SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017

[ ] Transition report under Section 13 or 15(d) of the Exchange Act.
For the transition period from ________ to _________

Commission file number 1-12053

SOUTHWEST GEORGIA FINANCIAL CORPORATION

(Exact Name Of Small Business Issuer as specified in its Charter)

Georgia	58-1392259
(State Or Other Jurisdiction Of Incorporation Or Organization)	(I.R.S. Employer Identification No.)

201 FIRST STREET, S.E., MOULTRIE, GEORGIA 31768
Address Of Principal Executive Offices

(229) 985-1120
Registrant's Telephone Number, Including Area Code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if smaller reporting company)
Accelerated filer [ ]	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding At August 2, 2017
Common Stock, $1 Par Value	2,547,437

SOUTHWEST GEORGIA FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2017

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SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2017 and December 31, 2016

	(Unaudited) June 30, 2017	(Audited) December 31, 2016
ASSETS		
Cash and due from banks	$ 8,008,852	$ 7,700,522
Interest-bearing deposits in other banks	8,085,963	18,819,394
Cash and cash equivalents	16,094,815	26,519,916
Certificates of deposit in other banks	1,985,000	0
Investment securities available for sale, at fair value	58,142,103	53,565,503
Investment securities held to maturity (fair value approximates $51,121,184 and $55,123,073)	50,220,759	54,602,535
Federal Home Loan Bank stock, at cost	1,904,700	1,874,200
Total investment securities	110,267,562	110,042,238
Loans	322,653,777	292,543,131
Less: Unearned income	(17,724)	(18,895)
Allowance for loan losses	(3,095,987)	(3,124,611)
Loans, net	319,540,066	289,399,625
Premises and equipment, net	11,399,587	11,209,285
Bank property held for sale	211,500	211,500
Foreclosed assets	0	126,713
Intangible assets	27,344	35,156
Bank owned life insurance	5,423,332	5,356,683
Other assets	5,355,730	5,600,114
Total assets	$ 470,304,936	$ 448,501,230
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
NOW accounts	$ 49,289,841	$ 47,420,335
Money Market	101,345,624	95,658,654
Savings	30,054,224	29,006,734
Certificates of deposit $100,000 and over	38,335,482	43,234,832
Other time accounts	38,768,445	39,524,168
Total interest-bearing deposits	257,793,616	254,844,723
Noninterest-bearing deposits	133,435,561	116,648,264
Total deposits	391,229,177	371,492,987
Short-term borrowed funds	8,447,619	8,447,619
Long-term debt	26,028,571	26,028,571
Other liabilities	4,284,563	4,109,719
Total liabilities	429,989,930	410,078,896
Stockholders' equity:		
Common stock - $1 par value, 5,000,000 shares authorized, 4,293,835 shares issued	4,293,835	4,293,835
Capital surplus	31,701,533	31,701,533
Retained earnings	31,911,703	30,333,410
Accumulated other comprehensive loss	(1,471,612)	(1,785,991)
Treasury stock, at cost 1,746,398 shares for 2017 and 2016	(26,120,453)	(26,120,453)
Total stockholders' equity	40,315,006	38,422,334
Total liabilities and stockholders' equity	$ 470,304,936	$ 448,501,230

SOUTHWEST GEORGIA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	(Unaudited) 2017	(Unaudited) 2016	(Unaudited) 2017	(Unaudited) 2016
Interest income:				
Interest and fees on loans	$ 4,040,964	$ 3,657,204	$ 7,826,046	$ 7,232,337
Interest on taxable securities available for sale	304,100	230,182	592,798	512,708
Interest on taxable securities held to maturity	33,638	44,808	70,580	95,323
Interest on tax exempt securities	315,859	315,048	631,878	631,304
Dividends	22,661	23,495	46,379	45,945
Interest on deposits in other banks	39,970	16,567	90,199	38,760
Interest on certificates of deposit in other banks	9,884	0	11,235	52
Total interest income	4,767,076	4,287,304	9,269,115	8,556,429
Interest expense:				
Interest on deposits	269,128	225,460	540,804	433,198
Interest on federal funds purchased	653	2	655	5
Interest on other short-term borrowings	26,392	24,260	52,494	47,578
Interest on long-term debt	139,399	144,269	277,266	288,539
Total interest expense	435,572	393,991	871,219	769,320
Net interest income	4,331,504	3,893,313	8,397,896	7,787,109
Provision for loan losses	75,000	40,000	150,000	70,000
Net interest income after provision for loan losses	4,256,504	3,853,313	8,247,896	7,717,109
Noninterest income:				
Service charges on deposit accounts	257,388	255,251	527,112	531,561
Income from trust services	55,021	51,165	109,433	103,263
Income from retail brokerage services	108,202	87,988	196,734	168,535
Income from insurance services	377,659	341,602	810,705	813,783
Income from mortgage banking services	66,614	92,144	138,969	182,665
Net loss on sale or disposition of assets	(10,148)	(953)	(9,782)	(587)
Net gain on sale of securities	42,604	83,961	166,815	111,867
Other income	203,102	185,698	443,682	412,217
Total noninterest income	1,100,442	1,096,856	2,383,668	2,323,304
Noninterest expense:				
Salaries and employee benefits	2,319,785	2,177,423	4,617,940	4,353,709
Occupancy expense	276,137	278,795	554,775	567,119
Equipment expense	212,523	228,285	417,954	450,158
Data processing expense	384,307	311,410	771,070	654,546
Amortization of intangible assets	3,906	3,906	7,812	7,813
Other operating expenses	771,599	680,303	1,499,423	1,375,034
Total noninterest expenses	3,968,257	3,680,122	7,868,974	7,408,379
Income before income taxes	1,388,689	1,270,047	2,762,590	2,632,034
Provision for income taxes	315,265	258,473	623,861	572,815
Net income	$ 1,073,424	$ 1,011,574	2,138,729	2,059,219
Earnings per share of common stock:				
Net income, basic	$ 0.42	$ 0.40	$ 0.84	$ 0.81
Net income, diluted	$ 0.42	$ 0.40	$ 0.84	$ 0.81
Dividends paid per share	$ 0.11	$ 0.10	$ 0.22	$ 0.20
Weighted average shares outstanding	2,547,437	2,547,837	2,547,437	2,547,837
Diluted average shares outstanding	2,547,437	2,547,837	2,547,437	2,547,837

SOUTHWEST GEORGIA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	(Unaudited) 2017	(Unaudited) 2016	(Unaudited) 2017	(Unaudited) 2016
Net income	$ 1,073,424	$ 1,011,574	$ 2,138,729	$ 2,059,219
Other comprehensive income:				
Unrealized holding gains on investment securities available for sale	373,399	486,743	643,147	1,444,571
Reclassification adjustment for gains realized in income	(42,604)	(83,961)	(166,814)	(86,982)
Less: Tax effect	112,470	136,946	161,953	461,581
Total other comprehensive income, net of tax	218,325	265,836	314,380	896,008
Total comprehensive income	$ 1,291,749	$ 1,277,410	$ 2,453,109	$ 2,955,227

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	(Unaudited) 2017	(Unaudited) 2016
Cash flows from operating activities:		
Net income	$ 2,138,729	$ 2,059,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	150,000	70,000
Depreciation	436,850	466,331
Net amortization of investment securities	204,656	118,534
Income on cash surrender value of bank owned life insurance	(66,649)	(63,029)
Amortization of intangibles	7,812	7,813
Loss on sale of foreclosed assets	8,892	0
Net gain on sale of securities	(166,815)	(111,867)
Net loss on disposal of other assets	1,622	1,319
Change in:		
Other assets	82,430	(306,107)
Other liabilities	174,844	163,421
Net cash provided by operating activities	2,972,371	2,405,634
Cash flows from investing activities:		
Proceeds from calls, paydowns and maturities of securities HTM	4,271,682	2,979,962
Proceeds from calls, paydowns and maturities of securities AFS	334,914	6,109,733
Proceeds from Federal Home Loan Bank Stock repurchase	0	127,500
Proceeds from sale of securities available for sale	2,676,211	10,384,181
Proceeds from sale of securities held to maturity	0	576,834
Proceeds from maturities of certificates of deposit in other banks	0	245,000
Purchase of securities held to maturity	0	(478,559)
Purchase of securities available for sale	(7,039,139)	(6,611,681)
Purchase of Federal Home Loan Bank Stock	(30,500)	(163,700)
Purchase of certificates of deposit in other banks	(1,985,000)	0
Net change in loans	(30,252,441)	(37,233,353)
Purchase of premises and equipment	(629,673)	(390,394)
Proceeds from sales of other assets	80,720	0
Net cash used by investing activities	(32,573,226)	(24,454,477)
Cash flows from financing activities:		
Net change in deposits	19,736,190	5,000,606
Cash dividends paid	(560,436)	(509,567)
Net cash provided by financing activities	19,175,754	4,491,039
Decrease in cash and cash equivalents	(10,425,101)	(17,557,804)
Cash and cash equivalents - beginning of period	26,519,916	31,080,273
Cash and cash equivalents - end of period	$ 16,094,815	$ 13,522,469
NONCASH ITEMS:		
Unrealized gain on securities available for sale	$ 476,333	$ 1,357,589
Sale of foreclosed properties through loans	$ 38,000	$ 0

SOUTHWEST GEORGIA FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

Southwest Georgia Financial Corporation (the "Corporation"), a bank-holding company organized under the laws of Georgia, provides deposit, lending, and other financial services to businesses and individuals primarily in the Southwest region of Georgia. The Corporation and its subsidiaries are subject to regulation by certain federal and state agencies.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles. The interim financial statements furnished reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. The interim consolidated financial statements should be read in conjunction with the Corporation's 2016 Annual Report on Form 10K.

