 and 2015 there were no troubled debt restructurings that subsequently defaulted. The Bank has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Bank uses the following definitions for its risk ratings:

OTHER ASSETS ESPECIALLY MENTIONED
Weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

SUBSTANDARD
Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts may be experiencing overdrafts. Immediate corrective action is necessary.

DOUBTFUL
Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

LOSS
Loans categorized as Loss have the same characteristics as Doubtful; however, probability of loss is certain. Loans classified as such are generally charged-off.

4 | LOANS AND ALLOWANCE FOR LOAN LOSSES, CONTINUED

Loans not meeting the criteria above, and that are analyzed individually as part of the above described process, are considered to be pass rated loans. As of December 31, 2016 and 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

DECEMBER 31, 2016		PASS	SPECIAL MENTION	SUB-STANDARD	DOUBTFUL/ LOSS	TOTAL
Commercial, financial and agricultural	$	67,619,149	120,812	1,417,604	-	69,157,565
Real estate-construction		52,968,424	-	1,207,475	-	54,175,899
Real estate-commercial		318,456,854	19,309,447	18,411,003	-	356,177,304
Real estate-residential		133,049,498	2,306,681	3,319,933	-	138,676,112
Installment loans to individuals and others		20,905,386	-	28,331	-	20,933,717
	$	592,999,311	21,736,940	24,384,346	-	639,120,597

DECEMBER 31, 2015		PASS	SPECIAL MENTION	SUB-STANDARD	DOUBTFUL/ LOSS	TOTAL
Commercial, financial and agricultural	$	67,268,765	452,312	1,117,580	-	68,838,657
Real estate-construction		40,495,096	-	2,669,891	-	43,164,987
Real estate-commercial		295,124,997	4,568,482	14,841,130	-	314,534,609
Real estate-residential		117,360,467	1,114,121	5,630,740	-	124,105,328
Installment loans to individuals and others		25,085,441	-	65,059	-	25,150,500
	$	545,334,766	6,134,915	24,324,400	-	575,794,081

5 | PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

		2016	2015
Land	$	6,954,855	6,618,089
Buildings and improvements		23,974,710	22,607,319
Furniture and fixtures		10,685,135	13,335,838
		41,614,700	42,561,246
Less accumulated depreciation		15,003,938	16,712,357
	$	26,610,762	25,848,889

Depreciation expense amounted to $1,099,378 and $1,072,193 in 2016 and 2015, respectively.

6 | DEPOSITS

Maturities of time deposits at December 31, 2016 are as follows:

YEAR ENDING DECEMBER 31,		
2017	$	154,836,346
2018		47,506,784
2019		19,054,626
2020		20,700,949
2021		20,705,007
Thereafter		252,711
	$	263,056,423

7 | FEDERAL HOME LOAN BANK ("FHLB") ADVANCES

The Bank is a shareholder of the FHLB and as such has access to borrowings from the FHLB. During 2016 the Bank borrowed and repaid short term advances totaling $5,000,000 from the FHLB at an approximate cost of $4,000. The Bank borrowed and repaid long term advances totaling $15,000,000 from the FHLB at an approximate cost of $87,000. The early repayment of the long term advances resulted in a gain on prepayment of approximately $162,000. At December 31, 2016, there were no borrowings outstanding from the FHLB. The advances were collateralized by a blanket floating lien agreement on all unencumbered first mortgage residential and commercial real estate loans. Loans qualifying as collateral had a discounted value of approximately $39,274,000 at December 31, 2016.

8 | JUNIOR SUBORDINATED DEBENTURES

In February 2004 and May 2007, Queensborough formed wholly owned Delaware statutory business trusts, Queensborough Capital Trust II ("Trust II") and Queensborough Capital Trust III ("Trust III"), respectively (collectively, the "Trusts"). The Trusts each issued $6 million of guaranteed preferred beneficial interests in Queensborough's junior subordinated deferrable interest debentures that qualify as Tier I Capital under Federal Reserve Board guidelines. Queensborough owns all of the common securities of the Trusts. The debentures relating to Trust II pay interest at a floating rate, equal to three-month LIBOR plus 2.85%. The debentures relating to Trust III pay interest at a floating rate equal to three-month LIBOR plus 1.65%.

The proceeds received by the Company from the sale of the junior subordinated debentures were used to infuse capital into the Bank to improve its capital position and for other general corporate purposes. The debentures represent the sole asset of each of the Trusts. The Trusts are not included in these consolidated financial statements.

