



TRUXTON TRUST

A PRIVATE BANK

Dear Shareholder:

2017 was a year of continued, steady growth at Truxton Trust and its parent, Truxton Corporation. Our extraordinary team of employees provided expert advice and service to more clients than ever. We delivered increased earnings and dividends to shareholders and produced the highest returns on assets and equity in our history despite very conservative capital ratios. We benefitted from a strong national economy, booming equity markets, relatively low and stable interest rates, and a core Nashville market experiencing unprecedented growth across a wide range of industries.

After adjustments for tax-law-driven items and realized securities gains and losses, Truxton Corporation dilutive earnings per share rose from \$2.04 to \$2.39, an increase of 17%. This growth resulted from an 8% rise in average loans compared to 2016 and an 18% increase in non-interest income (excluding realized bond gains and losses), more than 90% of which comes from our wealth management business. After the adjustments, we earned a 13.3% return on average equity, an exceptional result considering we concluded the year with a very conservative 11.6% ratio of equity to assets. Banks can grow their returns on equity by taking the risky course of operating with a very small equity base relative to the size of the balance sheet. Our operating strategy allows us to deliver industry-leading returns without the risks attendant to over-leverage. We increased our dividend for the fifth consecutive year and paid out more than \$2.1 million to shareholders.

At year end, Congress passed and the President signed the Tax Cuts and Jobs Act of 2017, reducing the rate that Truxton Trust will pay in federal income tax from 35% to 21%. Simply put, Truxton Trust shareholders formerly had to share 35% of the earnings of the company with a silent partner, the Federal Government. Now shareholders will get to keep 79% of the profits, a 22% increase from prior law. Nothing in our economy happens in isolation; clients and employees, through competitive pressure, will share in the benefits of the cuts, but shareholders will be the first to see the positive impact.

Looking ahead, we expect 2018 to be another year of moderate growth at Truxton Trust. We will be cautious about lending in the hot Nashville market, but expect to grow the balance sheet in line with recent trends. Wealth management will continue to seek new relationships with clients who need very experienced professionals to advise them on the intricacies of financial stewardship that sustains a family for generations. None of this is possible without the dedication of a staff that views service to clients as a calling.

If you have not benefitted from the services Truxton Trust provides to clients, we urge you to give us a try.

Thomas S. Stumb

Chairman of the Board
and Chief Executive Officer

Andrew L. May

President
and Chief Financial Officer

TRUXTON CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

TRUXTON CORPORATION
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	2
CONSOLIDATED STATEMENTS OF NET INCOME	3
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME.....	4
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	7

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Truxton Corporation
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Truxton Corporation, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of net income, comprehensive income, changes in shareholders' equity, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Truxton Corporation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP
Crowe Horwath LLP

Franklin, Tennessee
February 21, 2018

TRUXTON CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and due from financial institutions	\$ 6,425	\$ 6,547
Interest bearing deposits in other financial institutions	3,750	3,466
Federal funds sold	<u>6</u>	<u>295</u>
Cash and cash equivalents	10,181	10,308
Time deposits in other financial institutions	11,544	16,628
Securities available for sale	109,295	78,988
Gross loans	293,117	288,096
Allowance for loan losses	<u>(3,074)</u>	<u>(2,998)</u>
Net loans	290,043	285,098
Bank owned life insurance	9,535	9,304
Restricted equity securities	2,556	2,543
Premises and equipment, net	731	817
Accrued interest receivable	1,444	1,261
Deferred tax asset, net	363	830
Other assets	<u>1,990</u>	<u>1,448</u>
Total assets	<u>\$ 437,682</u>	<u>\$ 407,225</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	\$ 87,049	\$ 76,035
Interest bearing	<u>275,906</u>	<u>262,896</u>
Total deposits	362,955	338,931
Federal funds purchased	1,071	-
Federal Home Loan Bank advances	20,198	20,522
Other liabilities	<u>2,681</u>	<u>1,644</u>
Total liabilities	386,905	361,097
Shareholders' equity		
Preferred stock, \$0.10 par value; 5,000,000 shares authorized; no shares issued	-	-
Common stock, \$0.10 par value; 40,000,000 shares authorized; 2,683,496 shares issued and outstanding in 2017 and 2,649,178 shares issued and outstanding in 2016	268	265
Additional paid-in capital	26,985	26,469
Retained earnings	23,569	19,519
Accumulated other comprehensive income (loss)	<u>(45)</u>	<u>(125)</u>
Total shareholders' equity	<u>50,777</u>	<u>46,128</u>
Total liabilities and shareholders' equity	<u>\$ 437,682</u>	<u>\$ 407,225</u>

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF NET INCOME
Years ended December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

	<u>2017</u>	<u>2016</u>
Non-interest income		
Wealth management services	\$ 9,108	\$ 7,646
Service charges on deposit accounts	341	325
Gain (loss) on sale of securities, net	(189)	85
Bank owned life insurance income	231	244
Other	<u>239</u>	<u>208</u>
Total non-interest income	<u>9,730</u>	<u>8,508</u>
Interest income		
Loans, including fees	12,531	11,310
Taxable securities	1,140	954
Tax-exempt securities	795	745
Interest bearing deposits	313	287
Federal funds sold	<u>22</u>	<u>21</u>
Total interest income	<u>14,801</u>	<u>13,317</u>
Interest expense		
Deposits	1,451	1,046
Short-term borrowings	3	12
Long-term borrowings	<u>332</u>	<u>266</u>
Total interest expense	<u>1,786</u>	<u>1,324</u>
Net interest income	13,015	11,993
Provision for loan losses	<u>75</u>	<u>248</u>
Net interest income after provision for loan losses	<u>12,940</u>	<u>11,745</u>
Total revenue, net	22,670	20,253
Non-interest expense		
Compensation and employee benefits	9,557	8,192
Occupancy	718	664
Furniture and equipment	217	171
Data processing	1,218	1,158
Wealth management processing fees	475	523
Advertising and public relations	172	166
Professional services	617	663
FDIC insurance assessments	140	171
Other	<u>801</u>	<u>876</u>
Total non-interest expense	<u>13,915</u>	<u>12,584</u>
Income before income taxes	8,755	7,669
Income tax expense	<u>2,577</u>	<u>2,164</u>
Net income	<u>\$ 6,178</u>	<u>\$ 5,505</u>
Earnings per share:		
Basic	\$ 2.32	\$ 2.09
Diluted	\$ 2.28	\$ 2.06