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Southwest Georgia Financial Corporation (the “Corporation”) and its direct and indirect subsidiaries, including its wholly-owned banking subsidiary, Southwest Georgia Bank (the “Bank”), conform to U.S. generally accepted accounting principles (“GAAP”) and to general practices within the banking industry. The following is a description of the more significant of those policies.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its direct and indirect subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Nature of Operations

The Corporation offers comprehensive financial services to consumer, business, and governmental entity customers through its banking offices in southwest Georgia. Its primary deposit products are money market, NOW, savings and certificates of deposit, and its primary lending products are consumer and commercial mortgage loans. In addition to conventional banking services, the Corporation provides investment planning and management, trust management, mortgage banking, and commercial and individual insurance products. Insurance products and advice are provided by the Bank’s Southwest Georgia Insurance Services Division.

The Corporation’s primary business is providing banking services through the Bank to individuals and businesses principally in the counties of Colquitt, Baker, Worth, Lowndes and the surrounding counties of southwest Georgia. The Corporation has two full-service banking centers, a commercial banking center and a mortgage origination office in Valdosta, Georgia. The Corporation expanded its geographical footprint in to neighboring Tift County, Georgia, by opening a loan production office in January 2016.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with these evaluations, management obtains independent appraisals for significant properties.

A substantial portion of the Corporation’s loans are secured by real estate located primarily in Georgia. Accordingly, the ultimate collection of these loans is susceptible to changes in the real estate market conditions of this market area.

Cash and Cash Equivalents and Statement of Cash Flows

For purposes of reporting cash flows, the Corporation considers cash and cash equivalents to include all cash on hand, deposit amounts due from banks, interest-bearing deposits in other banks, and federal funds sold. The Corporation maintains its cash balances in several financial institutions. Accounts at the financial institutions are secured by the Federal Deposit Insurance Corporation (the "FDIC") up to $250,000. There were uninsured deposits of $760,324 at June 30, 2017.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value with unrealized gains and losses reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other-than-temporarily impaired are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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 Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation has been calculated primarily using the straight-line method for buildings and building improvements over the assets estimated useful lives. Equipment and furniture are depreciated using the modified accelerated recovery system method over the assets estimated useful lives for financial reporting and income tax purposes for assets purchased on or before December 31, 2003. For assets acquired after 2003, the Corporation used the straight-line method of depreciation. The following estimated useful lives are used for financial statement purposes:

Land improvements	5 – 31 years
Building and improvements	10 – 40 years
Machinery and equipment	5 – 10 years
Computer equipment	3 – 5 years
Office furniture and fixtures	5 – 10 years

All of the Corporation's leases are operating leases and are not capitalized as assets for financial reporting purposes. Maintenance and repairs are charged to expense and betterments are capitalized.

Long-lived assets are evaluated regularly for other-than-temporary impairment. If circumstances suggest that their value may be impaired and the write-down would be material, an assessment of recoverability is performed prior to any write-down of the asset. Impairment on intangibles is evaluated at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount should be assessed. Impairment, if any, is recognized through a valuation allowance with a corresponding charge recorded in the income statement.

Bank Property Held for Sale

During 2016, the Bank's former branch in Pavo, Georgia, was transferred from premises to bank property held for sale and depreciation was discontinued. The property was booked at the lower of cost or market value based on a current appraisal of $211,500. The Corporation has this property available for sale.

Loans and Allowances for Loan Losses

Loans are stated at principal amounts outstanding less unearned income and the allowance for loan losses. Interest income is credited to income based on the principal amount outstanding at the respective rate of interest except for interest on certain installment loans made on a discount basis which is recognized in a manner that results in a level-yield on the principal outstanding.

Accrual of interest income is discontinued on loans when, in the opinion of management, collection of such interest income becomes doubtful. Accrual of interest on such loans is resumed when, in management's judgment, the collection of interest and principal becomes probable.

Fees on loans and costs incurred in origination of most loans are recognized at the time the loan is placed on the books. Because loan fees are not significant, the results on operations are not materially different from the results which would be obtained by accounting for loan fees and costs as amortized over the term of the loan as an adjustment of the yield.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collection of the principal is unlikely. The allowance is an amount which management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible based on evaluation of the collectability of loans and prior loss experience. This evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolios, current economic conditions that may affect the borrowers' ability to pay, overall portfolio quality, and review of specific problem loans.

Management believes that 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 upon changes in economic conditions. Also, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Foreclosed Assets

In accordance with policy guidelines and regulations, properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the fair market value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. A valuation allowance is established to record market value changes in foreclosed assets. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Intangible Assets

Intangible assets are amortized over a determined useful life using the straight-line basis. These assets are evaluated annually as to the recoverability of the carrying value. The remaining intangibles have a remaining life of two years.

Credit Related Financial Instruments

In the ordinary course of business, the Corporation has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Retirement Plans

The Corporation and its direct and indirect subsidiaries have post-retirement plans covering substantially all employees. The Corporation makes annual contributions to the plans in amounts not exceeding the regulatory requirements.

Bank Owned Life Insurance

The Bank owns life insurance policies on a group of employees. Banking laws and regulations allow the Bank to purchase life insurance policies on certain employees in order to help offset the Bank's overall employee compensation costs. The beneficial aspects of these life insurance policies are tax-free earnings and a tax free death benefit, which are realized by the Bank as the owner of the policies. The cash surrender value of these policies is included as an asset on the balance sheet, and any increases in cash surrender value are recorded as noninterest income on the statement of income. At June 30, 2017, and December 31, 2016, the policies had a value of $5,423,332 and $5,356,683, respectively, and were 13.5% and 13.9%, respectively, of stockholders' equity. These values are within regulatory guidelines.

Income Taxes

The Corporation and its subsidiaries file a consolidated income tax return. Each subsidiary computes its income tax expense as if it filed an individual return except that it does not receive any portion of the surtax allocation. Any benefits or disadvantages of the consolidation are absorbed by the parent company. Each subsidiary pays its allocation of federal income taxes to the parent company or receives payment from the parent company to the extent that tax benefits are realized.

The Corporation reports income under the Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 740, Income Taxes, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Recognition of deferred tax assets is based on management's belief that it is more likely than not that the tax benefit associated with certain temporary differences and tax credits will be realized.

The Corporation will recognize a tax position as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with an examination being presumed to occur. The amount recognized is the largest amount of a tax benefit that is greater than fifty percent likely of being realized on examination. No benefit is recorded for tax positions that do not meet the more than likely than not test.

The Corporation recognizes penalties related to income tax matters in income tax expense. The Corporation is subject to U.S. federal and Georgia state income tax audit for returns for the tax period ending December 31, 2014 and subsequent years.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes all changes in stockholders' equity during a period, except those resulting from transactions with stockholders. Besides net income, other components of the Corporation's accumulated other comprehensive income (loss) includes the after tax effect of changes in the net unrealized gain/loss on securities available for sale and the unrealized gain/loss on pension plan benefits.

Trust Department

Trust income is included in the accompanying consolidated financial statements on the cash basis in accordance with established industry practices. Reporting of such fees on the accrual basis would have no material effect on reported income.

Advertising Costs

It is the policy of the Corporation to expense advertising costs as they are incurred. The Corporation does not engage in any direct-response advertising and accordingly has no advertising costs reported as assets on its balance sheet. Costs expensed were $27,333 and $80,143 for the three and six month periods ended June 30, 2017, respectively.

Recent Market and Regulatory Developments

The Corporation and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of 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 federal banking agencies about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum Tier 1 leverage, Tier 1 risk-based capital and Total risk-based capital ratios. In July 2013, the Board of Governors of the Federal Reserve System published the Basel III Capital Rules. These rules establish a comprehensive capital framework applicable to all depository institutions, certain bank holding companies with total consolidated assets below a certain threshold and all and savings and loan holding companies except for those that are substantially engaged in insurance underwriting or commercial activities. These rules implement higher minimum capital requirements for banks and certain bank holding companies, include a new common equity Tier 1 capital requirement and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital.

The Basel III Capital Rules became effective for the Bank on January 1, 2015, subject to a phase in period, but are not applicable to bank holding companies, like the Corporation, with less than $1 billion in total consolidated assets that meet certain criteria.