The trust preferred securities accrue and pay quarterly distributions based on the liquidation value of $50,000 per capital security at the respective floating or fixed interest rate, which at December 31, 2016 was 3.73% for Trust II and 2.61% for Trust III. The Company has guaranteed distributions and other payments due on the trust preferred securities to the extent the Trusts have funds with which to make the distributions and other payments. The net combined effect of all the documents entered into in connection with the trust preferred securities is that the Company is liable to make the distributions and other payments required on the trust preferred securities.

The trust preferred securities are mandatorily redeemable upon maturity of the debentures on February 24, 2034 for Trust II and May 7, 2037 for Trust III, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the debentures purchased by the Trusts, in whole or in part, at a redemption price equal to the principal amount and any accrued but unpaid interest.

9 | INCOME TAXES

The components of income tax expense in the consolidated statements of operations are as follows:

		2016	2015
Current	$	2,856,301	2,267,968
Deferred		542,883	780,072
Total income tax expense	$	3,399,184	3,048,040

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate to earnings before income taxes are as follows:

		2016	2015
Pretax income at statutory rate	$	3,460,853	3,128,720
Add (deduct):			
Tax-exempt interest income		(307,381)	(276,932)
Non-deductible interest expense		4,271	4,115
State taxes and credits, net of federal benefit		135,940	101,950
Other		105,501	90,187
	$	3,399,184	3,048,040

The following summarizes the components of the net deferred tax asset. The deferred tax asset is included as a component of other assets at December 31, 2016 and 2015.

		2016	2015
DEFERRED INCOME TAX ASSETS:			
Allowance for loan losses	$	3,802,734	4,103,657
Other real estate		27,346	92,756
Other than temporary impairment loss on securities available for sale		236,735	236,735
State credit carryforward		543,038	678,978
Net unrealized loss on securities available for sale		695,754	42,065
Total gross deferred income tax assets		5,305,607	5,154,191
DEFERRED INCOME TAX LIABILITIES:			
Premises and equipment		(2,095,294)	(2,028,982)
Intangible asset		(533,235)	(558,937)
Total gross deferred income tax liabilities		(2,628,529)	(2,587,919)
Net deferred income tax asset	$	2,677,078	2,566,272

10 | RELATED PARTY TRANSACTIONS

The Bank has entered into transactions with certain directors, executive officers and their affiliates. The following summary reflects related party loan activity during the year ended December 31, 2016:

Beginning balance	$	5,399,376
New loans		4,688,690
Repayments		(5,458,103)
Change in insider status		(4,420,566)
Ending balance	$	209,397

The Bank had deposits from related parties totaling approximately $10,354,000 and $25,492,000 as of December 31, 2016 and 2015, respectively.

The Bank leases office space from a company that has several common shareholders with the Company under an annual lease arrangement. Rent expense for 2016 and 2015, which is deemed by management to approximate the normal market rate, was approximately $88,000 for each year.

11 | COMMITMENTS

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

In most cases, the Bank does require collateral to support financial instruments with credit risk.

		CONTRACTUAL AMOUNT	
		2016	2015
FINANCIAL INSTRUMENTS WHOSE CONTRACT AMOUNTS REPRESENT CREDIT RISK:			
Commitments to extend credit	$	147,570,000	123,671,000
Standby letters of credit	$	2,349,000	2,863,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit or personal property.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting these commitments for which collateral is deemed necessary.

The Bank has federal funds accommodations of $44,000,000 at December 31, 2016 with other financial institutions where the Bank may borrow funds on a short-term basis at the market rate in effect at the time of borrowing. There were no federal funds purchased outstanding as of December 31, 2016 or 2015.

12 | PREFERRED STOCK

On January 9, 2009, the Company sold 12,000 shares of Series A preferred stock with a warrant to purchase 600 shares of the Company's Series B preferred stock (which was immediately exercised), to the U. S. Treasury under the Treasury's Capital Purchase Program.

The Series A preferred stock and the Series B preferred stock qualifies as Tier I capital and pay cumulative dividends at a rate of 9% per annum. Both series of the preferred stock are redeemable at any time at $1,000 per share plus any accrued and unpaid dividends with the consent of the Company's primary federal regulator.

On March 11, 2013, the U.S. Treasury sold all of the preferred stock held in the Company to various unrelated third party buyers in the private sector. The Company did not receive any proceeds from such sale.