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

	<u>2017</u>	<u>2016</u>
Net income	\$ 6,178	\$ 5,505
Other comprehensive loss:		
Unrealized gains/losses on securities:		
Unrealized holding loss arising during the period	(131)	(386)
Reclassification adjustment for (gains) losses included in net income as (gain) loss on sale of securities	189	(85)
Tax effect, income tax expense included in net income related to reclassification adjustments \$72 and \$33, respectively	<u>22</u>	<u>181</u>
Total other comprehensive income (loss), net of tax	<u>80</u>	<u>(290)</u>
Comprehensive income	<u>\$ 6,258</u>	<u>\$ 5,215</u>

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2016	2,618,964	\$ 262	\$ 25,928	\$ 15,919	\$ 165	\$ 42,274
Exercise of stock options, including tax benefit and net of forfeitures	8,310	1	136	-	-	137
Issuance of restricted shares of common stock, net	21,904	2	(2)	-	-	-
Stock based compensation expense	-	-	407	-	-	407
Cash dividends declared (\$0.72 per share)	-	-	-	(1,905)	-	(1,905)
Net income	-	-	-	5,505	-	5,505
Other comprehensive loss	-	-	-	-	(290)	(290)
	<u>2,649,178</u>	<u>265</u>	<u>26,469</u>	<u>19,519</u>	<u>(125)</u>	<u>46,128</u>
Balance at December 31, 2016	2,649,178	265	26,469	19,519	(125)	46,128
Exercise of stock options, net of forfeitures	2,661	-	55	-	-	55
Issuance of restricted shares of common stock, net	31,657	3	(3)	-	-	-
Stock based compensation expense	-	-	464	-	-	464
Cash dividends declared (\$0.80 per share)	-	-	-	(2,128)	-	(2,128)
Net income	-	-	-	6,178	-	6,178
Other comprehensive loss	-	-	-	-	80	80
	<u>2,683,496</u>	<u>\$ 268</u>	<u>\$ 26,985</u>	<u>\$ 23,569</u>	<u>\$ (45)</u>	<u>\$ 50,777</u>
Balance at December 31, 2017	<u>2,683,496</u>	<u>\$ 268</u>	<u>\$ 26,985</u>	<u>\$ 23,569</u>	<u>\$ (45)</u>	<u>\$ 50,777</u>

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net income	\$ 6,178	\$ 5,505
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	442	392
Net amortization of securities	710	719
Deferred income tax benefit	417	156
Provision for loan losses	75	248
Loss (gain) on securities	189	(85)
Stock based compensation expense	464	407
Bank owned life insurance income	(231)	(244)
Net change in:		
Accrued interest receivable	(183)	(148)
Other assets	(542)	(414)
Other liabilities	<u>1,037</u>	<u>(40)</u>
Net cash from operating activities	8,556	6,496
Cash flows from investing activities		
Net decrease in time deposits in other financial institutions	5,084	3,367
Available for sale securities:		
Purchases	(53,718)	(26,866)
Maturities, calls and paydowns	9,054	9,369
Sales	13,588	19,887
Net increase in loans	(5,020)	(30,941)
Purchase of restricted equity securities	(13)	(16)
Additions of premises and equipment, net	<u>(356)</u>	<u>(34)</u>
Net cash from investing activities	(31,381)	(25,234)
Cash flows from financing activities		
Proceeds from Federal Home Loan Bank advances	8,000	5,000
Repayments of Federal Home Loan Bank advances	(8,324)	(6,957)
Net increase (decrease) in deposits	24,024	(83)
Net change in federal funds purchased	1,071	-
Proceeds from exercise of stock options	55	137
Cash dividends paid	<u>(2,128)</u>	<u>(1,905)</u>
Net cash from financing activities	<u>22,698</u>	<u>(3,808)</u>
Net change in cash and cash equivalents	(127)	(22,546)
Cash and cash equivalents at beginning of year	<u>10,308</u>	<u>32,854</u>
Cash and cash equivalents at end of year	<u>\$ 10,181</u>	<u>\$ 10,308</u>
Supplemental cash flow information:		
Cash paid during year for interest	\$ 1,786	\$ 1,322
Cash paid during year for income taxes	2,605	1,825

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Truxton Corporation and its wholly owned subsidiaries, Truxton Trust Company and Truxton Risk Management, together referred to as “the Corporation.” Intercompany transactions and balances are eliminated in consolidation.

Truxton Trust Company, referred to as “the Bank”, represents substantially all the operations in the consolidated financial statements and it provides a variety of banking, investment management and trust administration services to individuals, businesses and charitable institutions. Its primary deposit products are demand, money market and certificates of deposit and its primary lending products are residential and commercial real estate mortgages, commercial loans and loans to individuals.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through February 21, 2018, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, premises and equipment, and time deposits in other financial institutions.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Time Deposits in Other Financial Institutions: Time deposits in other financial institutions are carried at cost. These accounts are maintained at several financial institutions and are all within the insurance limits provided by the Federal Deposit Insurance Corporation “FDIC” and have maturities ranging from 2018 to 2022.

Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value with unrealized holding gains and losses reported in accumulated other comprehensive income (loss), net of tax.

Interest income includes net amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments except for collateralized mortgage obligations and mortgage-backed securities, where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment “OTTI” on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued, but not received, for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk: Most of the Corporation's business activity is with customers located within Nashville, Tennessee. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economy in the Nashville, Tennessee metropolitan area.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using historical loan loss experience of both the bank and the banking industry, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries if any, are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans that are collectively evaluated for impairment and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment and accordingly, they are not separately identified for impairment disclosures.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of the allowance on the loan in accordance with the accounting policy for the allowance for loan losses individually evaluated as impaired.