The minimum capital level requirements applicable to the Bank under the Basel III Capital Rules are: (i) a common equity Tier 1 risk-based capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a Total risk-based capital ratio of 8% (unchanged from the rules effective for the year ended December 31, 2014); and (iv) a Tier 1 leverage ratio of 4% for all institutions. Common equity Tier 1 capital will consist of retained earnings and common stock instruments, subject to certain adjustments.

The Basel III Capital Rules set forth changes in the methods of calculating certain risk-weighted assets, which in turn affect the calculation of risk-based ratios. The new risk weightings are more punitive for assets held by banks that are deemed to be of higher risk. These changes were also effective beginning January 1, 2015.

The Basel III Capital Rules also introduce a “capital conservation buffer,” which is in addition to each capital ratio and is phased-in over a three-year period beginning in January 2016.

As of June 30, 2017, the Bank is considered to be well-capitalized under the Basel III Capital Rules.

Recent Accounting Pronouncements

In May 2017, the FASB issued ASU No. 2017-09, *“Stock Compensation, Scope of Modification Accounting.”* This ASU clarifies when changes to the terms of conditions of a share-based payment award must be accounted for as modifications. Companies will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The new guidance should reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications, as the guidance will allow companies to make certain non-substantive changes to awards without accounting for them as modifications. It does not change the accounting for modifications. ASU No. 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017; early adoption is permitted. The adoption of ASU 2017-09 is not expected to have a material impact on the Corporation’s consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This ASU shortens the amortization period for certain callable debt securities held at a premium. The premium on individual callable debt securities shall be amortized to the earliest call date. This guidance does not apply to securities for which prepayments are estimated on a large number of similar loans where prepayments are probable and reasonable estimable. The amendments in this update are effective for fiscal years beginning December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. This update should be adopted on a modified retrospective basis with a cumulative effect adjustment to retained earnings on the date of adoption. The adoption of ASU 2017-08 is not expected to have a material impact on the Corporation’s consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The updated accounting guidance requires changes to the presentation of the components of net periodic benefit cost on the income statement by requiring service cost to be presented with other employee compensation costs and other components of net periodic pension cost to be presented outside of any subtotal of operating income. This ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2017-07 is not expected to have a material impact on the Corporation's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350),* which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Rather, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities may early adopt the standard for goodwill impairment tests with measurement dates after January 1, 2017. The adoption of ASU 2017-04 is not expected to have a material impact on the Corporation's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323)*, which incorporates into the FASB ASC recent SEC guidance about disclosing, under SEC Staff Accounting Bulletin, Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The effective date varies as each topic addressed in this ASU has its own effective date. The adoption of ASU 2017-03 is not expected to have a material impact on the Corporation's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805)*, which provides a new framework for determining whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption will be permitted and should apply it to transactions that have not been reported in financial statements that have been issued or made available for issuance. The adoption of ASU 2017-01 is not expected to have a material impact on the Corporation's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, This ASU requires entities to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption will be permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, adjustments should be reflected at the beginning of the fiscal year that includes that interim period. The adoption of ASU 2016-18 is not expected to have a material impact on the Corporation's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following eight specific cash flow issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investees; 7) beneficial interests in securitization transactions; and 8) separately identifiable cash flows and application of the predominance principle. The amendments are effective for public companies for fiscal years beginning after December 31, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of ASU No. 2016-15 is not expected to have a material impact on the Corporation's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is essentially the final rule on use of the so-called CECL model, or current expected credit losses. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For SEC filers, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with later effective dates for non-SEC registrant public companies and other organizations. Early adoption will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU No. 2016-13 is being reviewed for any material impact on the Corporation's consolidated financial statements.

NOTE 2

Fair Value Measurements

The Corporation 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. From time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and foreclosed real estate. Additionally, the Corporation is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy:
Under ASC Topic 820, the Corporation 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 disclosure purposes for cash, due from banks, and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Certificates of Deposit in Other Banks:
For disclosure purposes for certificates of deposit in other banks, the carrying amount is a reasonable estimate of fair value.

Investment Securities Available for Sale:
Investment securities available for sale are recorded at fair value on a recurring basis. 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.

Investment Securities Held to Maturity:
Investment securities held to maturity are not recorded at fair value on a recurring basis. For disclosure purposes, fair value measurement is based upon quoted prices, if available.

Federal Home Loan Bank Stock:
For disclosure purposes, the carrying value of other investments approximate fair value.

Loans:
The Corporation 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 impairment in accordance with ASC Topic 310, *Accounting by Creditors for Impairment of a Loan*. The fair value of impaired loans is estimated using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with ASC Topic 820, 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 or a current appraised value, the Corporation records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation 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.

Foreclosed Assets:
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 the lower of carrying value or 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 or a current appraised value, the Corporation records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value

and there is no observable market price, the Corporation records the other real estate asset as nonrecurring Level 3.

Deposits:
For disclosure purposes, the fair value of demand deposits, savings accounts, NOW accounts and money market deposits is the amount payable on demand at the reporting date, while the fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using current rates at which comparable certificates would be issued.

Federal Funds Purchased:
For disclosure purposes, the carrying amount for Federal funds purchased is a reasonable estimate of fair value due to the short-term nature of these financial instruments.

FHLB Advances:
For disclosure purposes, the fair value of the FHLB fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

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 June 30, 2017 and December 31, 2016.

June 30, 2017	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. government treasury securities	$ 0	$ 975,080	$ 0	$ 975,080
U.S. government agency securities	0	47,243,138	0	47,243,138
State and municipal securities	0	7,635,656	0	7,635,656
Residential mortgage-backed securities	0	2,187,849	0	2,187,849
Equity securities	0	100,380	0	100,380
Total	$ 0	$ 58,142,103	$ 0	$ 58,142,103

December 31, 2016	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. government treasury securities	$ 0	$ 962,150	$ 0	$ 962,150
U.S. government agency securities	0	40,984,897	0	40,984,897
State and municipal securities	0	6,452,597	0	6,452,597
Residential mortgage-backed securities	0	2,529,314	0	2,529,314
Corporate notes	0	2,524,165	0	2,524,165
Equity securities	0	112,380	0	112,380
Total	$ 0	$ 53,565,503	$ 0	$ 53,565,503

Assets Recorded at Fair Value on a Nonrecurring Basis:
The Corporation may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. 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 June 30, 2017, and December 31, 2016.

June 30, 2017	Level 1	Level 2	Level 3	Total
Foreclosed assets	$ 0	$ 0	$ 0	$ 0
Impaired loans	0	0	4,189,401	4,189,401
Total assets at fair value	$ 0	$ 0	$ 4,189,401	$ 4,189,401

December 31, 2016	Level 1	Level 2	Level 3	Total
Foreclosed assets	$ 0	$ 0	$ 126,713	$ 126,713
Impaired loans	0	0	3,011,472	3,011,472
Total assets at fair value	$ 0	$ 0	$ 3,138,185	$ 3,138,185

Foreclosed properties that are included above as measured at fair value on a nonrecurring basis are those properties that resulted from a loan that had been foreclosed and charged down or have been written down subsequent to foreclosure. Foreclosed properties are generally recorded at the appraised value less estimated selling costs in the range of 15 – 20%. Loans that are reported above as being measured at fair value on a nonrecurring basis are generally impaired loans that have been either partially charged off or have specific reserves assigned to them. Nonaccrual impaired loans that are collateral dependent are generally written down to a range of 80 – 85% of appraised value which considers the estimated costs to sell. Specific reserves are established for impaired loans based on appraised value of collateral or discounted cash flows.

The carrying amount and estimated fair values of the Corporation's assets and liabilities which are required to be either disclosed or recorded at fair value at June 30, 2017, and December 31, 2016, are as follows:

		Estimated Fair Value			
June 30, 2017	Carrying Amount	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)			
Assets:					
Cash and cash equivalents	$ 16,095	$ 16,095	$ 0	$ 0	$ 16,095
Certificates of deposit in other banks	1,985	1,985	0	0	1,985
Investment securities available for sale	58,142	0	58,142	0	58,142
Investment securities held to maturity	50,221	0	51,121	0	51,121
Federal Home Loan Bank stock	1,905	0	1,905	0	1,905
Loans, net	319,540	0	315,045	4,189	319,234
Liabilities:					
Deposits	391,229	0	391,489	0	391,489
Federal Home Loan Bank advances	34,476	0	34,407	0	34,407

		Estimated Fair Value			
December 31, 2016	Carrying Amount	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)			
Assets:					
Cash and cash equivalents	$ 26,520	$ 26,520	$ 0	$ 0	$ 26,520
Certificates of deposit in other banks	0	0	0	0	0
Investment securities available for sale	53,566	0	53,566	0	53,566
Investment securities held to maturity	54,603	0	55,123	0	55,123
Federal Home Loan Bank stock	1,874	0	1,874	0	1,874
Loans, net	289,400	0	286,869	3,011	289,880
Liabilities:					
Deposits	371,493	0	371,793	0	371,793
Federal Home Loan Bank advances	34,476	0	34,337	0	34,337

Limitations:
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial statement element. 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 included herein are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the fair value of assets and liabilities that are not required to be recorded or disclosed at fair value like 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.