In December of 2016, the Company redeemed 250 shares of Series A preferred stock for $248,750.

13 | STOCK OPTIONS, WARRANTS, AND REPURCHASE

In 1998, the Company adopted The Queensborough Company Stock Incentive Plan, which provides that certain officers, key employees, directors and consultants of the Company may be granted stock options to purchase shares of common stock of the Company. The plan limits the total number of shares which may be awarded to 120,000. The options are granted at the market value of the shares on the date of grant, vest over four years and are exercisable within ten years of grant. At December 31, 2016, options for 107,700 shares remain available for future grants.

There were no options granted, forfeited or exercised in 2016 or 2015. As of December 31, 2016 and 2015, there were no stock options outstanding.

In 2011, the Company sold and issued 56,113 shares of common stock to certain directors, officers, and stockholders in its effort to raise capital for its subsidiary bank. Along with the common shares sold and issued, the Company granted warrants for the purchase of the same amount of shares at 60% of book value determined at the time of exercise. During 2016, 15,660 warrants were exercised at a range of $33.68 to $34.34 per share. During 2015, 3,500 warrants were exercised at $31.80 per share. As of December 31, 2016 and 2015, respectively, there were 36,953 and 52,613 warrants outstanding.

On January 20, 2016, the Company announced a stock repurchase program approved by its Board of Directors, whereby the Company will purchase and retire up to 20,000 shares of its common stock. Subsequently, the Company notified all common stockholders of its intent to repurchase 15,000 shares and prescribed the manner and method for shareholders to participate in the program. The Company repurchased 15,038 shares under the program at $49.64 per share for a total of approximately $746,000.

14 | BENEFIT PLAN

The Bank has a 401(k) profit sharing plan which is available to employees subject to certain age and service requirements. The plan covers substantially all employees and allows for employee pre-tax and post-tax contributions. Contributions to the plan by the Company are determined under a matching formula. The Company, at its discretion, may contribute additional amounts. For the years ended December 31, 2016 and 2015, contributions of $455,718 and $403,229, respectively, were expensed.

15 | FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, impaired loans, real estate acquired in lieu of foreclosure and certain other assets.

FAIR VALUE HIERARCHY

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

LEVEL 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

LEVEL 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

LEVEL 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

CASH AND CASH EQUIVALENTS

For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

CERTIFICATES OF DEPOSIT WITH OTHER BANKS

For certificates of deposit with other banks, the carrying amount is a reasonable estimate of fair value.

INVESTMENT SECURITIES

Investment securities available for sale are recorded at fair value on a recurring basis. For securities available for sale as well as securities held to maturity, fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques, such as the present value of future cash flows adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets and trust preferred securities.

OTHER INVESTMENTS

The carrying value of other investments approximates fair value.

LOANS

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allocation is established within the allowance for loan losses. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures the fair value of impaired loans in a relationship with a balance greater than $500,000 by using one of three methods, including collateral value, market value of similar debt and discounted cash flows. Impaired loan relationships below the threshold for individual evaluation for impairment are reserved for using general allocation. Those impaired loans individually evaluated not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investment in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When the fair value is based on an appraised value, the Company records the impaired loan as nonrecurring Level 3.

For disclosure purposes, the fair value of fixed rate loans which are not considered impaired is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For unimpaired variable rate loans, the carrying amount is a reasonable estimate of fair value for disclosure purposes.

15 | FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

LOANS HELD FOR SALE

Loans held for sale, generally consisting of first-lien residential mortgages recently originated and intended for sale in the secondary market, are carried at the lower of cost or estimated fair value. The estimated fair value of loans held for sale is approximated by the carrying value, given the short-term nature of the loans and similarity to what secondary markets are currently offering for portfolios of loans with similar characteristics.

OTHER REAL ESTATE

Other real estate properties are adjusted to fair value upon transfer of the loans to other real estate. Subsequently, other real estate assets are carried at fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Company records the other real estate as nonrecurring Level 2. When the fair value is based on an appraised value or management's estimation of the value of the collateral, the Company records the other real estate asset as nonrecurring Level 3.

CASH SURRENDER VALUE OF LIFE INSURANCE

For disclosure purposes, for cash surrender value of life insurance, the carrying value is a reasonable estimate of fair value.

DEPOSITS

The fair value of demand deposits, savings accounts, NOW accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

JUNIOR SUBORDINATED DEBENTURES

The fair value of the fixed rate junior subordinated debentures is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of debentures. For those junior subordinated debentures issued at a floating market rate, the carrying amount is a reasonable estimate of fair value.