The historical loss experience used in management's analysis of the general component for the allowance for loan losses is determined by portfolio segment and is based on the average loss history experienced by the bank and banking industry over the most recent 3 year periods. The Corporation used the loss history of its peers, as it has experienced very few losses on its own during the entire history of the Corporation. Management evaluates 3 years of peer losses in order to align with what management expects normalized probable incurred losses to be for the Corporation. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The following portfolio segments have been identified:

- Commercial loans include loans for commercial, industrial or agricultural purposes to business enterprises that are not secured by real estate. These loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business and are generally secured by accounts receivable, inventory and equipment. The collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.
 - Commercial Real Estate loans include loans secured by non-residential real estate and improvements thereon. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions may affect the repayment ability of these loans.
 - Residential Real Estate loans include loans secured by residential real estate, including single-family and multi-family dwellings. Adverse economic conditions in the Corporation's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.
 - Construction and Land Development loans include loans to finance the process of improving properties preparatory to erecting new structures or the on-site construction of industrial, commercial, residential or farm buildings. Construction and land development loans also include loans secured by vacant land, except land known to be used or usable for agricultural purposes. Construction loans generally are made for relatively short terms. They generally are more vulnerable to changes in economic conditions. Furthermore, the nature of these loans is such that they are more difficult to evaluate and monitor. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost (including interest) of the project. Periodic site inspections are made on construction loans.
 - Consumer loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate.
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TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Leasehold improvements are amortized using the straight-line method over the shorter of the lease terms or the useful lives. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to five years.

Restricted Equity Securities: The Bank is a member of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems. Members are required to own a certain amount of stock based on the level of borrowings and on their level of equity and may invest in additional amounts. FHLB and FRB stock are carried at cost, classified as restricted equity securities and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Prepaid Long-term Compensation: The Corporation paid retention bonuses in cash to certain key employees. These cash bonuses are considered long-term compensation to be earned over a 36 to 60 month requisite service period. The amount of the contracts is earned pro rata by the employees and expensed pro rata by the Corporation over the contractual term of the agreements. In the event that the employee leaves during the life of the contract, the employee is obligated to repay the unearned amount. Prepaid long-term compensation amounts of \$185 and \$283 were included in other assets as of December 31, 2017 and 2016.

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Assets Under Management: Assets held in fiduciary or agency capacities are not included in the consolidated balance sheets since such items are not assets of the Corporation.

Wealth Management Services Income Recognition: Income from Wealth Management Services is calculated by multiplying each investment management account's market value, determined on a specific date each month, by a static or tiered percentage, according to the investment management agreement. The income resulting from Wealth Management Services accounts is recognized monthly.

Derivatives: The Corporation has entered into derivative contracts designated as a hedge of fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. Changes in fair values of derivatives that are not highly effective in hedging the changes in fair value of the hedged item are recognized immediately in current earnings. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value hedge's to specific assets and liabilities on the balance sheet. The Corporation also formally assesses, both at the hedges inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values of hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in fair value of the hedged item, the derivative is settled or terminates, or the treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized, on a straight-line basis over the requisite service period for the entire award generally defined as the vesting period.

Retirement Plans: Employee 401(k) benefit plan expense is the amount of matching contributions for the period.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which are also recognized as separate components of shareholders' equity.

Income Taxes: Income tax expense or benefit is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

On December 22, 2017, the United States government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Act). The Act makes changes to the United States tax code, including, but not limited to the reduction of the United States federal corporate tax rate from 35 percent to 21 percent.

As a result of the reduction in the corporate tax rate, there was an adjustment to the Company's net deferred tax asset, which was recorded through income tax expense. We have recorded a discrete tax expense of \$164 related to the corporate rate reduction as of December 31, 2017.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share: Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share include the dilutive effect of additional potential common shares issuable under stock options.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank is required to meet regulatory reserve and clearing requirements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Off Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded as loans when they are funded.

Adoption of New Accounting Standards and Newly Issued Not Yet Effective Accounting Standards:

ASU 2014-09, Revenue From Contracts With Customers (Topic 606):

In May 2014 the FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer.

These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Corporation will adopt the new standard on January 1, 2018.

The amendments should be applied retrospectively to all periods presented or retrospectively with the cumulative effect recognized at the date of initial application. The adoption of this standard is not expected to have a material effect on the Corporation's operating results or financial condition.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASU 2016-02, Leases (Topic 842)

In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Corporation plans to adopt the new guidance on January 1, 2019.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

The Corporation is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326)

In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

Transition:

- For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively.
- Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

The standard will be effective for fiscal years beginning after Dec. 15, 2020, including interim periods within those fiscal years. For calendar year-end PBEs that are not SEC filers, it is effective for March 31, 2021 Interim Financial Statements.

The Corporation is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 2 - SECURITIES

The following table summarizes the amortized cost and fair value of the available for sale securities portfolio at December 31, 2017 and 2016 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

<u>2017</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available for sale				
US government sponsored entities and agencies	\$ 3,007	\$ -	\$ (21)	\$ 2,986
Corporate bonds	12,059	32	(62)	12,029
State and political subdivisions	38,985	338	(96)	39,227
Collateralized mortgage obligations	12,914	27	(82)	12,859
Mortgage-backed securities: residential	21,124	14	(207)	20,931
Mortgage-backed securities: commercial	<u>21,278</u>	<u>104</u>	<u>(119)</u>	<u>21,263</u>
Total available for sale	<u>\$ 109,367</u>	<u>\$ 515</u>	<u>\$ (587)</u>	<u>\$ 109,295</u>
<u>2016</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available for sale				
Corporate bonds	\$ 10,042	\$ 40	\$ (65)	\$ 10,017
State and political subdivisions	25,559	329	(298)	25,590
Collateralized mortgage obligations	7,591	31	(76)	7,546
Mortgage-backed securities: residential	18,941	17	(231)	18,727
Mortgage-backed securities: commercial	<u>17,058</u>	<u>124</u>	<u>(74)</u>	<u>17,108</u>
Total available for sale	<u>\$ 79,191</u>	<u>\$ 541</u>	<u>\$ (744)</u>	<u>\$ 78,988</u>

Sales of available for sale securities were as follows for the years ending December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Proceeds	\$ 13,588	\$ 19,887
Gross gains	33	180
Gross losses	(222)	(95)