NOTE 3

Investment Securities

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities as shown in the consolidated balance sheets and their estimated fair values at June 30, 2017, and December 31, 2016, were as follows:

Securities Available For Sale:

June 30, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government treasury securities	$ 978,965	$ 0	$ 3,885	$ 975,080
U.S. government agency securities	47,073,914	827,215	657,991	47,243,138
State and municipal securities	7,526,788	142,798	33,930	7,635,656
Residential mortgage-backed securities	2,116,359	73,064	1,574	2,187,849
Total debt securities AFS	57,696,026	1,043,077	697,380	58,041,723
Equity securities	100,380	0	0	100,380
Total securities AFS	$57,796,406	$ 1,043,077	$ 697,380	$58,142,103

December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government treasury securities	$ 977,967	$ 0	$ 15,817	$ 962,150
U.S. government agency securities	41,117,402	697,811	830,316	40,984,897
State and municipal securities	6,537,093	25,170	109,666	6,452,597
Residential mortgage-backed securities	2,454,282	76,284	1,252	2,529,314
Corporate notes	2,497,016	27,944	795	2,524,165
Total debt securities AFS	53,583,760	827,209	957,846	53,453,123
Equity securities	112,380	0	0	112,380
Total securities AFS	$53,696,140	$ 827,209	$ 957,846	$53,565,503

Securities Held to Maturity:

June 30, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
State and municipal securities	$46,587,501	$ 808,000	$ 23,752	$47,371,749
Residential mortgage-backed securities	3,633,258	116,177	0	3,749,435
Total securities HTM	$50,220,759	$ 924,177	$ 23,752	$51,121,184

December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
State and municipal securities	$50,435,624	$ 508,109	$ 117,077	$50,826,656
Residential mortgage-backed securities	4,166,911	129,506	0	4,296,417
Total securities HTM	$54,602,535	$ 637,615	$ 117,077	$55,123,073

The amortized cost and estimated fair value of securities at June 30, 2017, and December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

June 30, 2017 Available for Sale:	Amortized Cost	Estimated Fair Value
Amounts maturing in:		
One year or less	$ 0	$ 0
After one through five years	17,518,226	17,814,180
After five through ten years	36,154,560	36,160,723
After ten years	4,023,240	4,066,820
Total debt securities AFS	57,696,026	58,041,723
Equity securities	100,380	100,380
Total securities AFS	$57,796,406	$58,142,103

Held to Maturity:	Amortized Cost	Estimated Fair Value
Amounts maturing in:		
One year or less	$ 7,569,874	$ 7,579,025
After one through five years	25,448,964	25,823,017
After five through ten years	13,709,411	14,142,881
After ten years	3,492,510	3,576,261
Total securities HTM	$50,220,759	$51,121,184

December 31, 2016 Available for Sale:	Amortized Cost	Estimated Fair Value
Amounts maturing in:		
One year or less	$ 0	$ 0
After one through five years	10,130,179	10,303,973
After five through ten years	39,818,677	39,507,820
After ten years	3,634,904	3,641,330
Total debt securities AFS	53,583,760	53,453,123
Equity securities	112,380	112,380
Total securities AFS	$53,696,140	$53,565,503

Held to Maturity:	Amortized Cost	Estimated Fair Value
Amounts maturing in:		
One year or less	$ 7,939,740	$ 7,941,397
After one through five years	26,537,314	26,786,525
After five through ten years	15,178,560	15,493,803
After ten years	4,946,921	4,901,348
Total securities HTM	$54,602,535	$55,123,073

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in continuous loss position, follows:

June 30, 2017	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Temporarily impaired debt securities:				
U.S. government treasury securities	$ 3,885	$ 975,080	$ 0	$ 0
U.S. government agency securities	657,991	18,415,757	0	0
State and municipal securities	33,930	2,942,377	0	0
Residential mortgage-backed securities	1,574	246,472	0	0
Total debt securities available for sale	$ 697,380	$ 22,579,686	$ 0	$ 0
Securities Held to Maturity				
Temporarily impaired debt securities:				
State and municipal securities	$ 23,752	$ 6,018,598	$ 0	$ 0
Total securities held to maturity	$ 23,752	$ 6,018,598	$ 0	$ 0

December 31, 2016	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Temporarily impaired debt securities:				
U.S. government treasury securities	$ 15,817	$ 962,150	$ 0	$ 0
U.S. government agency securities	830,316	19,330,575	0	0
State and municipal securities	109,666	4,676,685	0	0
Residential mortgage-backed securities	1,252	311,851	0	0
Corporate notes	0	0	795	499,205
Total debt securities available for sale	$ 957,051	$ 25,281,261	$ 795	$ 499,205
Securities Held to Maturity				
Temporarily impaired debt securities:				
State and municipal securities	$ 117,077	$ 16,162,203	$ 0	$ 0
Total securities held to maturity	$ 117,077	$ 16,162,203	$ 0	$ 0

During the three months ended June 30, 2017, two corporate notes were sold in the amount of $2,540,000 resulting in a realized gain of $42,604. During the first quarter of 2017, 2,400 shares of available for sale Federal Agricultural Mortgage Corporation equity securities were sold in the amount of $136,211 resulting in a realized gain of $124,211.

During the three months ended June 30, 2016, we sold available for sale U.S. Government Agencies in the amount of $5,082,150 which resulted in a realized gain of $83,961. During the first quarter of 2016, we sold mortgage-backed securities in the amount of $924,406 which resulted in a realized gain of $35,344 and U. S. government agency securities in the amount of $4,954,459 which resulted in a realized loss of $7,438 for a net realized gain of $27,906. Of the investment securities sold, $5,302,031 were available for sale and $576,834 were held to maturity. These transactions occurred in order to provide liquidity and remove small lots of mortgage-backed securities. The small lots of held to maturity mortgage-backed securities sold were paid down by over 85% of face value.

Management evaluates securities for other-than-temporary impairment at least 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 Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At June 30, 2017, thirty-nine debt securities with unrealized losses have depreciated 2.5% from the Corporation's amortized cost basis. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. Management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale. Also, no declines in debt securities are deemed to be other-than-temporary.

NOTE 4

Loans and Allowance for Loan Losses

The composition of the Corporation's loan portfolio and the percentage of loans in each category to total loans at June 30, 2017 and December 31, 2016, were as follows:

	June 30, 2017		December 31, 2016	
Commercial, financial and agricultural loans	$ 76,754,355	23.8%	$ 70,999,423	24.3%
Real estate:				
Construction loans	26,251,307	8.1%	25,999,295	8.9%
Commercial mortgage loans	99,114,586	30.7%	91,732,812	31.3%
Residential loans	92,057,575	28.5%	83,270,983	28.5%
Agricultural loans	24,442,152	7.6%	16,580,126	5.7%
Consumer & other loans	4,033,802	1.3%	3,960,492	1.3%
Loans outstanding	322,653,777	100.0%	292,543,131	100.0%
Unearned interest and discount	(17,724)		(18,895)	
Allowance for loan losses	(3,095,987)		(3,124,611)	
Net loans	$ 319,540,066		$ 289,399,625	

The Corporation's only significant concentration of credit at June 30, 2017, occurred in real estate loans which totaled $241,865,620 compared with $217,583,216 at December 31, 2016. However, this amount was not concentrated in any specific segment within the market or geographic area.

Certain 1-4 family and multifamily mortgage loans are pledged to Federal Home Loan Bank to secure outstanding advances. At June 30, 2017, $54,287,289 in loans were pledged in this capacity.

The following table shows maturities as well as interest sensitivity of the commercial, financial, agricultural, and construction loan portfolio at June 30, 2017.

		Commercial, Financial, Agricultural and Construction
Distribution of loans which are due:		
In one year or less	$	26,900,034
After one year but within five years		51,949,279
After five years		24,156,349
Total	$	103,005,662

The following table shows, for such loans due after one year, the amounts which have predetermined interest rates and the amounts which have floating or adjustable interest rates at June 30, 2017.

	Loans With Predetermined Rates	Loans With Floating Rates	Total
Commercial, financial, agricultural and construction	$ 71,037,127	$ 5,068,501	$ 76,105,628

Appraisal Policy

When a loan is first identified as a problem loan, the appraisal is reviewed to determine if the appraised value is still appropriate for the collateral. For the duration that a loan is considered a problem loan, the appraised value of the collateral is monitored on a quarterly basis. If significant changes occur in market conditions or in the condition of the collateral, a new appraisal will be obtained.

Nonaccrual Policy

The Corporation does not accrue interest on any loan (1) that is maintained on a cash basis due to the deteriorated financial condition of the borrower, (2) for which payment in full of principal or interest is not expected, or (3) upon which principal or interest has been past due for ninety days or more unless the loan is well secured and in the process of collection.