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT

Because commitments to extend credit and standby letters of credit are made using variable rates and have short maturities, the carrying value and the fair value are immaterial for disclosure.

15 | FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

ASSETS RECORDED AT FAIR VALUE ON A RECURRING BASIS

The table below presents the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2016 and 2015, respectively.

BALANCE AT DECEMBER 31, 2016		LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
State, county and municipals	$	-	6,193,622	-	6,193,622
Mortgage-backed securities		-	109,801,897	-	109,801,897
Equities		-	-	-	-
Trust preferred		-	-	300,000	300,000
Investment securities available for sale	$	-	115,995,519	300,000	116,295,519

BALANCE AT DECEMBER 31, 2015		LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
State, county and municipals	$	-	6,358,146	-	6,358,146
Mortgage-backed securities		-	142,279,352	-	142,279,352
Equities		82,894	-	-	82,894
Trust preferred		-	-	149,344	149,344
Investment securities available for sale	$	82,894	148,637,498	149,344	148,869,736

The following table presents the changes in Level 3 assets measured at fair value on a recurring basis during the years ended December 31:

LEVEL 3 FAIR VALUE MEASUREMENTS		INVESTMENT SECURITIES AVAILABLE FOR SALE	
		2016	2015
Balance at beginning of year	$	149,344	159,189
(Sales)/purchases		-	-
Net changes in gain/(loss) realized and unrealized		150,656	(9,845)
Transfers out of Level 3 to other investments		-	-
Balance at end of year	$	300,000	149,344

ASSETS RECORDED AT FAIR VALUE ON A NONRECURRING BASIS

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of December 31, 2016 and 2015, respectively.

BALANCE AT DECEMBER 31, 2016		LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Other real estate	$	-	-	748,196	748,196
Impaired loans		-	-	20,930,832	20,930,832
Total assets at fair value	$	-	-	21,679,028	21,679,028

BALANCE AT DECEMBER 31, 2015		LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Other real estate	$	-	-	2,570,616	2,570,616
Impaired loans		-	-	15,647,319	15,647,319
Total assets at fair value	$	-	-	18,217,935	18,217,935

15 | FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

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

		2016		2015	
		CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
ASSETS:					
Cash and cash equivalents	$	65,132	65,132	48,799	48,799
Certificates of deposits with other banks	$	19,984	19,984	17,779	17,779
Investment securities available for sale	$	116,296	116,296	148,870	148,870
Investment securities held to maturity	$	63,464	62,239	43,386	43,043
Other investments	$	2,114	2,114	2,071	2,071
Loans, net	$	629,103	642,703	564,984	576,921
Loans held for sale	$	5,138	5,138	7,167	7,167
Cash surrender value of life insurance	$	16,464	16,464	16,029	16,029
LIABILITIES:					
Deposits	$	861,538	860,312	796,380	797,522
Junior subordinated debentures	$	12,372	12,372	12,372	12,372

LIMITATIONS

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

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

16 | REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. These capital requirements were modified in 2013 with the Basel III capital rules, which establish a new comprehensive capital framework for U.S. banking organizations. The Company and the Bank became subject to the new rules on January 1, 2015, with a phase-in period for many new provisions. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures for their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier I and total capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). It is management's opinion, as of December 31, 2016, that the Company and the Bank meet all applicable capital adequacy requirements.

16 | REGULATORY MATTERS, CONTINUED

The Basel III capital rule requires banking organizations to maintain a minimum Common Equity Tier 1 ("CET1") ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0% to be considered "adequately capitalized." The Basel III capital rule also includes a capital conversation buffer requirement above the minimum risk-based capital ratio requirements that banking organizations must meet in order to avoid limitations on capital distributions (including dividends and repurchases of any Tier 1 capital instrument, including common and qualifying preferred stock) and certain discretionary incentive compensation payments. The multi-year phase-in of the capital conversation buffer requirement began on January 1, 2016, and, for 2016, banking organizations are required to maintain a CET1 capital ratio of at least 5.125%, a Tier 1 capital ratio of at least 6.625%, and a total capital ratio of at least 8.625% to avoid limitations on capital distributions and certain discretionary incentive compensation payments. When fully phased-in on January 1, 2019, banking organizations must maintain a CET1 capital ratio of at least 7.0%, a Tier 1 capital ratio of at least 8.5%, and a total capital ratio of at least 10.5% to avoid limitations on capital distributions and certain discretionary incentive compensation payments.