Securities pledged at year-end 2017 and 2016 had carry value of \$6,982 and \$8,036, and were pledged to secure public deposits. The Corporation had no holdings of securities of any one issuer, other than the U.S. government sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 2 – SECURITIES (Continued)

The amortized cost and fair value of the investment securities portfolio are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	December 31, 2017	
	Amortized Cost	Fair Value
Within one year	\$ 500	\$ 500
One to five years	13,589	13,563
Five to ten years	13,629	13,777
Beyond ten years	26,333	26,402
Collateralized mortgage obligations	12,914	12,859
Mortgage-backed securities: residential	21,124	20,931
Mortgage-backed securities: commercial	21,278	21,263
Total	\$ 109,367	\$ 109,295

The following table summarizes the investment securities with unrealized losses at December 31, 2017 and 2016 aggregated by major security type and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2017						
Available for sale						
US government sponsored entities and agencies	\$ 2,986	\$ (21)	\$ -	\$ -	\$ 2,986	\$ (21)
Corporate bonds	6,796	(50)	672	(12)	7,468	(62)
State and political subdivisions	9,615	(45)	2,330	(51)	11,945	(96)
Collateralized mortgage obligation	6,264	(48)	1,796	(34)	8,060	(82)
Mortgage-backed securities: residential	13,287	(132)	3,984	(75)	17,271	(207)
Mortgage-backed securities: commercial	10,174	(78)	2,194	(41)	12,368	(119)
Total available for sale	\$ 49,122	\$ (374)	\$ 10,976	\$ (213)	\$ 60,098	\$ (587)
December 31, 2016						
Available for sale						
Corporate bonds	\$ 5,802	\$ (60)	\$ 680	\$ (5)	\$ 6,482	\$ (65)
State and political subdivisions	10,988	(298)	-	-	10,988	(298)
Collateralized mortgage obligation	5,595	(76)	-	-	5,595	(76)
Mortgage-backed securities: residential	15,790	(215)	1,547	(16)	17,337	(231)
Mortgage-backed securities: commercial	5,689	(71)	1,507	(3)	7,196	(74)
Total available for sale	\$ 43,864	\$ (720)	\$ 3,734	\$ (24)	\$ 47,598	\$ (744)

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 2 – SECURITIES (Continued)

Unrealized losses on securities have not been recognized into income because the issuers are of high credit quality, management does not intend to sell and it is more likely than not that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates instead of credit quality. The fair value is expected to recover as the securities approach their maturity dates and/or market rates change. As a result, the Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2017.

Restricted equity securities consist of securities which are restricted as to transferability. These securities are recorded at cost. Restricted equity securities consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Federal Home Loan Bank stock	\$ 1,852	\$ 1,852
Federal Reserve Bank stock	<u>704</u>	<u>691</u>
	<u>\$ 2,556</u>	<u>\$ 2,543</u>

NOTE 3 - LOANS

Loans at year end were as follows:

	<u>2017</u>	<u>2016</u>
Commercial	\$ 29,590	\$ 28,721
Commercial real estate	118,467	107,033
Residential real estate:		
Closed-end	64,388	61,551
Open-end	44,095	40,816
Construction and land development:		
Owner occupied	4,492	3,301
Development	14,411	19,429
Consumer	<u>17,857</u>	<u>27,380</u>
Subtotal	293,300	288,231
Net deferred loan fees	<u>(183)</u>	<u>(135)</u>
Gross loans	<u>\$ 293,117</u>	<u>\$ 288,096</u>

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2017 and 2016:

<u>December 31, 2017</u>	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Construction and Land Development</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:							
Beginning balance	\$ 205	\$ 1,317	\$ 935	\$ 287	\$ 254	\$ -	\$ 2,998
Provision (credit) for loan losses	153	310	(241)	(52)	(114)	19	75
Loans charged-off	-	-	-	-	-	-	-
Recoveries	-	-	1	-	-	-	1
Total ending allowance balance	<u>\$ 358</u>	<u>\$ 1,627</u>	<u>\$ 695</u>	<u>\$ 235</u>	<u>\$ 140</u>	<u>\$ 19</u>	<u>\$ 3,074</u>
<u>December 31, 2016</u>							
Allowance for loan losses:							
Beginning balance	\$ 183	\$ 998	\$ 1,138	\$ 270	\$ 165	\$ -	\$ 2,754
Provision (credit) for loan losses	22	319	(199)	17	89	-	248
Loans charged-off	-	-	(5)	-	-	-	(5)
Recoveries	-	-	1	-	-	-	1
Total ending allowance balance	<u>\$ 205</u>	<u>\$ 1,317</u>	<u>\$ 935</u>	<u>\$ 287</u>	<u>\$ 254</u>	<u>\$ -</u>	<u>\$ 2,998</u>

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (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. The recorded investment amounts do not include accrued and unpaid interest or any net deferred loan fees or costs due to immateriality.

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Construction and Land Development</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
<u>December 31, 2017</u>							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ -	\$ 14	\$ -	\$ -	\$ -	\$ 14
Collectively evaluated for impairment	<u>358</u>	<u>1,627</u>	<u>681</u>	<u>235</u>	<u>140</u>	<u>19</u>	<u>3,060</u>
Total ending allowance balance	<u>\$ 358</u>	<u>\$ 1,627</u>	<u>\$ 695</u>	<u>\$ 235</u>	<u>\$ 140</u>	<u>\$ -</u>	<u>\$ 3,074</u>
Loans:							
Individually evaluated for impairment	\$ -	\$ 125	\$ 428	\$ 470	\$ -	\$ -	\$ 1,023
Collectively evaluated for impairment	<u>29,590</u>	<u>118,342</u>	<u>108,055</u>	<u>18,433</u>	<u>17,857</u>	<u>-</u>	<u>292,277</u>
Total ending loans balance	<u>\$ 29,590</u>	<u>\$ 118,467</u>	<u>\$ 108,483</u>	<u>\$ 18,903</u>	<u>\$ 17,857</u>	<u>\$ -</u>	<u>\$ 293,300</u>
<u>December 31, 2016</u>							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ -	\$ 10	\$ -	\$ -	\$ -	\$ 10
Collectively evaluated for impairment	<u>205</u>	<u>1,317</u>	<u>925</u>	<u>287</u>	<u>254</u>	<u>-</u>	<u>2,988</u>
Total ending allowance balance	<u>\$ 205</u>	<u>\$ 1,317</u>	<u>\$ 935</u>	<u>\$ 287</u>	<u>\$ 254</u>	<u>\$ -</u>	<u>\$ 2,998</u>
Loans:							
Individually evaluated for impairment	\$ -	\$ 787	\$ 357	\$ -	\$ -	\$ -	\$ 1,144
Collectively evaluated for impairment	<u>28,721</u>	<u>106,246</u>	<u>102,010</u>	<u>22,730</u>	<u>27,380</u>	<u>-</u>	<u>287,087</u>
Total ending loans balance	<u>\$ 28,721</u>	<u>\$ 107,033</u>	<u>\$ 102,367</u>	<u>\$ 22,730</u>	<u>\$ 27,380</u>	<u>\$ -</u>	<u>\$ 288,231</u>