A loan subsequently placed on nonaccrual status may be returned to accrual status if (1) all past due interest and principal is paid with expectations of any remaining contractual principal and interest being repaid or (2) the loan becomes well secured and in the process of collection.

Loans placed on nonaccrual status amounted to $1,285,161 and $246,320 at June 30, 2017, and December 31, 2016, respectively. There was one past due loan over ninety days and still accruing at June 30, 2017, in the amount of $8,240, and none at December 31, 2016. The accrual of interest is discontinued when the loan is placed on nonaccrual. Interest income that would have been recorded on these nonaccrual loans in accordance with their original terms totaled $108,380 for June 30, 2017, and $476 for December 31, 2016.

The following tables present an age analysis of past due loans and nonaccrual loans segregated by class of loans.

	Age Analysis of Past Due Loans As of June 30, 2017					
	30-89 Days Past Due	Greater than 90 Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
Commercial, financial and agricultural loans	$3,893,901	$8,240	$3,902,141	$ 55,509	$ 72,796,705	$ 76,754,355
Real estate:						
Construction loans	295,365	0	295,365	0	25,955,942	26,251,307
Commercial mortgage loans	1,321,713	0	1,321,713	0	97,792,873	99,114,586
Residential loans	933,428	0	933,428	325,810	90,798,337	92,057,575
Agricultural loans	190,772	0	190,772	903,842	23,347,538	24,442,152
Consumer & other loans	55,618	0	55,618	0	3,978,184	4,033,802
Total loans	$6,690,797	$8,240	$6,699,037	$ 1,285,161	$314,669,579	$322,653,777

	Age Analysis of Past Due Loans As of December 31, 2016					
	30-89 Days Past Due	Greater than 90 Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
Commercial, financial and agricultural loans	$1,264,998	$ 0	$1,264,998	$ 38,798	$ 69,695,627	$ 70,999,423
Real estate:						
Construction loans	66,931	0	66,931	207,522	25,724,842	25,999,295
Commercial mortgage loans	1,268,405	0	1,268,405	0	90,464,407	91,732,812
Residential loans	1,376,671	0	1,376,671	0	81,894,312	83,270,983
Agricultural loans	0	0	0	0	16,580,126	16,580,126
Consumer & other loans	65,127	0	65,127	0	3,895,365	3,960,492
Total loans	$4,042,132	$ 0	$4,042,132	$ 246,320	$288,254,679	$292,543,131

Impaired Loans

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

At June 30, 2017, and December 31, 2016, impaired loans amounted to $4,719,366 and $3,560,901, respectively. A reserve amount of $529,965 and $549,429 were recorded in the allowance for loan losses for these impaired loans as of June 30, 2017, and December 31, 2016, respectively.

The following tables present impaired loans, segregated by class of loans as of June 30, 2017, and December 31, 2016:

June 30, 2017	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment Total	Related Allowance	Year-to-date Average Recorded Investment	Interest Income Received During Impairment
Commercial, financial and agricultural loans	$ 381,732	$ 0	$ 381,732	$ 381,732	$ 65,455	$ 53,370	$ 7,228
Real estate:							
Construction loans	242,004	121,204	0	121,204	0	218,489	8,471
Commercial mortgage loans	1,624,734	757,085	867,649	1,624,734	232,451	4,376,528	30,057
Residential loans	2,412,593	507,165	1,824,753	2,331,918	228,176	4,158,805	55,347
Agricultural loans	241,151	241,151	0	241,151	0	951,945	38,731
Consumer & other loans	18,627	1,872	16,755	18,627	3,883	4,677	192
Total loans	$4,920,841	$1,628,477	$3,090,889	$4,719,366	$529,965	$9,763,814	$140,026

December 31, 2016	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment Total	Related Allowance	Year-to-date Average Recorded Investment	Interest Income Received During Impairment
Commercial, financial and agricultural loans	$ 102,086	$ 4,798	$ 97,288	$ 102,086	$ 12,021	$ 21,154	$ 2,464
Real estate:							
Construction loans	247,015	126,215	0	126,215	0	168,432	12,691
Commercial mortgage loans	880,670	0	880,670	880,670	245,472	4,005,175	46,195
Residential loans	2,223,421	230,610	1,971,899	2,202,509	291,936	3,272,528	122,370
Agricultural loans	246,175	246,175	0	246,175	0	851,740	8,150
Consumer & other loans	3,246	3,246	0	3,246	0	6,501	201
Total loans	$3,702,613	$ 611,044	$2,949,857	$3,560,901	$549,429	$8,325,530	$192,071

At June 30, 2016, the year-to-date average recorded investment of impaired loans was $6,745,830 and the interest income received during impairment was $100,300.

At June 30, 2017, and December 31, 2016, included in impaired loans were $909,867 and $914,378, respectively, of troubled debt restructurings.

Troubled Debt Restructurings (TDR)

Loans are considered to have been modified in a troubled debt restructuring, or TDR, when due to a borrower's financial difficulty the Corporation makes certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet the borrower's specific circumstances at a point in time. Not all loan modifications are TDRs. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period.

Loan modifications are reviewed and recommended by the Corporation's senior credit officer, who determines whether the loan meets the criteria for a TDR. Generally, the types of concessions granted to borrowers that are evaluated in determining whether the loan is classified as a TDR include:

- Interest rate reductions – Occur when the stated interest rate is reduced to a nonmarket rate or a rate the borrower would not be able to obtain elsewhere under similar circumstances.
- Amortization or maturity date changes – Result when the amortization period of the loan is extended beyond what is considered a normal amortization period for loans of similar type with similar collateral.
- Principal reductions – Arise when the Corporation charges off a portion of the principal that is not fully collateralized and collectability is uncertain; however, this portion of principal may be recovered in the future under certain circumstances.

The following tables present the amount of troubled debt restructuring by loan class, classified separately as accrual and nonaccrual at June 30, 2017, and December 31, 2016, as well as those currently paying under restructured terms and those that have defaulted under restructured terms as of June 30, 2017, and December 31, 2016. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 30 or more days past due.

	June 30, 2017					
			Under restructured terms			
	Accruing	Non-accruing	#	Current	#	Default
Commercial, financial, and agricultural loans	$ 0	$ 0	0	$ 0	0	$ 0
Real estate:						
Construction loans	0	0	0	0	0	0
Commercial mortgage loans	0	0	0	0	0	0
Residential loans	4,153	0	1	4,153	0	0
Agricultural loans	0	903,842	0	0	3	903,842
Consumer & other loans	1,872	0	1	1,872	0	0
Total TDR's	$ 6,025	$ 903,842	2	$ 6,025	3	$ 903,842

	December 31, 2016					
			Under restructured terms			
	Accruing	Non-accruing	#	Current	#	Default
Commercial, financial, and agricultural loans	$ 0	$ 0	0	$ 0	0	$ 0
Real estate:						
Construction loans	0	0	0	0	0	0
Commercial mortgage loans	0	0	0	0	0	0
Residential loans	4,853	0	1	4,853	0	0
Agricultural loans	906,279	0	3	906,279	0	0
Consumer & other loans	3,246	0	1	3,246	0	0
Total TDR's	$ 914,378	$ 0	5	$ 914,378	0	$ 0

The following table presents the amount of troubled debt restructurings by types of concessions made, classified separately as accrual and non-accrual at June 30, 2017, and December 31, 2016.

	June 30, 2017				December 31, 2016			
	Accruing		Nonaccruing		Accruing		Nonaccruing	
	#	Balance	#	Balance	#	Balance	#	Balance
Type of concession:								
Payment modification	0	$ 0	0	$ 0	0	$ 0	0	$ 0
Rate reduction	0	0	0	0	0	0	0	0
Rate reduction, payment modification	2	6,025	3	903,842	5	914,378	0	0
Forbearance of interest	0	0	0	0	0	0	0	0
Total	2	$ 6,025	3	$ 903,842	5	$ 914,378	0	$ 0

As of June 30, 2017, and December 31, 2016, the Corporation had a balance of $909,867 and $914,378, respectively, in troubled debt restructurings. The Corporation had no charge-offs on such loans at June 30, 2017, and December 31, 2016. The Corporation had no balance in the allowance for loan losses allocated to such troubled debt restructurings at June 30, 2017, or December 31, 2016. The Corporation had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of June 30, 2017.

<u>Credit Risk Monitoring and Loan Grading</u>

The Corporation employs several means to monitor the risk in the loan portfolio including volume and severity of loan delinquencies, nonaccrual loans, internal grading of loans, historical loss experience and economic conditions.

Loans are subject to an internal risk grading system which indicates the risk and acceptability of that loan. The loan grades used by the Corporation are for internal risk identification purposes and do not directly correlate to regulatory classification categories or any financial reporting definitions.

The general characteristics of the risk grades are as follows:

Grade 1 – Exceptional – Loans graded 1 are characterized as having a very high credit quality, exhibit minimum risk to the Corporation and have low administrative cost. These loans are usually secured by highly liquid and marketable collateral and a strong primary and secondary source of repayment is available.