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or event since that notification which management believes have changed the bank's category.

The Company's and the Bank's actual capital amounts and ratios are presented in the table below (dollars in thousands).

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
AS OF DECEMBER 31, 2016	**AMOUNT**	**RATIO**	**AMOUNT**	**RATIO**	**AMOUNT**	**RATIO**
TOTAL CAPITAL (TO RISK-WEIGHTED ASSETS)						
Consolidated	$100,329	14.67%	$ 54,709	8.00%	N/A	N/A
Bank	$ 99,682	14.60%	$ 54,623	8.00%	$ 68,279	10.00%
TIER I CAPITAL (TO RISK-WEIGHTED ASSETS)						
Consolidated	$ 91,781	13.42%	$ 41,032	6.00%	N/A	N/A
Bank	$ 91,129	13.35%	$ 40,967	6.00%	$ 54,623	8.00%
COMMON EQUITY TIER 1 CAPITAL (TO RISK-WEIGHTED ASSETS)						
Consolidated	$ 67,431	9.86%	$ 30,774	4.50%	N/A	N/A
Bank	$ 91,129	13.35%	$ 30,726	4.50%	$ 44,381	6.50%
TIER I CAPITAL (TO AVERAGE ASSETS)						
Consolidated	$ 91,781	9.56%	$ 38,389	4.00%	N/A	N/A
Bank	$ 91,129	9.51%	$ 38,349	4.00%	$ 47,937	5.00%
AS OF DECEMBER 31, 2015						
TOTAL CAPITAL (TO RISK-WEIGHTED ASSETS)						
Consolidated	$ 97,080	15.60%	$ 49,771	8.00%	N/A	N/A
Bank	$ 96,486	15.54%	$ 49,675	8.00%	$ 62,094	10.00%
TIER I CAPITAL (TO RISK-WEIGHTED ASSETS)						
Consolidated	$ 89,303	14.35%	$ 37,328	6.00%	N/A	N/A
Bank	$ 88,687	14.28%	$ 37,256	6.00%	$ 49,675	8.00%
COMMON EQUITY TIER 1 CAPITAL (TO RISK-WEIGHTED ASSETS)						
Consolidated	$ 64,703	10.40%	$ 27,996	4.50%	N/A	N/A
Bank	$ 88,687	14.28%	$ 27,942	4.50%	$ 40,361	6.50%
TIER I CAPITAL (TO AVERAGE ASSETS)						
Consolidated	$ 89,303	10.29%	$ 34,712	4.00%	N/A	N/A
Bank	$ 88,687	10.23%	$ 34,672	4.00%	$ 43,340	5.00%

Dividends paid by the Bank are the primary source of funds available to the Company. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. These restrictions are based on the level of regulatory classified assets, the prior years' net earnings and the ratio of equity capital to total assets.

17 | THE QUEENSBOROUGH COMPANY (PARENT COMPANY ONLY) FINANCIAL INFORMATION

BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

ASSETS		2016	2015
Cash	$	682,472	816,176
Investment in Bank		92,547,155	90,900,536
Investment securities		-	82,894
Dividends receivable		1,300,000	-
Other assets		1,229,338	1,102,656
Total assets	$	95,758,965	92,902,262
LIABILITIES AND SHAREHOLDERS' EQUITY			
Other liabilities	$	200,567	194,002
Dividends payable		1,264,682	-
Junior subordinated debentures		12,372,000	12,372,000
Total liabilities		13,837,249	12,566,002
Total shareholders' equity		81,921,716	80,336,260
Total liabilities and shareholders' equity	$	95,758,965	92,902,262

STATEMENT OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

		2016	2015
Interest income	$	10,824	9,639
Dividends from Bank		3,014,060	2,821,985
Other income		883	2,293
Total income		3,025,767	2,833,917
Interest expense		369,110	318,645
Other expense		27,222	18,661
Total expenses		396,332	337,306
Income before income tax benefit and equity in undistributed earnings of Bank		2,629,435	2,496,611
Income tax benefit		129,759	110,053
Income before equity in undistributed earnings of Bank		2,759,194	2,606,664
Equity in undistributed earnings of Bank		4,020,600	3,547,415
Net earnings	$	6,779,794	6,154,079

