2017

ANNUAL REPORT

THE QUEENSBOROUGH COMPANY

BANK AHEAD℠

GEORGIA'S COMMUNITY BANK *since* 1902

March 20, 2018

To the Owners of The Queensborough Company,

This past year was one of importance for your company. As mentioned before, we surpassed the $1 billion mark in total assets. We brought in new stockholders, expanded our cash management services, increased our operating and technological prowess and added wealth management expertise. While all this was going on our deposits leaped some 13%, loans grew a modest 4% and profits expanded by 27%. The change in the banking markets in Augusta and Savannah gives us ample room for expansion and market penetration. We are doing all we can to seize those opportunities.

Barring some unforeseen political or economic disaster, 2018 affords opportunities similar to last year. Indeed, for the first couple of months in 2018 our assets grew faster than last year. It is difficult not to be optimistic about our near term future; however, one of the clouds on the horizon is the cyclical agricultural industry. As you likely know, we have a history of financing the agricultural industry in our rural markets and certain sectors are experiencing a down-cycle in commodity prices. Most of our farm customers are well capitalized and we expect they will survive this down-cycle as they have many others.

One of the axioms of banking is that rapid growth means greater risks. Knowing that, we try to operate the bank as though we are going to be much larger in the near future so that we are prepared for growth rather than being afraid of it. Following that strategy we continue to expand our operational capacity, improve our quality control functions and deploy new technologies to stay ahead of our expected growth. Given the expanding economies in Augusta and Savannah and our position as one of the leading community banks, we see that growth marching our way and we are preparing for it.

Please feel free to call me should you have any questions or thoughts. I am always ready to discuss banking in general and Queensborough in particular.

Sincerely,

William F. Easterlin III

William F. Easterlin, III

President

bill@qnbtrust.bank

478-494-0614

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

Charles E. Smith, Jr.

W. Jeffrey Weichsel

THE QUEENSBOROUGH COMPANY

Louisa Abbot

W. Abbot Easterlin

William F. Easterlin, III

Thomas W. Jones, CPA

Sam S. Pennington

D. Phil Polhill, CPA

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DECEMBER 31, 2017 AND 2016
(WITH INDEPENDENT AUDITOR'S REPORT THERON)

elliott davis

INDEPENDENT AUDITOR'S REPORT

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 its Subsidiary (the "Company") which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statement of earnings, comprehensive income, changes in shareholders' equity and cash flows for the year then ended and the related notes to the 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 audit. We conducted our audit 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Queensborough Company and its Subsidiary as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
The consolidated financial statements of the Company, as of and for the year ended December 31, 2016, were audited by other auditors whose report dated March 8, 2017 expressed an unmodified opinion on those statements.

Elliott Davis, LLC

Columbia, South Carolina
March 12, 2018

THE QUEENSBOROUGH COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016
Cash and due from banks, including reserve requirements of $772,000 and $1,068,000, respectively	$ 26,976,649	26,670,053
Interest-bearing deposits with banks	76,124,582	28,462,099
Federal funds sold	10,000,000	10,000,000
Cash and cash equivalents	113,101,231	65,132,152
Certificates of deposit with other banks	17,779,000	19,984,000
Investment securities available for sale	143,189,861	116,295,519
Investments securities held to maturity (estimated market value of $77,550,123 and $62,239,490, respectively)	78,674,706	63,463,964
Other investments	2,177,190	2,114,490
Loans, less allowance for loan losses of $10,829,723 and $10,017,739, respectively	656,247,081	629,102,858
Loans held for sale	7,248,274	5,138,134
Premises and equipment, net	26,817,562	26,610,762
Goodwill and core deposit intangible	3,817,450	3,904,402
Other real estate	4,980,325	748,196
Cash surrender value of life insurance	16,641,042	16,463,604
Accrued interest receivable and other assets	11,680,054	10,038,661
Total assets	$ 1,082,353,776	958,996,742

LIABILITIES AND SHARHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 276,578,423	244,951,360
NOW and money market accounts	379,281,601	308,144,415
Savings	50,639,587	45,385,826
Time deposits, $250,000 or more	66,131,480	44,742,035
Other time deposits	199,768,460	218,314,388
Total deposits	972,399,551	861,538,024
Junior subordinated debentures	12,372,000	12,372,000
Accrued interest payable and other liabilities	6,360,420	3,165,002
Total liabilities	991,131,971	877,075,026
Commitments and Contingencies (See Note 18)		
Shareholders' equity:		
Preferred stock, no par value, $12,350,000 liquidation value; 10,000,000 shares authorized;		
Series A; 11,750 shares issued and outstanding	11,750,000	11,750,000
Series B; 600 shares issued and outstanding	600,000	600,000
Common stock, $1 par value; 10,000,000 shares authorized; and 1,327,972 and 1,264,682 shares issued and outstanding at December 31, 2017 and 2016 respectively	1,327,972	1,264,682
Additional paid-in capital	10,427,668	7,042,030
Retained earnings	68,267,616	62,402,113
Accumulated other comprehensive loss	(1,151,451)	(1,137,109)
Total shareholders' equity	91,221,805	81,921,716
Total liabilities and shareholders' equity	$ 1,082,353,776	958,996,742