Grade 2 – Above Average – Loans graded 2 are basically sound credits secured by sound assets and/or backed by the financial strength of borrowers of integrity with a history of satisfactory payments of credit obligations.

Grade 3 – Acceptable – Loans graded 3 are secured by sound assets of sufficient value and/or supported by the sufficient financial strength of the borrower. The borrower will have experience in their business area or employed a reasonable amount of time at their current employment. The borrower will have a sound primary source of repayment, and preferably a secondary source, which will allow repayment in a prompt and reasonable period of time.

Grade 4 – Fair – Loans graded 4 are those which exhibit some weakness or downward trend in financial condition and although the repayment history is satisfactory, it requires supervision by bank personnel. The borrower may have little experience in their business area or employed only a short amount of time at their current employment. The loan may be secured by good collateral; however, it may require close supervision as to value and/or quality and may not have sufficient liquidation value to completely cover the loan.

Grade 5a – Watch – Loans graded 5a contain a discernible weakness; however, the weakness is not sufficiently pronounced so as to cause concern for the possible loss of interest or principal. Loans in this category may exhibit outward signs of stress, such as slowness in financial disclosures or recent payments. However, such signs are not of long duration or of sufficient severity that default appears imminent. Loans in this category are not so deficient as to cause alarm, but do require close monitoring for further deterioration and possible downgrade.

Grade 5b – Other Assets Especially Mentioned (OAEM) – Loans graded 5b may otherwise be classified more severely except that the loan is well secured by properly margined collateral, it is generally performing in accordance with the original contract or modification thereof and such performance has seasoned for a period of 90 days, or the ultimate collection of all principal and interest is reasonably expected. Loans in this grade are unsupported by sufficient evidence of the borrower's sound net worth or repayment capacity or may be subject to third party action that would cause concern for future prompt repayment.

Grade 6 – Substandard – Loans graded 6 contain clearly pronounced credit weaknesses that are below acceptable credit standards for the Corporation. Such weaknesses may be due to either collateral deficiencies or inherent financial weakness of the borrower, but in either case represents less than acceptable credit risk. Loans in this grade are unsupported by sufficient evidence of the borrower's sound net worth, repayment capacity or acceptable collateral.

Grade 7 – Doubtful – Loans graded 7 have such a pronounced credit weaknesses that the Corporation is clearly exposed to a significant degree of potential loss of principal or interest. Theses loan generally have a defined weakness which jeopardizes the ultimate repayment of the debt.

Grade 8 – Loss – Loans graded 8 are of such deteriorated credit quality that repayment of principal and interest can no longer be considered. These loans are of such little value that their continuance as an active bank asset is not warranted. As of June 30, 2017, all Grade 8 loans have been charged-off.

The following tables present internal loan grading by class of loans as of June 30, 2017, and December 31, 2016:

June 30, 2017	Commercial, Financial, and Agricultural	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Consumer and Other	Total
Rating:							
Grade 1- Exceptional	$ 934,969	$ 0	$ 0	$ 24,444	$ 0	$ 405,512	$ 1,364,925
Grade 2- Above Avg.	0	0	0	0	0	58,154	58,154
Grade 3- Acceptable	28,588,757	6,372,721	28,340,051	29,991,109	12,071,026	1,316,175	106,679,839
Grade 4- Fair	45,154,772	19,744,009	64,778,551	57,299,466	10,936,561	2,217,126	200,130,485
Grade 5a- Watch	347,795	0	1,051,931	848,431	40,005	27,099	2,315,261
Grade 5b- OAEM	1,398,255	13,373	3,607,208	1,106,978	339,950	4,403	6,470,167
Grade 6- Substandard	245,177	121,204	1,336,845	2,787,147	1,054,610	5,333	5,550,316
Grade 7- Doubtful	84,630	0	0	0	0	0	84,630
Total loans	$76,754,355	$26,251,307	$ 99,114,586	$92,057,575	$24,442,152	$4,033,802	$322,653,777

December 31, 2016	Commercial, Financial, and Agricultural	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Consumer and Other	Total
Rating:							
Grade 1- Exceptional	$ 615,535	$ 0	$ 0	$ 24,963	$ 0	$ 395,765	$ 1,036,263
Grade 2- Above Avg.	0	0	0	7,172	289,561	10,195	306,928
Grade 3- Acceptable	28,049,484	7,456,101	24,383,326	29,654,781	8,899,344	1,343,547	99,786,583
Grade 4- Fair	40,358,471	18,402,769	62,023,892	48,747,687	6,306,754	2,182,145	178,021,718
Grade 5a- Watch	111,488	0	1,071,667	832,624	22,642	16,002	2,054,423
Grade 5b- OAEM	1,561,359	14,210	2,883,133	1,260,719	0	3,247	5,722,668
Grade 6- Substandard	214,862	126,215	1,370,794	2,743,037	1,061,825	9,591	5,526,324
Grade 7- Doubtful	88,224	0	0	0	0	0	88,224
Total loans	$70,999,423	$25,999,295	$91,732,812	$83,270,983	$16,580,126	$3,960,492	$292,543,131

Allowance for Loan Losses Methodology

The allowance for loan losses (ALL) is determined by a calculation based on segmenting the loans into the following categories: (1) impaired loans and nonaccrual loans, (2) loans with a credit risk rating of 5b, 6, 7 or 8, (3) other outstanding loans, and (4) other commitments to lend. In addition, unallocated general reserves are estimated based on migration and economic analysis of the loan portfolio.

The ALL is calculated by the addition of the estimated loss derived from each of the above categories. The impaired loans and nonaccrual loans are analyzed on an individual basis to determine if the future collateral value is sufficient to support the outstanding debt of the loan. If an estimated loss is calculated, it is included in the estimated ALL until it is charged to the loan loss reserve. The calculation for loan risk graded 5b, 6, 7 or 8, other outstanding loans and other commitments to lend is based on assigning an estimated loss factor based on a twelve quarter rolling historical weighted average net loss rate. The estimated requirement for unallocated general reserves from migration and economic analysis is determined by considering (1) trends in asset quality, (2) level and trends in charge-off experience, (3) macroeconomic trends and conditions, (4) microeconomic trends and conditions and (5) risk profile of lending activities. Within each of these categories, a high risk factor percentage and a low risk factor percentage from a rating of excessive, high, moderate or low will be determined by management and applied to the loan portfolio. This results in a high and low range of the estimated reserves required. By adding the estimated high and low value from the migration and economic analysis to the estimated reserve from the loan portfolio, a high and low range of total estimated loss reserves is obtained. This amount is then compared to the actual amount in the loan loss reserve.

The calculation of ALL is performed on a monthly basis and is presented to the Loan Committee and the Board of Directors.

The following table details activity in the ALL and loans evaluated for impairment by class of loans for the three and six month periods ended June 30, 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories. The annualized net charge-offs to average loans outstanding ratio was 0.12% for the six months ended June 30, 2017, compared with 0.02% at December 31, 2016.

Three months ended June 30, 2017:

	Commercial, Financial, and Agricultural	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Consumer and Other	Total
Allowance for loan losses:							
Beginning balance, March 31, 2017	$ 232,822	$ 1,043,083	$ 1,192,098	$ 417,835	$ 86,656	$ 189,340	$ 3,161,834
Charge-offs	79,334	0	0	59,764	0	2,733	141,831
Recoveries	783	0	0	0	0	201	984
Net charge-offs	78,551	0	0	59,764	0	2,532	140,847
Provisions charged to operations	55,049	0	0	17,887	0	2,064	75,000
Balance at end of period, June 30, 2017	$ 209,320	$ 1,043,083	$ 1,192,098	$ 375,958	$ 86,656	$ 188,872	$ 3,095,987

Six months ended June 30, 2017:

June 30, 2017	Commercial, Financial, and Agricultural	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Consumer and Other	Total
Allowance for loan losses:							
Beginning balance, December 31, 2016	$ 191,267	$ 1,043,083	$ 1,192,098	$ 420,189	$ 86,656	$ 191,318	$ 3,124,611
Charge-offs	113,334	0	0	59,764	0	8,548	181,646
Recoveries	1,638	0	0	0	0	1,384	3,022
Net charge-offs	111,696	0	0	59,764	0	7,164	178,624
Provisions charged to operations	129,749	0	0	15,533	0	4,718	150,000
Balance at end of period, June 30, 2017	$ 209,320	$ 1,043,083	$ 1,192,098	$ 375,958	$ 86,656	$ 188,872	$ 3,095,987
Ending balance - Individually evaluated for impairment	$ 65,455	$ 0	$ 232,451	$ 228,176	$ 0	$ 3,883	$ 529,965
Collectively evaluated for impairment	143,865	1,043,083	959,647	147,782	86,656	184,989	2,566,022
Balance at end of period	$ 209,320	$ 1,043,083	$ 1,192,098	$ 375,958	$ 86,656	$ 188,872	$ 3,095,987
Loans :							
Ending balance - Individually evaluated for impairment	$ 381,732	$ 121,204	$ 4,758,186	$ 2,383,377	$ 1,054,610	$ 18,627	$ 8,717,736
Collectively evaluated for impairment	76,372,623	26,130,103	94,356,400	89,674,198	23,387,542	4,015,175	313,936,041
Balance at end of period	$76,754,355	$26,251,307	$99,114,586	$92,057,575	$24,442,152	$4,033,802	$322,653,777

The following table details activity in the ALL and loans evaluated for impairment by class of loans for the year ended December 31, 2016.