17 | THE QUEENSBOROUGH COMPANY (PARENT COMPANY ONLY) FINANCIAL INFORMATION, CONTINUED

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

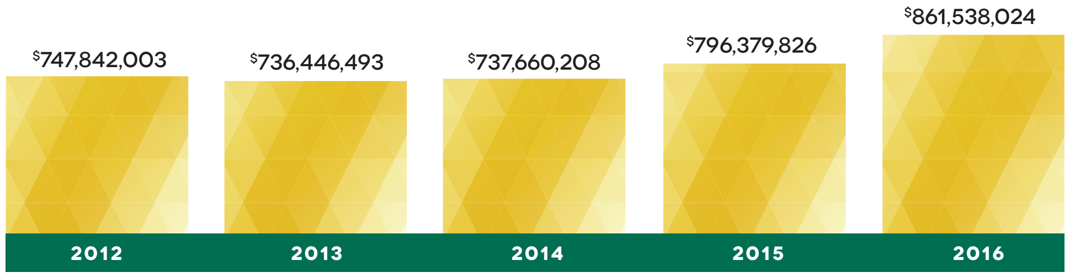
		2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$	6,779,794	6,154,079
Adjustments to reconcile net earnings to net cash used by operating activities:			
Equity in earnings of Bank		(4,020,600)	(3,547,415)
Change in other		(31,353)	(107,977)
Net cash used by operating activities		2,727,841	2,498,687
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(2,397,622)	(2,395,985)
Preferred Stock Redeemed		(248,750)	-
Redeem and retire common stock		(746,486)	(72,675)
Issue new common stock		531,313	111,300
Net cash used by financing activities		(2,861,545)	(2,357,360)
Net change in cash		(133,704)	141,327
Cash at beginning of year		816,176	674,849
Cash at end of year	$	682,472	816,176
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:			
Change in net unrealized gain on investment securities available for sale, net of tax	$	(1,068,111)	(438,963)
Change in dividends payable	$	1,264,682	-

18 | PENDING EQUITY OFFERING

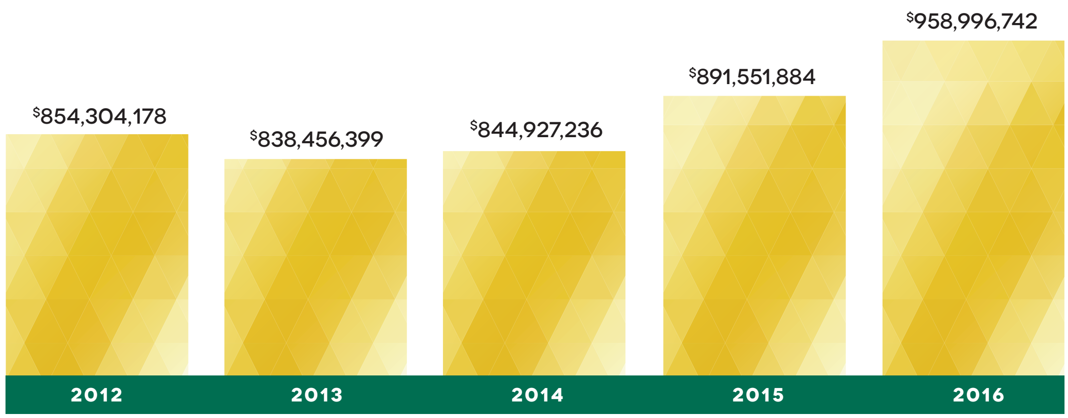
In a Private Placement Memorandum dated February 1, 2017, the Company began an offering, to accredited investors, of up to 14,550 units at a price of $550.00. Each unit consists of ten shares of common stock, $1.00 par value, together with a warrant to purchase two additional shares of common stock at the exercise price of $72.00 per share. The warrants will become fully vested and exercisable on February 1, 2020 and will expire and no longer be exercisable on February 1, 2027. The units are being offered under an exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 of Regulation D under the Securities Act. Maximum gross proceeds from the Offering will total approximately $8,000,000 if all units are sold and prior to the exercise of any warrants. The Company intends to use the proceeds from the offering to support growth and operations of the Bank and for general corporate purposes.

The offering will expire upon the earlier of the date on which the Company has accepted subscriptions for all of the offered units or June 30, 2017, or may be terminated earlier or extended at the Company's discretion. The Company's directors and executive officers will offer the Units on a best-efforts basis without compensation for such efforts.