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

As of December 31, 2017 and 2016, the Corporation has a recorded investment in troubled debt restructurings of \$796 and \$990. The Corporation has allocated no specific reserves for those loans at December 31, 2017 and 2016.

The modifications in terms associated with troubled debt restructurings that occurred in 2017 included the reduction of near-term interest and/or principal payments as a concession to borrowers experiencing financial stress. These loans are well secured by residential and commercial real estate.

The troubled debt restructurings described above had no impact on the allowance for loan losses or charge offs during the year ending December 31, 2017.

	Number Of <u>Loans</u>	Pre-Modification Outstanding Recorded <u>Investment</u>	Post-Modification Outstanding Recorded <u>Investment</u>
<u>December 31, 2017</u>			
Troubled debt restructurings:			
Commercial	1	\$ 125	\$ 125
Residential real estate:			
Closed-end	2	201	201
Construction and land development Development	<u>1</u>	<u>470</u>	<u>470</u>
Total	<u>4</u>	<u>\$ 796</u>	<u>\$ 796</u>
	Number Of <u>Loans</u>	Pre-Modification Outstanding Recorded <u>Investment</u>	Post-Modification Outstanding Recorded <u>Investment</u>
<u>December 31, 2016</u>			
Troubled debt restructurings			
Commercial	2	\$ 787	\$ 787
Residential real estate:			
Closed-end	<u>2</u>	<u>203</u>	<u>203</u>
Total	<u>4</u>	<u>\$ 990</u>	<u>\$ 990</u>

There were no loans that were modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2017 and 2016.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2017 and 2016:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Cash Basis Interest Recognized</u>
<u>December 31, 2017</u>						
With no related allowance recorded:						
Commercial real estate:	\$ 125	\$ 125	\$ -	\$ 136	\$ 6	\$ 6
Residential real estate:						
Closed-end	201	201	-	202	9	9
Construction and land development Development	470	470	-	491	22	22
With an allowance recorded:						
Residential real estate:						
Closed-end	<u>227</u>	<u>227</u>	<u>14</u>	<u>236</u>	<u>4</u>	<u>4</u>
Total	<u>\$ 1,023</u>	<u>\$ 1,023</u>	<u>\$ 14</u>	<u>\$ 1,065</u>	<u>\$ 41</u>	<u>\$ 41</u>
<u>December 31, 2016</u>						
With no related allowance recorded:						
Commercial real estate:	\$ 787	\$ 787	\$ -	\$ 787	\$ 36	\$ 36
Residential real estate:						
Closed-end	203	203	-	205	10	10
With an allowance recorded:						
Residential real estate:						
Closed-end	<u>154</u>	<u>154</u>	<u>10</u>	<u>173</u>	<u>5</u>	<u>5</u>
Total	<u>\$ 1,144</u>	<u>\$ 1,144</u>	<u>\$ 10</u>	<u>\$ 1,165</u>	<u>\$ 51</u>	<u>\$ 51</u>

For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

There were no loans past due over 90 days and still accruing as of December 31, 2017 and 2016.

There were no commercial loans on non-accrual as of December 31, 2017 and \$787 loans on non-accrual as of December 31, 2016.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2017 and 2016 by class of loans:

<u>December 31, 2017</u>	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>Greater than 89 Days Past Due</u>	<u>Total Past Due</u>	<u>Loans Not Past Due</u>	<u>Total</u>
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 29,590	\$ 29,590
Commercial real estate	-	-	-	-	118,467	118,467
Residential real estate:						
Closed-end	7	3	-	10	64,378	64,388
Open-end	-	-	-	-	44,095	44,095
Construction and land Development:						
Owner occupied Development	-	-	-	-	4,492	4,492
	-	-	-	-	14,411	14,411
Consumer	-	-	-	-	17,857	17,857
Total	<u>\$ 7</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 293,290</u>	<u>\$ 293,300</u>

December 31, 2016

Commercial	\$ -	\$ -	\$ -	\$ -	\$ 28,721	\$ 28,721
Commercial real estate	-	-	-	-	107,033	107,033
Residential real estate:						
Closed-end	8	-	-	8	61,543	61,551
Open-end	-	-	-	-	40,816	40,816
Construction and land Development:						
Owner occupied Development	-	-	-	-	3,301	3,301
	-	-	-	-	19,429	19,429
Consumer	-	-	-	-	27,380	27,380
Total	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ 288,223</u>	<u>\$ 288,231</u>

Credit Quality Indicators:

The Corporation 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 Corporation periodically analyzes loans individually by classifying the loans as to credit risk. The Corporation uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above 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, based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
<u>December 31, 2017</u>				
Commercial	\$ 29,590	\$ -	\$ -	\$ -
Commercial real estate	118,467	-	-	-
Residential real estate:				
Closed-end	64,388	-	-	-
Open-end	42,005	2,090	-	-
Construction and land development:				
Owner occupied	4,492	-	-	-
Development	14,411	-	-	-
Consumer	<u>17,857</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 291,210</u>	<u>\$ 2,090</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>December 31, 2016</u>				
Commercial	\$ 27,934	\$ -	\$ 787	\$ -
Commercial real estate	107,033	-	-	-
Residential real estate:				
Closed-end	61,551	-	-	-
Open-end	38,727	2,089	-	-
Construction and land development:				
Owner occupied	3,301	-	-	-
Development	19,429	-	-	-
Consumer	<u>27,380</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 285,355</u>	<u>\$ 2,089</u>	<u>\$ 787</u>	<u>\$ -</u>

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

NOTE 4 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 1,124	\$ 915
Furniture, fixtures and equipment	1,004	857
Computer software	<u>1,055</u>	<u>1,075</u>
	3,183	2,847
Less: Accumulated depreciation and amortization	<u>(2,452)</u>	<u>(2,030)</u>
Net premises and equipment	<u>\$ 731</u>	<u>\$ 817</u>

Depreciation and amortization expense totaled \$442 and \$392 for 2017 and 2016, respectively.