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

THE QUEENSBOROUGH COMPANY

		2017	2016
Interest income:			
Interest and fees on loans	$	35,264,073	32,892,246
Interest on investment securities:			
Taxable		4,390,711	3,708,357
Tax exempt		260,532	267,940
Other investments		148,561	119,187
Interest on federal funds sold and interest-bearing deposits with banks		919,862	458,785
Total interest income		40,983,739	37,446,515
Interest expense:			
Deposits:			
Interest-bearing demand		1,054,561	806,525
Savings		25,001	21,312
Time		2,483,251	2,380,699
Borrowed funds		175	90,718
Junior subordinated debentures		419,499	369,110
Total interest expense		3,982,487	3,668,364
Net interest income		37,001,252	33,778,151
Provision for loan losses		-	650,000
Net interest income after provision for loan losses		37,001,252	33,128,151
Other income:			
Service charges on deposit accounts		7,061,392	6,546,835
Mortgage origination fees		4,940,146	4,518,730
Net gains on sale of investment securities		-	362,139
Recovery on investment securities		600,000	-
Net gains (losses) on sale of other real estate		94,995	(122,059)
Other		1,649,162	1,535,272
Total other income		14,345,695	12,840,917
Other expenses:			
Salaries and employee benefits		22,555,291	20,008,184
Occupancy and equipment		2,830,803	2,801,521
Federal deposit insurance assessment		522,939	683,576
Loan expense		552,957	641,033
Impairment losses on other real estate		-	410,826
Other		11,703,331	11,244,950
Total other expenses		38,165,321	35,790,090
Earnings before income taxes		13,181,626	10,178,978
Income tax expense		4,876,651	3,399,184
Net earnings		8,304,975	6,779,794
Preferred stock dividends		1,111,500	1,133,562
Net earnings available to common shareholders	$	7,193,475	5,646,232
Net earnings per share:			
Basic	$	5.54	4.49
Diluted	$	5.49	4.43

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

		2017	2016
Net earnings	$	8,304,975	6,779,794
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 $4,901 and $516,222 in 2017 and 2016, respectively		(14,342)	(843,440)
Gains on investment securities available for sale included in net earnings, net of tax expense of $137,468 in 2016		-	(224,671)
Total other comprehensive loss		(14,342)	(1,068,111)
Comprehensive income	$	8,290,633	5,711,683

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

THE QUEENSBOROUGH COMPANY

	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS)	TOTAL
Balance, December 31,	$ 12,000,000	600,000	1,264,060	7,256,575	59,284,623	(68,998)	80,336,260
2015 Preferred dividends	-	-	-	-	(1,133,562)	-	(1,133,562)
Common dividends	-	-	-	-	(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,	$ 11,750,000	600,000	1,264,682	7,042,030	62,402,113	(1,137,109)	81,921,716
2016 Preferred dividends	-	-	-	-	(1,111,500)	-	(1,111,500)
Common dividends	-	-	-	-	(1,327,972)	-	(1,327,972)
Exercise of warrants for 3,460 shares	-	-	3,460	114,463	-	-	117,923
Common stock redeemed, 3,000 shares	-	-	(3,000)	(162,000)	-	-	(165,000)
Common stock issued, 62,830 shares	-	-	62,830	3,433,175	-	-	3,496,005
Change in net unrealized loss on securities, net	-	-	-	-	-	(14,342)	(14,342)
Net earnings	-	-	-	-	8,304,975	-	8,304,975
Balance, December 31, 2017	$ 11,750,000	600,000	1,327,972	10,427,668	68,267,616	(1,151,451)	91,221,805

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

		2017	2016
Cash flows from operating activities:			
Net earnings	$	8,304,975	6,779,794
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion		2,386,900	2,622,060
Amortization of purchase accounting adjustment		86,952	81,092
Provision for loan losses		-	650,000
Provision for deferred income tax expense		(1,636,057)	542,883
Loss on sale of fixed assets		(5,358)	35,880
Recovery on investment securities		600,000	-
Income recognized from death benefit on bank owned life insurance		(165,586)	-
Net (gain) on sale and paydown of investment securities available for sale		-	(362,139)
Net loss (gain) on sales of other real estate		(94,995)	122,059
Impairment losses on other real estate		-	410,826
Change in:			
Loans held for sale		(2,110,140)	2,028,926
Accrued interest receivable and other assets		(709,003)	(26,121)
Accrued interest payable and other liabilities		3,195,416	(563,478)
Net cash provided by operating activities		9,853,104	12,321,782
Cash flows from investing activities, net of effect of branch acquisition:			
Purchase of certificates of deposit with other banks		-	(2,205,000)
Proceeds from sale of interest bearing deposits with banks		2,205,000	-
Proceeds from pay downs, calls and maturities of securities available for sale		20,334,007	25,392,190
Proceeds from pay downs, calls and maturities of securities held to maturity		9,684,157	13,828,695
Purchases of securities available for sale		(47,735,434)	(8,593,884)
Purchases of securities held to maturity		(25,364,592)	(34,394,282)
Proceeds from sales of securities available for sale		-	13,381,645
Redemption of trust preferred security previously written down		(600,000)	-
Purchases of other investments		(62,700)	(43,712)
Proceeds from bank owned life insurance death benefit		389,561	-
Net change in loans		(31,615,917)	(65,152,102)
Purchases of premises and equipment		(1,543,760)	(1,689,711)
Disposals of premises and equipment		220,110	-
Proceeds from sale of other real estate		334,560	1,673,516
Net cash received in business combination		-	13,202,776
Net cash used in investing activities		(73,755,008)	(44,599,869)
Cash flows from financing activities, net of effect of branch acquisition:			
Net change in deposits		110,861,527	51,419,696
Redeem and retire common stock		(165,000)	(746,486)
Redeem and retire preferred stock		-	(248,750)
Proceeds from sale of stock, net of issuance costs		3,496,005	-
Exercise of warrants		117,923	531,313
Cash dividends paid		(2,439,472)	(2,397,622)
Net cash provided by financing activities		111,870,983	48,558,151
Net change in cash and cash equivalents		47,969,079	16,280,064
Cash and cash equivalents at beginning of year		65,132,152	48,852,088
Cash and cash equivalents at end of year	$	113,101,231	65,132,152
Supplemental schedule of non-cash financing and investing activities:			
Change in unrealized gain/loss on securities available for sale, net of tax	$	14,342	1,068,111
Loans transferred to other real estate	$	5,074,397	913,057
Financed sales of other real estate	$	586,370	529,076
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	3,485,649	3,712,169
Cash paid for income taxes	$	3,910,000	2,760,000

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.