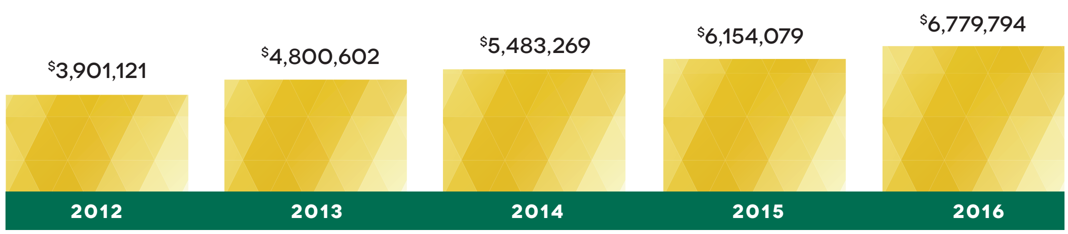
TOTAL DEPOSITS



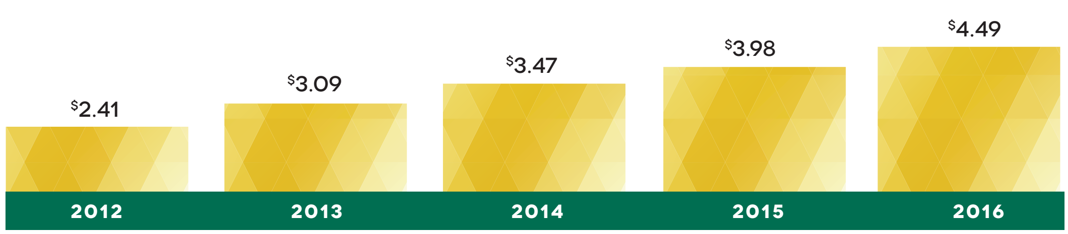
TOTAL ASSETS



NET INCOME



NET INCOME PER SHARE OF COMMON STOCK



ADVISORY AND HONORARY DIRECTORS

Jeremiah Ashcroft
John Roy Clifton, Jr.
Joseph B. Culvern
Wiley C. Evans, III
Carl D. Forrester
J. Dudley Gunn
Roy M. Hayes
Deborah M. May
William C. McMaster, Jr.
H. G. Thomas New
Richard Peacock
R. Hubert Reeves, III
William R. Rawlings, Jr., M.D.
E. C. Smith, III
Henderson C. Upchurch

EXECUTIVE MANAGEMENT

William F. Easterlin, III
President, Chief Executive Officer

Kimberly S. Kirk
Chief Operations Officer

D. Phil Polhill, CPA
Chief Financial Officer

Julie W. Evans
Corporate Secretary

Richard H. Peacock
Chief Credit Officer

Edith W. Pundt
Executive Vice President

William R. Thompson
Chief Lending Officer

Sheryl R. Reed, SPHR, SHRM-SCP
Executive Vice President

COMMUNITY AND CUSTOMER OUTREACH

QUEENSBOROUGH EXPANDED ITS OUTREACH IN 2016 TO SERVE EVEN MORE COMMUNITIES.

Thanks again to our employees who give their time to serve others and our Golden Harvest Food Bank partnership.

The annual Queensborough PiQnic has now become a tradition. Each location provides refreshments, free gifts and food to hundreds of customers and would be customers. With tents and signs we promote the heritage of Queensborough while getting to know our constituents on a personal level.

Other events we promoted included “Love and Laughter,” and the “2016 Guitar Pull.” Guitar Pull is said to be the second most difficult ticket to get in Augusta. Queensborough was not only a premium promoter but we were the only ones to give away a pair of “lifetime” tickets to this popular event. Love and Laughter is a “couples” style event and Queensborough is the sole sponsor. Well-known speakers and music groups are brought in for the evening. Q employees volunteer their time to meet and greet people at the Queensborough table.

The Mobile Wallet was introduced in 2016. Queensborough was the first to promote this convenience on a large scale in our service areas. Available on all three digital platforms, the mobile wallet is a convenience that again, shows Queensborough is on the leading edge of innovative services.

Wealth Management continues to be a force in the community. Events featuring Dagan Sharpe and his team were held in 2016 as we spread the word that wealth management is not only for the wealthy. Similarly, IQ University with Henry Leverett as its leader brings a light classroom setting to area companies, teaching their employees how to manage household finances. This well-received service is encouraging people to become more responsible with their money as they learn an area of finance that isn’t typically taught in schools.

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