The Corporation's main office facility is subject to a six-year lease, terminating June 1, 2018. The lease agreement includes one renewal option of three years. The Corporation's second office facility is subject to a two year lease, terminating on June 1, 2018. The lease agreement includes one renewal option of two years. Total rent expense for 2017 and 2016 was \$406 and \$397.

Rent commitments for office facilities under non-cancelable operating leases were as follows, before considering renewal options that are present.

2018	\$ 166
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The Corporation had operating leases for property and equipment that have non-cancelable lease commitments as follows:

2018	\$ 59
2019	41
2020	11

These leases have terms of three or five years and resulted in lease expense of \$107 and \$111 for the years ending December 31, 2017 and 2016.

NOTE 5 - DEPOSITS

Scheduled maturities of time deposits, included in interest bearing deposits, for the next five years were as follows:

2018	\$ 8,766
2019	1,926
2020	788
2021	678
2022	254

Time deposits that meet or exceed the FDIC Insurance limit of \$250 at December 31, 2017 and 2016 were \$3,044 and \$8,040.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2017 and 2016, advances from the FHLB were as follows:

For 2017, interest rates ranged from 1.00% to 2.36%, averaging 1.662% with maturities between January 12, 2018 and June 1, 2028. \$ 20,198

For 2016, interest rates ranged from .64% to 1.77%, averaging 1.24% with maturities between January 6, 2017 and June 1, 2028. \$ 20,522

The advances are subject to penalties if repaid before scheduled payments are due. The Bank's outstanding borrowings from the FHLB are secured by a blanket pledge agreement of 150% of 1-4 family loans, first lien mortgage loans. The Bank has approximately \$41,458 of 1-4 family, first mortgage loans and \$28,268 of home equity mortgage loans available to pledge under the blanket pledge arrangement dated March 16, 2006. Based on the collateral and the Corporation's holdings of FHLB Stock, the Bank is eligible to borrow additional advances of approximately \$29,431 as of December 31, 2017.

Payments over the next five years are as follows:

2018		\$ 2,252
2019		3,084
2020		2,985
2021		6,148
2022		4,039
Thereafter		1,690

NOTE 7 - INCOME TAXES

Income tax expense was as follows:

	<u>2017</u>	<u>2016</u>
Current expense		
Federal	\$ 2,151	\$ 1,978
State	<u>9</u>	<u>30</u>
Total current	2,160	2,008
Deferred expense (benefit)		
Federal	235	131
State	<u>18</u>	<u>25</u>
Total deferred	<u>253</u>	<u>156</u>
Expense due to enactment of federal tax reform	164	-
Total	<u>\$ 2,577</u>	<u>\$ 2,164</u>

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 7 - INCOME TAXES (Continued)

Effective tax rates differ from federal statutory rate of 34% applied to income before income taxes due to the following:

	<u>2017</u>	<u>2016</u>
Federal statutory rate times financial statement income	\$ 2,977	\$ 2,607
Effect of:		
State taxes, net of federal benefit	18	36
Tax exempt interest income	(285)	(273)
Bank owned life insurance income	(79)	(83)
Captive insurance premiums and disallowances	(246)	(135)
Federal rate change impact	164	-
Other, net	<u>28</u>	<u>12</u>
 Total income tax expense	 <u>\$ 2,577</u>	 <u>\$ 2,164</u>

Year-end deferred tax assets and liabilities were due to the following:

	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Allowance for loan losses	\$ 780	\$ 1,115
Organizational and start-up expenditures	4	6
Loan origination income	103	139
Accrued bonus	-	391
Net unrealized loss on available for sale securities	19	78
Other	<u>36</u>	<u>51</u>
Total deferred tax assets	942	1,780
 Deferred tax liabilities:		
Prepaid expenses	(169)	(269)
Stock based compensation expense	(218)	(378)
Restricted equity stock dividends	(7)	(10)
Loan origination expenses	(55)	(87)
Depreciation	<u>(130)</u>	<u>(206)</u>
 Total deferred tax liabilities	 <u>(579)</u>	 <u>(950)</u>
 Deferred tax asset, net	 <u>\$ 363</u>	 <u>\$ 830</u>

The Corporation does not have any uncertain tax positions and has minimal interest and penalties recorded or accrued in the consolidated financial statements for the years ended December 31, 2017 and 2016. The Corporation and its subsidiary are subject to U.S. federal income tax as well as income tax of the states of Georgia and Tennessee. The Corporation is no longer subject to examination by taxing authorities for years before 2014.

The Corporation's balance sheet tax accounts have been adjusted to reflect the effects of federal tax reform enacted on December 22, 2017 in the form of H.R. 1, commonly known as the *Tax Cuts and Jobs Act*. The primary impact to the Corporation was the re-measurement of federal deferred tax assets and liabilities from 34% to 21%.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 8 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors and their affiliates at December 31, 2017 and 2016 totaled \$5,159 and \$5,548, respectively.

Deposits from principal officers, directors and their affiliates at December 31, 2017 and 2016 totaled \$1,335 and \$1,354, respectively.

Wealth management fees earned from assets under management for principal officers, directors and their affiliates at December 31, 2017 and 2016 totaled \$372 and \$311, respectively.

NOTE 9 - REGULATORY CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance of all the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2017 is 1.25%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2017, the Bank met all capital adequacy requirements to which it is subject. Bank holding companies under \$1 billion in assets are not required to report regulatory capital ratios.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2017 and 2016, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 9 - REGULATORY CAPITAL MATTERS (Continued)

Actual and required capital amounts and ratios for the Bank are presented below as of December 31, 2017 and 2016. The capital conservation buffer is not included in the required ratios of the table presented below.