December 31, 2016	Commercial, Financial, and Agricultural	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Consumer and Other	Total
Allowance for loan losses:							
Beginning balance, December 31, 2015	$ 144,781	$ 1,043,083	$ 1,192,098	$ 381,891	$ 86,656	$ 183,733	$ 3,032,242
Charge-offs	103,387	0	0	3,394	0	9,225	116,006
Recoveries	28,303	0	0	16,994	0	3,078	48,375
Net charge-offs	75,084	0	0	(13,600)	0	6,147	67,631
Provisions charged to operations	121,570	0	0	24,698	0	13,732	160,000
Balance at end of period, December 31, 2016	$ 191,267	$ 1,043,083	$ 1,192,098	$ 420,189	$ 86,656	$ 191,318	$ 3,124,611
Ending balance - Individually evaluated for impairment	$ 12,021	$ 0	$ 245,472	$ 291,936	$ 0	$ 0	$ 549,429
Collectively evaluated for impairment	179,246	1,043,083	946,626	128,253	86,656	191,318	2,575,182
Balance at end of period	$ 191,267	$ 1,043,083	$ 1,192,098	$ 420,189	$ 86,656	$ 191,318	$ 3,124,611
Loans :							
Ending balance - Individually evaluated for impairment	$ 102,086	$ 126,215	$ 4,496,700	$ 2,281,439	$ 1,061,826	$ 3,246	$ 8,071,512
Collectively evaluated for impairment	70,897,337	25,873,080	87,236,112	80,989,544	15,518,300	3,957,246	284,471,619
Balance at end of period	$70,999,423	$25,999,295	$91,732,812	$83,270,983	$16,580,126	$3,960,492	$292,543,131

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

In addition to historical information, this Form 10-Q report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “could”, “should”, “projects”, “plans”, “goal”, “targets”, “potential”, “estimates”, “pro forma”, “seeks”, “intends”, or “anticipates” or the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions, and statements about the future performance, operations, products and services of the Corporation and its subsidiaries. We caution our stockholders and other readers not to place undue reliance on such statements.

The Corporation cautions that there are various factors that could cause actual results to differ materially from the anticipated results or other expectations expressed in any forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include risks related to:

- the conditions in the banking system, financial markets, and general economic conditions;
- the Corporation’s ability to raise capital;
- the Corporation’s ability to maintain liquidity or access other sources of funding;
- the Corporation’s construction and land development loans;
- asset quality;
- the adequacy of the allowance for loan losses;
- technology difficulties or failures;
- the Corporation’s ability to execute its business strategy;
- the loss of key personnel;
- competition from financial institutions and other financial service providers;
- the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;
- changes in regulatory capital and other requirements;
- changes in regulation and monetary policy;
- losses due to fraudulent and negligent conduct of customers, service providers or employees;
- acquisitions or dispositions of assets or internal restructuring that may be pursued by the Corporation;
- changes in or application of environmental and other laws and regulations to which the Corporation is subject;
- political, legal and local economic conditions and developments;
- financial market conditions and the results of financing efforts;
- changes in commodity prices and interest rates;
- a cybersecurity incident involving the misappropriation, loss or unauthorized disclosure or use of confidential information of our customers; and
- weather, natural disasters and other catastrophic events and other factors discussed in the Corporation’s other filings with the SEC.

The foregoing list of factors is not exclusive, and readers are cautioned not to place undue reliance on any forward-looking statements. The Corporation undertakes no obligation to update or revise any forward-looking statements. Additional information with respect to factors that may cause results to differ materially from those contemplated by such forward-looking statements is included in the Corporation's current and subsequent filings with the SEC.

Overview

The Corporation is a full-service community bank holding company headquartered in Moultrie, Georgia. The community of Moultrie has been served by the Bank since 1928. We provide comprehensive financial services to consumer, business and governmental customers, which, in addition to conventional banking products, include a full range of mortgage banking, trust, retail brokerage and insurance services. Our primary market area incorporates Colquitt County, where we are headquartered, as well as Baker, Lowndes, Tift and Worth Counties, each contiguous with Colquitt County, and the surrounding counties of southwest Georgia. We have five full service banking facilities, six automated teller machines, and a loan production office in Tifton, Georgia.

Our strategy is to:

- maintain the diversity of our revenue, including both interest and noninterest income through a broad base of business;
- strengthen our sales and marketing efforts while developing our employees to provide the best possible service to our customers;
- expand our market share where opportunity exists; and
- grow outside of our current geographic market either through de-novo branching or acquisitions into areas proximate to our current market area.

We believe that investing in sales and marketing in this challenging market will provide us with a competitive advantage. To that end, in 2010 we began expanding geographically in Valdosta, Georgia, with two full-service banking centers, a mortgage origination office, and most recently added a commercial banking center in August 2014. Continuing to expand our geographical footprint, in January 2016, a loan production office was opened in the neighboring community of Tifton, Georgia. Construction has begun on a new full-service banking center in Tifton and it is expected to be completed in early 2018.

The Corporation's profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest received on earning assets and the interest paid on interest-bearing liabilities. The Corporation's earning assets are primarily loans, securities, and short-term interest-bearing deposits with banks, and the interest-bearing liabilities are principally customer deposits and borrowings. Net interest income is highly sensitive to fluctuations in interest rates. After the overnight borrowing rate for banks remained at a range of 0% to 0.25% from December 2008 to December 2015, the Federal Reserve Bank began increasing it incrementally, and as of June 30, 2017, it has been increased by approximately 1% to a range of 1% to 1.25%. To address interest rate fluctuations, we manage our balance sheet in an effort to diminish the impact should interest rates suddenly change.

Broadening our revenue sources helps to reduce the risk and exposure of our financial results to the impact of changes in interest rates, which are outside of our control. Sources of noninterest income include our insurance agency, fees on customer accounts, and trust and retail brokerage services through our Wealth Strategies division. In the second quarter of 2017, noninterest income was 18.8% of the Corporation's total revenue.

Our profitability is also impacted by operating expenses such as salaries, employee benefits, occupancy, and income taxes. Our lending activities are significantly influenced by regional and local factors such as changes in population, competition among lenders, interest rate conditions and prevailing market rates on competing uses of funds and investments, customer preferences and levels of personal income and savings in the Corporation's primary market area.

Although the economy is slowly recovering, regulatory burdens continue to outpace growth opportunities. Despite those challenges, we will continue to focus on our customers and believe that our strategic positioning, strong balance sheet and capital levels position us to sustain our franchise, capture market share and build customer loyalty.

The Corporation's nonperforming assets increased to $1.293 million at the end of June 30, 2017, up $920 thousand compared with December 31, 2016, and up $546 thousand from the same period last year. There were no foreclosed assets at June 30, 2017, compared with foreclosed assets of $127 thousand at December 31, 2016, and $82 thousand at June 30, 2016.

Critical Accounting Policies

In the course of the Corporation's normal business activity, management must select and apply many accounting policies and methodologies that lead to the financial results presented in the consolidated financial statements of the Corporation. Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy because of the uncertainty and subjectivity inherent in estimating the levels of allowance needed to cover probable credit losses within the loan portfolio and the material effect that these estimates have on the Corporation's results of operations. We believe that the allowance for loan losses as of June 30, 2017, is adequate; however, under adverse conditions or assumptions, future additions to the allowance may be necessary. There have been no significant changes in the methods or assumptions used in our accounting policies that would have resulted in material estimates and assumptions changes. Note 1 to the Consolidated Financial Statements provides a description of our significant accounting policies and contributes to the understanding of how our financial performance is reported.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity management involves the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw their funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. In the ordinary course of business, the Corporation's cash flows are generated from interest and fee income as well as from loan repayments and the maturity or sale of other earning assets. In addition, liquidity is continuously provided through the acquisition of new deposits and borrowings or the rollover of maturing deposits and borrowings. The Corporation strives to maintain an adequate liquidity position by managing the balances and maturities of interest-earning assets and interest-earning liabilities so its short-term investments balance, at any given time, will adequately cover any reasonably anticipated immediate need for funds. Additionally, the Bank maintains relationships with correspondent banks that could provide funds on short notice, if needed.