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, 2017 and 2016, there were no trading securities.

(1) Summary of Significant Accounting Policies, continued

Investment Securities, continued

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.

Loans, Interest Income and Allowance for Loan Losses

Loans are stated at principal amount outstanding, net of unearned interest and charge offs. 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.

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 collectability 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.

(1) Summary of Significant Accounting Policies, continued

Loans and Interest Income, continued

Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability 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.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For these accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting.

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, 2017 and 2016, 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.

(1) Summary of Significant Accounting Policies, continued

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. Core deposit intangible amortization expense is included in other noninterest expense.

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.

(1) Summary of Significant Accounting Policies, continued

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 Loss

At December 31, 2017 and 2016, accumulated other comprehensive loss consisted of net unrealized gains (losses) on investment securities available-for-sale.

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.

(1) Summary of Significant Accounting Policies, continued

Net Earnings per Share,continued

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, 2017 and 2016 are as follows

For the year ended December 31, 2017		Net Earnings	Weighted Average Common Shares	Weighted Average Per Share Amount
Net earnings	$	8,304,975		
Preferred stock dividends		(1,111,500)		
Net earnings available to common shareholders for basic earnings per common share		7,193,475	1,297,430	$5.54
Effect of dilutive securities – warrants		-	11,792	
Diluted earnings per common share	$	7,193,475	1,309,222	$5.49
For the year ended December 31, 2016				
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

Advertising Expenses

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of $777,937 and $643,029, were included in the Company's results of operations for 2017 and 2016, respectively.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company will apply the guidance using a modified retrospective approach. The Company's revenue is comprised of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of our revenues will not be affected. The Company is currently assessing our revenue contracts related to revenue streams that are within the scope of the standard. Our accounting policies will not change materially since the principles of revenue recognition from the Accounting Standards Update (ASU) are largely consistent with existing guidance and current practices applied by our businesses. We have not identified material changes to the timing or amount of revenue recognition. Based on the updated guidance, we do anticipate changes in our disclosures associated with our revenues. We will provide qualitative disclosures of our performance

(1) Summary of Significant Accounting Policies, continued

obligations related to our revenue recognition and we continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance.

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the ASC to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. We expect to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started an initial evaluation of our leasing contracts and activities. We have also started developing our methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments; however, as of December 31 2017, the Company does not expect these future minimum lease payments to have a material effect on its financial statements. We do not expect a material change to the timing of expense recognition, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for annual periods beginning after December 15, 2020, and interim periods within annual reporting periods beginning after December 15, 2021. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, we do not expect to elect that option. We are evaluating the impact of the ASU on our consolidated financial statements with regards to the impact on the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. In addition to our allowance for loan losses, we will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In December 2016, the FASB issued technical corrections and improvements to the Revenue from Contracts with Customers Topic. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The effective date and transition requirements for the technical corrections will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2017, the FASB amended the Goodwill and Other Topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

(1) Summary of Significant Accounting Policies, continued

In May 2017, the FASB amended the requirements in the Compensation—Stock Compensation Topic of the Accounting Standards Codification related to changes to the terms or conditions of a share-based payment award. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments will be effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

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

<u>Reclassifications</u>

Certain captions and amounts in the 2016 consolidated financial statements were reclassified to conform with the 2017 presentation. These reclassifications had no effect on the results of operations or shareholders' equity.

(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 becomes available.

Goodwill of approximately $168,000 was 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 2017 was $14,064 and $8,204 for 2016, and expected amortization expense is $14,060 per year through 2023.

(3) Investment Securities

Investment securities at December 31, 2017 and 2016 are as follows:

Securities Available for Sale December 31, 2017		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State, county and municipals	$	5,548,085	177,150	-	5,725,235
Mortgage-backed securities		138,886,726	407,521	2,129,621	137,164,626
Trust preferred		300,000	-	-	300,000
Total	$	144,734,811	584,671	2,129,621	143,189,861
December 31, 2016					
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

Securities Held to Maturity December 31, 2017		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$	4,026,746	6,896	19,731	4,013,911
State, county and municipals		74,647,960	28,588	1,140,336	73,536,212
Total	$	78,674,706	35,484	1,160,067	77,550,123
December 31, 2016					
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

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 investment securities with unrealized losses as of December 31, 2017 and 2016 are as follows:

		Less than 12 Months		12 Months or More		Total	
December 31, 2017		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State, county and municipals	$	3,043,304	19,730	-	-	3,043,304	19,730
Mortgage-backed securities		96,559,055	948,545	85,412,721	2,321,413	181,971,776	3,269,958
	$	99,602,359	968,275	85,412,721	2,321,413	185,015,080	3,289,688

		Less than 12 Months		12 Months or More		Total	
December 31, 2016		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	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

The market value of investment securities is based on quoted market values and is significantly affected by the interest rate environment. At December 31, 2017, 101 of 139 securities issued as mortgage-backed securities and five of 22 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.

The amortized cost and estimated fair value of investment securities at December 31, 2017, 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	$	506,831	505,300	-	-
1 to 5 years		2,395,301	2,384,878	511,263	523,150
5 to 10 years		1,124,614	1,123,733	2,524,948	2,583,000
Over 10 years		-	-	2,811,873	2,919,085
Mortgage-backed securities		74,647,960	73,536,212	138,886,727	137,164,626
	$	78,674,706	77,550,123	144,734,811	143,189,861

No available for sale securities were sold in 2017. Proceeds from sales of securities available for sale for 2016 were $13,381,645. Gross gains of $436,454 and gross losses of $74,315 were realized on sales in 2016. A recovery of $600,000 was recorded in 2017 on a trust preferred security previously written off.