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2017</u>						
Total Capital to risk weighted assets	\$ 49,853	15.62%	\$ 25,531	8.00%	\$ 31,914	10.00%
Tier 1 (Core) Capital to risk weighted assets	46,780	14.66%	19,148	6.00%	25,531	8.00%
Common Tier 1 (CET1)	46,780	14.66%	14,361	4.50%	20,744	6.50%
Tier 1 (Core) Capital to average assets	46,780	10.54%	17,746	4.00%	22,183	5.00%
<u>2016</u>						
Total Capital to risk weighted assets	\$ 45,937	14.80%	\$ 24,839	8.00%	\$ 31,049	10.00%
Tier 1 (Core) Capital to risk weighted assets	42,939	13.83%	18,629	6.00%	24,839	8.00%
Common Tier 1 (CET1)	42,939	13.83%	13,972	4.50%	20,182	6.50%
Tier 1 (Core) Capital to average assets	42,939	10.50%	16,357	4.00%	20,447	5.00%

Dividend Restrictions - The Corporation's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2018, the Bank could, without prior approval, declare dividends of approximately \$6,585 plus any 2018 net profits retained to date of declaration.

NOTE 10 - OFF-BALANCE SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, and letters of credit, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others as long as conditions established in the contract are met. In addition, these agreements usually have expiration dates, and the commitments may expire without being used.

Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at the exercise of the commitment. The majority of the Corporation's commitments to extend credit have maturities of less than one year and reflect the prevailing market interest rates at the time of the commitment.

The contractual amount of financial instruments with off-balance sheet risk was as follows at December 31:

	<u>2017</u>	<u>2016</u>
Letters of Credit	\$ 4,300	\$ 3,397
Unused Lines of Credit	75,083	68,501

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 11 - STOCK BASED COMPENSATION PLAN

Total stock based compensation expense in 2017 and 2016 was \$464 and \$407, respectively. Related to the 2017 and 2016 restricted stock grants, some employees made an election, in accordance with Section 83(b) of the Internal Revenue Code, to have the fair value of the awards taxable immediately. In connection with the election, the Corporation allowed the employees to forfeit shares to cover the related personal tax obligation. During 2017 employees forfeited 1,230 shares with a total fair value of \$39. During 2016 employees forfeited 4,652 shares with a total fair value of \$116. These amounts were recorded in salaries and employee benefits on the Corporation's consolidated statements of income in 2017 and 2016.

The Corporation's 2008 Equity Incentive Plan as modified in 2015 provides for the grant of stock options, restricted stock and other equity based incentives up to 900,000 shares. As of December 31, 2017, the Corporation had issued grants totaling 752,172 shares under the 2008 Equity Incentive Plan and its predecessor, the 2004 Employee Share Option Plan.

Stock Option Grants

Option awards are granted with an exercise price equal to the market price of the Corporation's common stock at the date of grant. Option awards have vesting periods of one to six years and have 10-year contractual terms. The Corporation uses newly-issued shares to satisfy share option exercises.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical trading of the shares of Truxton Corporation common stock for 2017 and 2016. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding taking into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

During 2017, the Corporation issued incentive stock options to outside directors and certain employees for the purchase of 10,000 shares of common stock. During 2016, the Corporation issued non-qualified and incentive stock options to outside directors and certain employees for the purchase of 7,824 shares and 6,000 shares of common stock, respectively. The fair value of options granted in 2017 and 2016 was determined using the following assumptions as of grant date:

	<u>2017</u>	<u>2016</u>
Risk-free interest rate	2.15%	2.15%
Expected term	6.1 years	6 years
Expected stock price volatility	28.16%	20.55%
Dividend yield	2.50%	2.50%

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands except share and per share amounts)

NOTE 11 - STOCK BASED COMPENSATION PLAN (Continued)

A summary of the stock option activity for 2017 follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	142,794	\$ 19.33	7.3	
Granted	10,000	31.30		
Forfeited	(1,500)	29.00		
Exercised	<u>(2,750)</u>	13.76		
Outstanding at end of year	<u>148,544</u>	20.14	6.6	\$ 1,911
Vested or expected to vest	148,544	20.14	6.6	1,911
Exercisable at end of year	<u>102,056</u>	19.09	6.3	1,419

Information related to stock options during each year follows:

	<u>2017</u>	<u>2016</u>
Intrinsic value of options exercised	\$ 53	\$ 96
Cash received from option exercises	38	137
Weighted average fair value of options granted	9.99	4.90

There was a total of \$94 in unrecognized compensation cost related to non-vested stock options granted under the Plan as of December 31, 2017. The cost is expected to be recognized over a weighted-average period of 2.0 years.

Restricted Stock Grants

In 2017 and 2016, the Corporation issued 32,887 and 26,556 restricted shares of common stock. Compensation expense is recognized over the vesting period of the awards based on the value of the stock at issue date. The fair value of the stock was determined by current stock trade activity. These shares vest in 20% increments through 2022.

A summary of the changes in the Corporation's non-vested shares for the year follows:

<u>Non-vested shares</u>	<u>Shares</u>	<u>Weighted- Average Grant-Date Fair Value</u>
Non-vested at January 1, 2017	61,799	\$ 20.11
Granted	32,887	32.00
Vested	(20,565)	17.84
Forfeited or expired	<u>(5,642)</u>	<u>27.42</u>
Non-vested at December 31, 2017	<u>68,479</u>	<u>\$ 26.03</u>

As of December 31, 2017, there was \$1,459 of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.4 years.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 12 - DERIVATIVES

The Corporation utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Fair Value Hedge

The following table reflects the fair value hedges included in the Consolidated Statements of Net Income as of December 31:

<u>Interest rate contracts</u>	<u>Location</u>	<u>2017</u>	<u>2016</u>
Change in fair value on interest rate swaps hedging loans	Loan interest income	\$ 16	\$ 426
Change in fair value on loans – hedged item	Loan interest income	\$ 45	\$ (382)

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

<u>Included in other assets:</u>	<u>2017</u>		<u>2016</u>	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps related to loans	\$ 12,057	\$ 478	\$ 12,312	\$ 462

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available “Level 1”. For securities where quoted prices are not available, fair values are calculated using a matrix pricing model, which is based on market prices of similar securities “Level 2”. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, which values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark securities.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Derivatives: The fair value of the derivatives is based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, prepayment rates, and volatility factors to value the position. The majority of the market inputs is actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at Using:</u>		
	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
<u>December 31, 2017</u>			
Financial assets:			
Investment securities available for sale			
U.S. government sponsored entities and agencies	\$ 2,986	\$ -	\$ 2,986
Corporate bonds	12,029	-	12,029
State and political subdivisions	39,227	-	39,227
Collateralized mortgage obligations	12,859	-	12,859
Mortgage backed securities: residential	20,931	-	20,931
Mortgage backed securities: commercial	21,263	-	21,263
Total investment securities available for sale	<u>\$ 109,295</u>	<u>\$ -</u>	<u>\$ 109,295</u>
Derivatives – Interest Rate Swap	<u>\$ 478</u>	<u>\$ -</u>	<u>\$ 478</u>

	<u>Fair Value Measurements at Using:</u>		
	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
<u>December 31, 2016</u>			
Financial assets:			
Investment securities available for sale			
Corporate bonds	\$ 10,017	\$ -	\$ 10,017
State and political subdivisions	25,590	-	25,590
Collateralized mortgage obligations	7,546	-	7,546
Mortgage backed securities: residential	18,727	-	18,727
Mortgage backed securities: commercial	17,108	-	17,108
Total investment securities available for sale	<u>\$ 78,988</u>	<u>\$ -</u>	<u>\$ 78,988</u>
Derivatives – Interest Rate Swap	<u>\$ 462</u>	<u>\$ -</u>	<u>\$ 462</u>

There were no transfers between Level 1 and Level 2 during 2017 or 2016.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of financial instruments, at December 31, 2017 and December 31, 2016 are as follows:

	Fair Value Measurements Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total
<u>December 31, 2017</u>					
Financial assets					
Cash and cash equivalents	\$ 10,181	\$ 10,181	\$ -	\$ -	\$ 10,181
Time deposits in other financial institutions	11,544	-	11,544	-	11,544
Securities available-for-sale	109,295	-	109,295	-	109,295
Restricted equity securities	2,556	NA	NA	NA	NA
Loans, net	290,043	-	-	290,277	290,277
Accrued interest receivable	1,444	-	672	772	1,444
Financial liabilities					
Deposits	\$ 362,955	\$ -	\$ 362,801	\$ -	\$ 362,801
Federal Home Loan Bank advances	20,198	-	20,796	-	20,796
Accrued interest payable	8	8	-	-	8
<u>December 31, 2016</u>					
Financial assets					
Cash and cash equivalents	\$ 10,308	\$ 10,308	\$ -	\$ -	\$ 10,308
Time deposits in other financial institutions	16,628	-	16,628	-	16,628
Securities available-for-sale	78,988	-	78,988	-	78,988
Restricted equity securities	2,543	N/A	N/A	N/A	N/A
Loans, net	285,098	-	-	284,653	284,653
Accrued interest receivable	1,261	-	438	823	1,261
Financial liabilities					
Deposits	\$ 338,931	\$ -	\$ 338,757	\$ -	\$ 338,757
Federal Home Loan Bank advances	20,522	-	20,089	-	20,089
Accrued interest payable	8	8	-	-	8

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

The carrying amount of cash and cash equivalents approximates fair values and are classified as Level 1. Time deposits in other financial institutions have infrequent repricing or repricing limits and their fair value is based on discounted cash flows using current market rates applied to the estimated life and are classified as Level 2. It is not practical to determine the fair value of restricted equity securities due to the restrictions placed on its transferability. For variable rate loans, that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flows, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price. The fair values disclosed for demand deposits are by definition, equal to the amount payable on demand at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification. The fair values of the Bank's Federal Home Loan Bank advances are estimated using discounted cash flows based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification. The carrying amounts of accrued interest approximate fair value resulting in Level 2 or 3 classifications.

TRUXTON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

(Dollars in thousands except share and per share amounts)

NOTE 14 - OTHER BENEFIT PLANS

The Corporation has a 401(k) benefit plan that covers all employees who meet certain eligibility requirements and choose to participate in the plan. The plan allows employee contributions up to the federal limits, which are matched 100% for the first 3% of compensation contributed and then 50% of the next 2% of compensation contributed beginning on the first day of the calendar quarter following the employee's one year anniversary. The 401(k) benefit plan expense for 2017 and 2016 was \$213 and \$196, respectively.

NOTE 15 – EARNINGS PER SHARE

Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share available to common shareholders reflects the potential dilution that could occur if stock options to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The factors used in the earnings per share computation follows:

	<u>2017</u>	<u>2016</u>
Basic		
Net income	\$ 6,178	\$ 5,505
Less: Undistributed income allocated to participating securities	<u>151</u>	<u>135</u>
Net earnings allocated to common stock	<u>\$ 6,027</u>	<u>\$ 5,370</u>
Weighted common shares outstanding including participating securities	2,657,865	2,637,214
Less: Participating securities	<u>65,139</u>	<u>64,856</u>
Weighted average shares	<u>2,592,726</u>	<u>2,572,358</u>
Basic earnings per share	<u>\$ 2.32</u>	<u>\$ 2.09</u>
Diluted earnings allocated to common stock	<u>\$ 6,027</u>	<u>\$ 5,370</u>
Weighted average shares	2,592,726	2,572,358
Add: Diluted effects of assumed exercises of stock options and warrants	<u>52,592</u>	<u>39,058</u>
Average shares and dilutive potential common shares	<u>2,645,318</u>	<u>2,611,416</u>
Dilutive earnings per share	<u>\$ 2.28</u>	<u>\$ 2.06</u>

At year-end 2017, there were 9,500 stock options that were not considered in computing diluted earnings per common share for 2017, because they were antidilutive. At year-end 2016, there were 13,824 stock options that were not considered in computing diluted earnings per common share for 2016, because they were antidilutive.