Securities with a carrying value of approximately $147,991,000 and $114,969,000 at December 31, 2017 and 2016, 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, 2017 and 2016 are summarized as follows:

	2017	2016
Commercial, financial and agricultural	$ 78,657,335	69,157,565
Real estate – construction	58,655,052	54,175,899
Real estate – commercial	366,099,301	356,177,304
Real estate – residential	142,171,679	138,676,112
Installment loans to individuals and others	21,493,437	20,933,717
Total loans	667,076,804	639,120,597
Less allowance for loan losses	10,829,723	10,017,739
	$ 656,247,081	629,102,858

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, 2017 and 2016:

December 31, 2017		Commercial, financial and agricultural	Real estate-construction	Real estate-commercial	Real estate-residential	Installment loans to individuals and others	Total
Balance, beginning of year	$	1,454,959	412,994	6,172,757	1,538,651	438,378	10,017,739
Provisions charged to operating expense		(348,762)	(11,649)	33,740	(150,321)	476,992	-
Loans charged off		(172,416)	(66,935)	(559,180)	(85,304)	(520,323)	(1,404,158)
Recoveries		901,844	12,250	1,186,475	100,012	15,561	2,216,142
Balance, end of year	$	1,835,625	346,660	6,833,792	1,403,038	410,608	10,829,723
Ending balance, individually evaluated for impairment	$	120,508	-	95,741	48,751	-	265,000
Ending balance, collectively evaluated for impairment	$	1,715,117	346,660	6,738,051	1,354,287	410,608	10,564,723
Loans:							
Individually evaluated for impairment	$	2,541,412	-	6,538,191	2,738,614	13,177	11,831,394
Collectively evaluated for impairment	$	76,115,923	58,655,052	359,561,110	139,433,065	21,480,260	655,245,410
December 31, 2016							
Balance, beginning of year	$	1,966,524	703,027	5,626,328	1,925,042	589,557	10,810,478
Provisions charged to operating expense		(204,888)	(302,079)	1,160,731	(252,579)	248,815	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	42,084	450,912
Balance, end of year	$	1,454,959	412,994	6,172,757	1,538,651	438,378	10,017,739
Ending balance, individually evaluated for impairment	$	30,000	150,000	881,223	-	-	1,061,223
Ending balance, collectively evaluated for impairment	$	1,424,959	262,994	5,291,534	1,538,651	438,378	8,956,516
Loans:							
Individually evaluated for impairment	$	1,412,484	1,207,475	19,284,648	2,812,770	28,331	24,745,708
Collectively evaluated for impairment	$	67,745,081	52,968,424	336,892,656	135,863,342	20,905,386	614,374,889

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, 2017 and 2016:

December 31, 2017		Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with related allowance:						
Commercial, financial and agricultural	$	1,882,826	1,920,552	120,508	1,708,962	-
Real estate-commercial		1,514,901	1,537,297	95,741	1,458,682	-
Real estate-residential		906,507	915,614	48,751	547,176	-
Installment loans to individuals and others		846	846	-	4,443	398
Impaired loans without related allowance:						
Commercial, financial and agricultural		658,585	761,598	-	699,559	-
Real estate-commercial		5,023,290	6,469,662	-	5,657,660	24,157
Real estate-residential		1,832,107	2,882,483	-	2,015,296	12,744
Installment loans to individuals and others		12,331	140,947	-	19,675	-
Total:						
Commercial, financial and agricultural		2,541,412	2,682,149	120,508	2,408,521	-
Real estate-commercial		6,538,191	8,006,958	95,741	7,116,342	24,157
Real estate-residential		2,738,614	3,798,097	48,751	2,562,472	12,744
Installment loans to individuals and others		13,177	141,793	-	24,118	398
	$	11,831,394	14,628,998	265,000	12,111,454	37,299
December 31, 2016						
Impaired loans with related allowance:						
Commercial, financial and agricultural	$	1,101,046	1,126,035	30,000	1,136,783	107,046
Real estate-construction		1,207,475	3,497,475	150,000	1,230,225	-
Real estate-commercial		8,357,017	8,888,017	881,223	8,865,301	12,810
Real estate-residential		-	-	-	-	-
Installment loans to individuals and others		-	-	-	-	-
Impaired loans without related allowance:						
Commercial, financial and agricultural		311,439	385,399	-	337,242	-
Real estate-construction		-	-	-	-	-
Real estate-commercial		10,927,631	12,595,486	-	11,161,562	(631)
Real estate-residential		2,812,770	3,985,705	-	3,187,051	147
Installment loans to individuals and others		28,331	155,793	-	41,939	-
Total:						
Commercial, financial and agricultural		1,412,484	1,511,434	30,000	1,474,025	107,046
Real estate-construction		1,207,475	3,497,475	150,000	1,230,225	-
Real estate-commercial		19,284,648	21,483,503	881,223	20,026,863	12,180
Real estate-residential		2,812,770	3,985,705	-	3,187,051	147
Installment loans to individuals and others		28,331	155,793	-	41,939	-
	$	24,745,708	30,633,910	1,061,223	25,960,103	120,003

(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, 2017 and 2016 by class of loans:

December 31, 2017		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	$	927,829	3,013,220	3,941,049	74,716,286	78,657,335	2,155,778	2,351,054
Real estate-construction		34,523	49,097	83,620	58,571,432	58,655,052	-	49,097
Real estate-commercial		1,287,048	1,378,189	2,665,237	363,434,064	366,099,301	6,543,095	380,283
Real estate-residential		3,155,136	2,006,756	5,161,892	137,009,787	142,171,679	2,710,782	1,262,678
Installment loans to individuals and others		176,085	21,043	197,128	21,296,309	21,493,437	12,332	21,043
	$	5,580,621	6,468,305	12,048,926	655,027,878	667,076,804	11,421,987	4,064,155
December 31, 2016								
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

The following tables present information on troubled debt restructurings that were modified during the year ended December 31, 2017, including the number of loan contracts restructured and the pre- and post-modification recorded investment. Both troubled debt restructurings in 2017 resulted from interest rate concessions. There were no modifications on troubled debt restructurings during the year ended December 31, 2016.

During the year ended December 31, 2017	Number of Contracts		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate-commercial	1	$	511,400	511,400
Real estate-residential	1	$	277,600	277,600

(4) Loans and Allowance for Loan Losses, continued

The tables below present information on troubled debt restructurings as of December 31, 2017 and 2016.

December 31, 2017	Number of Contracts		Outstanding Recorded Investment
Commercial, financial and agricultural	5	$	909,603
Real estate-commercial	4		1,514,141
Real estate-residential	2		403,620
	11	$	2,827,364
December 31, 2016			
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

The Bank has allocated approximately $45,000 and $291,000 of specific allowances to customers whose loan terms have been modified in a troubled debt restructuring as of December 31, 2017 and 2016, respectively. During 2017 and 2016 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, 2017 and 2016, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2017		Pass	Special Mention	Substandard	Doubtful/ Loss	Total
Commercial, financial and agricultural	$	75,166,906	329,318	3,161,111	-	78,657,335
Real estate-construction		58,655,052	-	-	-	58,655,052
Real estate-commercial		325,658,215	9,053,539	31,387,547	-	366,099,301
Real estate-residential		138,299,634	183,593	3,688,452	-	142,171,679
Installment loans to individuals and others		21,480,260	-	13,177	-	21,493,437
	$	619,260,067	9,566,450	38,250,287	-	667,076,804
December 31, 2016						
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

(5) Premises and Equipment

Major classifications of premises and equipment are summarized as follows:

		2017	2016
Land	$	6,974,855	6,954,855
Buildings and improvements		24,349,509	23,974,710
Furniture and fixtures		11,424,970	10,685,135
		42,749,334	41,614,700
Less accumulated depreciation		15,931,772	15,003,938
	$	26,817,562	26,610,762

Depreciation expense amounted to $1,122,208 and $1,099,378 in 2017 and 2016, respectively.

(6) Goodwill and Core Deposit Intangible

The following table presents information about our intangible assets at December 31:

	2017		**2016**	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Indefinite lived intangible asset:				
Goodwill	$ 3,388,930	$ -	$ 3,388,930	$ -
Finite lived intangible asset:				
Core deposit intangibles	$ 608,290	$ 179,770	$ 608,290	$ 85,036

(6) Goodwill and Core Deposit Intangible, continued

Based on the core deposit intangibles as of December 31, 2017, the following table presents the aggregate amortization expense for each of the succeeding years ending December 31:

		Amount
2018	$	86,948
2019		86,948
2020		86,948
2021		86,948
2022 and thereafter		80,728
Total	$	428,520

Amortization expense of $86,952 and $81,092 related to the core deposit intangibles was recognized in 2017 and 2016, respectively.

As of December 31, 2017 and 2016, goodwill totaled $3,388,930. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. As of December 31, 2017 and 2016, management determined that no impairment existed on the goodwill.

(7) Deposits

Maturities of time deposits at December 31, 2017 are as follows:

Year ending December 31,		
2018	$	164,876,422
2019		37,971,935
2020		25,135,500
2021		21,385,401
2022		16,398,184
Thereafter		132,498
	$	265,899,940

Brokered deposits totaled $5,022,000 and $10,102,000 as of December 31, 2017 and 2016, respectively.

(8) Borrowings and Unused Lines of Credit

The Bank is a shareholder of the FHLB and as such has access to borrowings from the FHLB. At December 31, 2017, there were no borrowings outstanding from the FHLB. During 2016 the Bank borrowed and repaid short term advances totaling $5,000,000 from the FHLB. The Bank borrowed and repaid long term advances totaling $15,000,000 from the FHLB. 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 $41,146,000 at December 31, 2017.

The Bank has federal funds accommodations of $44,000,000 at December 31, 2017 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, 2017 or 2016.

(9) 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, 2017 was 4.54% for Trust II and 3.34% 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 April 7, 2034 for Trust II and June 15, 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.

(10) Income Taxes

The Tax Cuts and Jobs Act (TCJA) was signed into law by the President on December 22, 2017. The TCJA includes the reduction in the corporate tax rate from a top rate of 35% to a flat rate of 21%, changes in business deductions, and many international provisions.

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

	2017	2016
Current	$ 4,491,545	2,856,301
Deferred	385,106	542,883
Total income tax expense	$ 4,876,651	3,399,184

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:

	2017	2016
Pretax income at statutory rate	$ 4,481,753	3,460,853
Add (deduct):		
Tax-exempt interest income	(310,663)	(307,381)
Non-deductible interest expense	3,369	4,271
State taxes and credits, net of federal benefit	264,624	135,940
Impact of federal tax rate change	353,660	-
Other	83,908	105,501
	$ 4,876,651	3,399,184

(10) Income Taxes, continued

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, 2017 and 2016.

	2017	2016
Deferred income tax assets:		
Allowance for loan losses	$ 2,787,571	3,802,734
Other real estate	-	27,346
Other than temporary impairment loss on securities available for sale	48,906	236,735
State credit carryforward	319,424	543,038
Net unrealized loss on securities available for sale	393,499	695,754
Total gross deferred income tax assets	3,549,400	5,305,607
Deferred income tax liabilities:		
Premises and equipment	(1,545,985)	(2,095,294)
Intangible asset	(367,358)	(533,235)
Total gross deferred income tax liabilities	(1,913,343)	(2,628,529)
Net deferred income tax asset	$ 1,636,057	2,677,078

(11) 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, 2017:

Beginning balance	$ 209,397
New loans	14,444,945
Repayments	(10,188,755)
Ending balance	$ 4,465,587

The Bank had deposits from related parties totaling approximately $9,333,000 and $10,354,000 as of December 31, 2017 and 2016, 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 2017 and 2016, which is deemed to approximate the normal market rate, was approximately $88,000 for each year.

(12) 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	
	2017	2016
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 155,618,000	147,570,000
Standby letters of credit	$ 3,150,000	2,349,000

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.

(13) 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.

In December of 2016, the Company redeemed 250 shares of Series A preferred stock for $250,000. No shares were redeemed in 2017.

(14) 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, 2017, options for 107,700 shares remain available for future grants.

(14) Stock Options, Warrants, and Repurchase, continued

There were no options granted, forfeited or exercised in 2017 or 2016. As of December 31, 2017 and 2016, 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 2017, 3,460 warrants were exercised at a range of $33.00 to $36.15 per share. During 2016, 15,660 warrants were exercised at a range of $33.68 to $34.34 per share. As of December 31, 2017 and 2016, respectively, there were 33,493 and 36,953 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 in 2016.

Additionally, the Company repurchased 3,000 shares during 2017 at $55.00 per share for a total of approximately $165,000

In 2017, the Company completed a private placement of its common stock. 62,830 shares were sold and issued at an average price of $55.64 per share for a total of $3,496,000. Along with the common shares there were two warrants issued for every ten shares purchased. The warrants allow the holder to purchase additional common shares of the Company at a price of $72.00 per share through February 1, 2027, at which date the warrants will expire if not exercised. A total of 12,566 warrants were issued. The first date the warrants become exercisable is February 1, 2020.

(15) Benefit Plan

The Company 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, 2017 and 2016, contributions of $532,555 and $455,718, respectively, were expensed to salaries and employee benefits.

(16) 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. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or write-downs of individual 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.

(16) Fair Value of Financial Instruments, continued

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.

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. The Company records loans held for sale as recurring level 2.

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.

(16) Fair Value of Financial Instruments, continued

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.

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, 2017 and 2016, respectively.

Balance at December 31, 2017		Level 1	Level 2	Level 3	Total
State, county and municipals	$	-	5,725,235	-	5,725,235
Mortgage-backed securities		-	137,164,626	-	137,164,626
Trust preferred		-	-	300,000	300,000
Total	$	-	142,889,861	300,000	143,189,861
Balance at December 31, 2016					
State, county and municipals	$	-	6,193,622	-	6,193,622
Mortgage-backed securities		-	109,801,897	-	109,801,897
Trust preferred		-	-	300,000	300,000
Total	$	-	115,995,519	300,000	116,295,519

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

		Trust Preferred Securities	
Level 3 Fair Value Measurements		2017	2016
Balance at beginning of year	$	300,000	149,344
(Sales)/purchases		-	-
Net changes in gain/(loss) realized and unrealized		-	150,656
Transfers out of Level 3 to other investments		-	-
Balance at end of year	$	300,000	300,000

(16) Fair Value of Financial Instruments, continued

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, 2017 and 2016, respectively.

Balance at December 31, 2017		Level 1	Level 2	Level 3	Total
Other real estate	$	-	-	4,980,325	4,980,325
Impaired loans, net		-	-	11,566,394	11,566,394
Total assets at fair value	$	-	-	16,546,719	16,546,719
Balance at December 31, 2016					
Other real estate	$	-	-	748,196	748,196
Impaired loans, net		-	-	23,684,485	23,684,485
Total assets at fair value	$	-	-	24,432,681	24,432,681

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2017 and December 31, 2016, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value as of December 31, 2017	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$ 11,566,394	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost
Other real estate owned	$ 4,980,325	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost

	Fair Value as of December 31, 2016	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$ 23,684,485	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost
Other real estate owned	$ 748,196	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost

(16) Fair Value of Financial Instruments, continued

The carrying amounts and estimated fair values (in thousands) of the Company's financial instruments at December 31, 2017 and 2016 are as follows:

		2017		2016	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	$	113,101	113,101	65,132	65,132
Certificates of deposits with other banks	$	17,779	17,779	19,984	19,984
Investment securities available for sale	$	143,190	143,190	116,296	116,296
Investment securities held to maturity	$	78,675	77,550	63,464	62,239
Other investments	$	2,177	2,177	2,114	2,114
Loans, net	$	656,247	668,874	629,103	642,703
Loans held for sale	$	7,248	7,248	5,138	5,138
Cash surrender value of life insurance	$	16,641	16,641	16,464	16,464
Liabilities:					
Deposits	$	972,400	973,371	861,538	860,312
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.

(17) 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, 2017, that the Company and the Bank meet all applicable capital adequacy requirements.

(17) Regulatory Matters, continued

The Basel III capital rule requires banking organizations to maintain a minimum 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 2017, 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, 2017, the most recent notification from the Office of the Comptroller of the Currency 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.

(17) Regulatory Matters, continued

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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017:						
Total Capital (to Risk-weighted Assets)						
Consolidated	$ 110,083	15.16%	$ 58,095	8.00%	N/A	N/A
Bank	$ 108,262	14.93%	$ 58,027	8.00%	$ 72,534	10.00%
Tier I Capital (to Risk-weighted Assets)						
Consolidated	$ 101,006	13.91%	$ 43,571	6.00%	N/A	N/A
Bank	$ 99,174	13.67%	$ 43,521	6.00%	$ 58,027	8.00%
Common Equity Tier 1 capital (to risk-weighted assets)						
Consolidated	$ 76,656	10.56%	$ 32,679	4.50%	N/A	N/A
Bank	$ 99,174	13.67%	$ 32,640	4.50%	$ 47,147	6.50%
Tier I Capital (to Average Assets)						
Consolidated	$ 101,006	9.57%	$ 42,240	4.00%	N/A	N/A
Bank	$ 99,174	9.40%	$ 42,200	4.00%	$ 52,750	5.00%
As of December 31, 2016:						
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%

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.

(18) Commitments and Contingencies

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. At December 31, 2017, management, after consultation with legal counsel, is not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, would be material to the financial statements.

(19) Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 12, 2018, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

(20) The Queensborough Company (Parent Company Only) Financial Information

Balance Sheets

December 31, 2017 and 2016

	2017	2016
Assets		
Cash	$ 2,974,791	682,472
Investment in Bank	100,787,386	92,547,155
Dividends receivable	-	1,300,000
Other assets	1,364,741	1,229,338
Total assets	$ 105,126,918	95,758,965
Liabilities and Shareholders' Equity		
Other liabilities	$ 205,141	200,567
Dividends payable	1,327,972	1,264,682
Junior subordinated debentures	12,372,000	12,372,000
Total liabilities	13,905,113	13,837,249
Total shareholders' equity	91,221,805	81,921,716
Total liabilities and shareholders' equity	$ 105,126,918	95,758,965

(20) The Queensborough Company (Parent Company Only) Financial Information, continued

Statements of Earnings

For the Years Ended December 31, 2017 and 2016

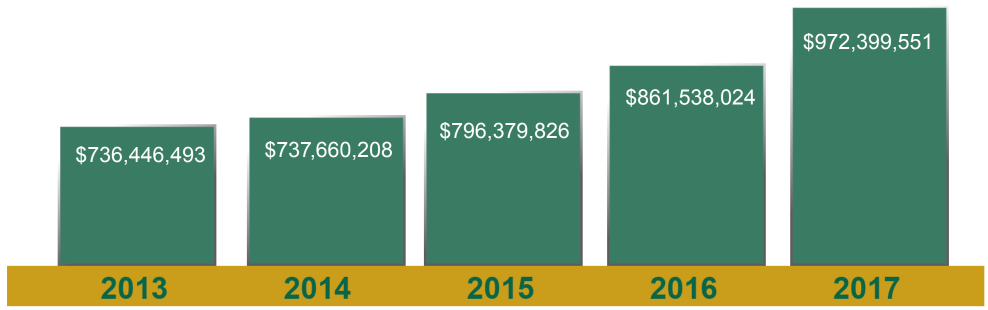
		2017	2016
Interest income	$	-	10,824
Dividends from Bank		375,000	3,014,060
Other income		-	883
Total income		375,000	3,025,767
Interest expense		419,498	369,110
Other expense		42,357	27,222
Total expenses		461,855	396,332
(Loss) income before income tax benefit and equity in undistributed earnings of Bank		(86,855)	2,629,435
Income tax benefit		137,257	129,759
Income before equity in undistributed earnings of Bank		50,402	2,759,194
Equity in undistributed earnings of Bank		8,254,573	4,020,600
Net earnings	$	8,304,975	6,779,794

Statements of Cash Flows

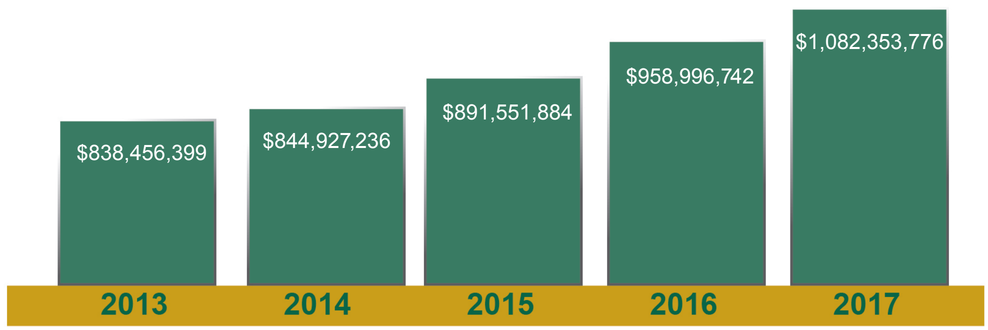
For the Years Ended December 31, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Net earnings	$	8,304,975	6,779,794
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Equity in earnings of Bank		(8,254,573)	(4,020,600)
Change in other		1,232,461	(31,353)
Net cash provided by operating activities		1,282,863	2,727,841
Cash flows from financing activities:			
Dividends paid		(2,439,472)	(2,397,622)
Preferred stock redeemed		-	(248,750)
Redemption and retirement of common stock		(165,000)	(746,486)
Proceeds from sale of common stock		3,613,928	531,313
Net cash provided (used) by financing activities		1,009,456	(2,861,545)
Net change in cash		2,292,319	(133,704)
Cash at beginning of year		682,472	816,176
Cash at end of year	$	2,974,791	682,472
Supplemental schedule of non-cash financing and investing activities:			
Change in net unrealized losses on investment securities available for sale, net of tax	$	14,342	1,068,111

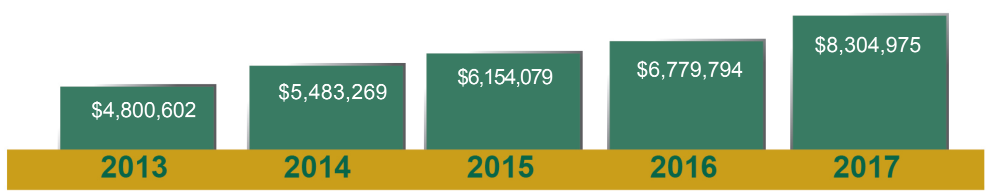
TOTAL DEPOSITS



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

J. Dudley Gunn

Roy M. Hayes

William C. McMaster, Jr.

H. G. Thomas New

James B. Polhill, IV, M.D.

Edith W. Pundt

R. Hubert Reeves, III

E. C. Smith, III

Henderson C. Upchurch

EXECUTIVE MANAGEMENT

William F. Easterlin, III *President, Chief Executive Officer*

D. Phil Polhill, CPA
Chief Financial Officer

Richard H. Peacock
Chief Credit Officer

William R. Thompson
Chief Lending Officer

Kimberly S. Kirk
Chief Operations Officer

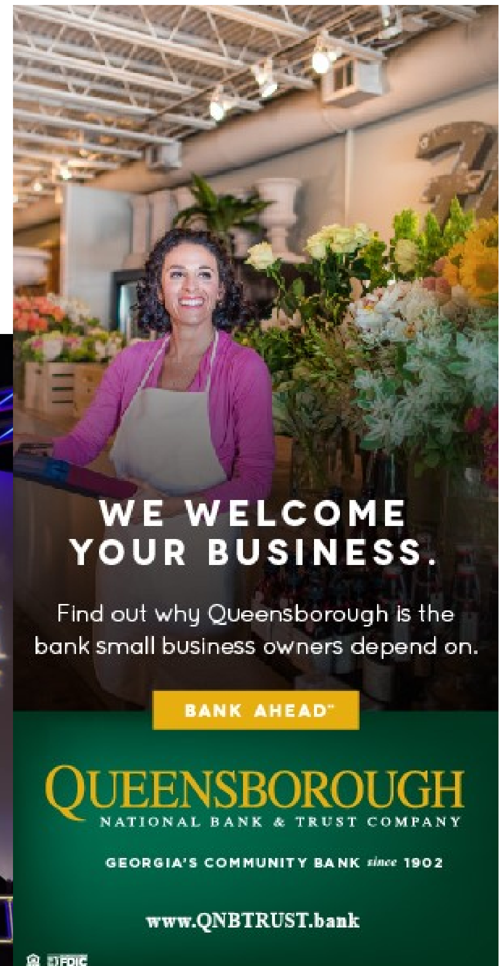
Sheryl R. Reed, SPHR, SHRM-SCP
Chief Human Resource Officer

Julie W. Evans
Corporate Secretary

COMMUNITY AND CUSTOMER OUTREACH

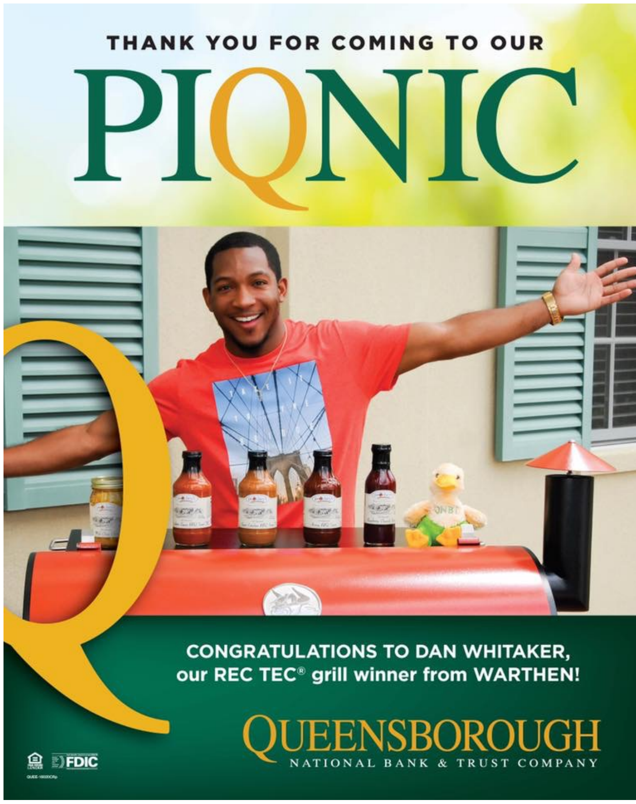
In 2017, Queensborough celebrated 115 years of community banking; it was an exciting year filled with many accomplishments, new ventures, new relationships, and enhancements. Some highlights include;

Q "welcomed your business"! If you were interested in changing banks, Queensborough accommodated to make it an easy transition. During a major change in the Augusta market, Q announced that "We Welcome Your Business." Three Augusta locations temporarily adjusted their hours to better serve the need. At the end of the first quarter, Q celebrated reaching the billion dollar mark!



In May, the 26th Q location opened. The addition of the Wealth Management Building in Augusta symbolizes the commitment that Q has to helping community members grow their wealth and their financial literacy.

Q The 4th Annual PiQnic gave Queensborough the opportunity to celebrate their 115 years with their communities. Employees across Q's 13 county footprint enjoyed socializing with customers, friends, family and co-workers; thousands of hot dogs were consumed from Augusta to Savannah.!



Q In 2017, Q celebrated new technology and services. The new website was launched, SecurLOCK was introduced, and a new, more secure, web address replaced QNBTRUST.com.

Q's partnership with Golden Harvest Food Bank began in November of 2010 and has gown each year through the Golden Harvest Mobile Pantry program. In 2017, Q hosted 13 mobile events, the most events held in a calendar year since the 7 year partnership began.

Q supported many local events including; "Love and Laughter", "2017 Guitar Pull", Bank Peanut Week, Small Business Saturday, blood drives, Breast Cancer Awareness events, Alzheimer events, American Heart Association events, and the United Way.

Thank you to all the employees, family members, customers and community members that have given their personal time and money to serve others.

www.QNBTRUST.bank