The liquidity and capital resources of the Corporation are monitored on a periodic basis by state and Federal regulatory authorities. As determined under guidelines established by these regulatory authorities, the Bank's liquidity ratios at June 30, 2017, were considered satisfactory. At that date, the Bank's short-term investments were adequate to cover any reasonably anticipated immediate need for funds. We are not aware of any known trends, events, or uncertainties that will have or that are reasonably likely to have a material adverse effect on the Corporation's liquidity or operations. At June 30, 2017, the Corporation's and the Bank's risk-based capital ratios were considered adequate based on guidelines established by regulatory authorities. During the six months ended June 30, 2017, total capital increased $1.9 million to $40.3 million and increased $1.8 million from the same period last year. Also, the Corporation continues to maintain a healthy level of capital adequacy as measured by its equity-to-asset ratio of 8.57% as of June 30, 2017, and average equity-to-average asset ratio for the second quarter ending June 30, 2017, of 8.56%. The Corporation is not aware of any events or trends likely to result in a material change in capital resources other than the effects of normal operations on the retention of net earnings. Also, the Corporation's management is not aware of any current recommendations by the regulatory authorities which, if they were implemented, would have a material effect on the Corporation's capital resources.

RESULTS OF OPERATIONS

The Corporation's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since interest rates are determined by market forces and economic conditions beyond the control of the Corporation, the ability to generate net interest income is dependent upon the Bank's ability to obtain an adequate spread between the rate earned on interest-earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance measure for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets.

Performance Summary

The Corporation's net income after taxes for the three-month period ending June 30, 2017, was $1.1 million, up $62 thousand from net income of $1.0 million for the second quarter of 2016. This growth in net income was primarily due to an increase of $480 thousand in interest income driven by a 12% higher average loan volume, and a slight increase of $4 thousand in noninterest income. This revenue growth was partially offset by increases of $288 thousand and $42 thousand in noninterest and interest expense, respectively, compared with the second quarter of 2016.

On a per share basis, net income for the second quarter was $.42 per diluted share compared with $.40 per diluted share for the same quarter in 2016. The weighted average common diluted shares outstanding for the quarter were 2.547 million, down from 2.548 million second quarter last year.

We measure our performance on selected key ratios, which are provided for the previous five quarterly periods.

	2nd Qtr 2017	1st Qtr 2017	4th Qtr 2016	3rd Qtr 2016	2nd Qtr 2016
Return on average total assets	0.92%	0.91%	0.89%	0.89%	0.96%
Return on average total equity	10.69%	10.91%	10.23%	9.95%	10.63%
Average shareholders' equity to Average total assets	8.56%	8.38%	8.65%	8.97%	9.05%
Net interest margin (tax equivalent)	4.15%	3.98%	3.97%	4.12%	4.21%

Comparison of Statements of Income for the Quarter

Total interest income increased $480 thousand to $4.8 million for the three months ended June 30, 2017, compared with the same period in 2016, reflecting an increase in interest income and fees on loans of $384 thousand. Interest income and dividends from investment securities increased $63 thousand compared with the same period last year. Interest on deposits and certificates of deposit in other banks increased $23 thousand and $10 thousand, respectively, when compared with the second quarter of 2016.

Total interest expense increased $42 thousand, or 11%, to $436 thousand in the second quarter of 2017 compared with the same period in 2016. Interest paid on deposits increased $44 thousand, or 19%, during the second quarter of 2017 due to a $25.3 million increase in average interest-bearing deposit volume. Partially offsetting this increase, interest on total borrowings decreased $2 thousand compared with the same quarter in 2016.

The primary source of revenue for the Corporation is net interest income, which is the difference between total interest income on earning assets and interest expense on interest-bearing sources of funds. Net interest income improved to $4.3 million for the second quarter of 2017 compared with $3.9 million in net interest income in the 2016 second quarter. Net interest income after provision for loan losses for the second quarter of 2017 was $4.3 million compared with $3.9 million for the same period in 2016 as the second quarter provision for loan losses was up $35 thousand to $75 thousand in 2017. The Corporation's net interest margin was 4.15% for the second quarter of 2017, down 6 basis points from the same period last year. The lower net interest margin was mostly a result of a 10 basis point decline in average rate earned on loans.

Noninterest income, at 18.8% of the Corporation's total revenue for the quarter, was $1.1 million for the second quarter, increased $4 thousand compared with the same period in 2016. The slight increase in noninterest income was the result of increases in income from insurance services, retail brokerage services and other income of $36 thousand, $20 thousand and $17 thousand, respectively, compared with the second quarter 2016. Also, there was a slight increase in income from trust services and service charges on deposit accounts of $4 thousand and $2 thousand, respectively, compared with the second quarter last year. Offsetting these increases was a $41 thousand lower gain on the sale of investment securities compared with the prior year second quarter, as well as a $26 thousand decrease in income from mortgage banking services. Loss on the disposition of assets also increased by $9 thousand compared with the second quarter last year.

Noninterest expense was $4.0 million for the second quarter of 2017, an increase of $288 thousand when compared with the second quarter of 2016. The largest component of noninterest expense, salaries and employee benefits, increased $142 thousand to $2.3 million for the second quarter mainly due to growth initiatives in both the Valdosta and Tifton markets and higher incentive compensation. Other expense increased $91 thousand compared with the prior year second quarter due mostly to legal and other professional fees. Data processing expense also increased $73 thousand compared with the second quarter last year due mostly to continued preparation for migration to a new core processing vendor. Partially offsetting these increases, combined equipment and occupancy expenses decreased $18 thousand compared with the second quarter a year ago.

Comparison of Statements of Income for the Six-month Period

Total interest income for the first six months of 2017 increased $713 thousand to $9.3 million when compared with the same period in 2016. This increase was largely due to a $594 thousand increase in interest income and fees on loans due to a $36.6 million higher average loan volume compared with the first half of 2016. Interest income and dividends from investment securities increased by $56 thousand due to a $5.2 million higher average volume of investment securities when compared with the first six months of last year. Interest on deposits and certificates of deposit in banks also increased $51 thousand and $11 thousand, respectively, compared to the same period last year.

Total interest expense for the six-month period ended June 30, 2017, increased $102 thousand, or 13.3%, to $871 thousand compared with the same period in 2016. The increase in interest expense was mostly related to higher interest paid on interest-bearing deposits of $108 thousand compared with the first six months of 2016. Partially offsetting this increase, interest expense on total borrowings decreased $6 thousand for the first six months of 2017 due to $2.1 million lower average Federal Home Loan Bank advances compared with the same period last year.

Net interest income for the first six months of 2017 was 7.8% higher at $8.4 million compared with $7.8 million for the same period in 2016. Net interest income after provision for loan losses was $8.2 million compared with

$7.7 million for the same period in 2016. The provision for loan losses was $150 thousand in the first six months of 2017, up from $70 thousand for the same period of 2016. Net interest margin was 4.06% for the first half of 2017, down 19 basis points from 4.25% for the same period last year. As mentioned for the quarter, the growth in loan volume and 25 basis point decrease in average rate earned on loans contributed to the decrease in net interest margin. The average rate paid on interest-bearing liabilities increased 2 basis points compared to the first half of last year.

For the first half of 2017, noninterest income was $2.4 million, up $60 thousand, or 2.6%, compared with the same period in 2016. The increase was primarily attributed to a $167 thousand gain on the sale of securities in the first six months of 2017 compared with the prior year. Also, other income, income from retail brokerage services, and income from trust services increased $31 thousand, $28 thousand, and $6 thousand, respectively, compared with the first half of 2016. Partially offsetting these increases, income from mortgage banking services declined $44 thousand and loss on the disposition of assets was a $9 thousand more than the same period last year. Service charges on deposit accounts and income from insurance services also declined $4 thousand and $3 thousand, respectively, compared with the first half of 2016.

Noninterest expense increased $461 thousand for the first six months of 2017 compared with the same period last year mainly attributed to an increase in salary and employee benefits of $264 thousand. Other operating and data processing expenses increased $124 thousand and $117 thousand, respectively, when compared with the same period in 2016. In addition to expenses relating to our core system migration preparation, item processing costs have also increased and is expected to continue as we focus on growing noninterest-bearing deposit accounts. Partially offsetting these increases, equipment and occupancy expenses decreased $32 thousand and $12 thousand, respectively, in the first six months of 2017 compared with the prior year period.

Comparison of Financial Condition Statements

At June 30, 2017, total assets were $470.3 million, a $21.8 million increase from December 31, 2016. Growth in total loans of $30.1 million was primarily funded by an increase in total deposits of $19.7 million at June 30, 2017, primarily in noninterest-bearing and money market accounts. While investment securities remained relatively flat compared with June 30, 2016, interest-bearing deposits in other banks decreased $10.7 million shifting the asset mix towards loan growth.

Total loans increased $30.1 million to $322.7 million at June 30, 2017, compared with $292.5 million at December 31, 2016. The Corporation continues to be conservative in its lending practices in order to maintain a quality loan portfolio. Loans, a major use of funds, represented 68.6% of total assets.

Investment securities, interest-bearing deposits in other banks, and certificates of deposit in other banks represented 25.6% of total assets at June 30, 2017. Compared with December 31, 2016, investment securities increased $225 thousand and certificates of deposit in other banks increased $2.0 million while interest-bearing deposits in other banks decreased $10.7 million. This resulted in an overall decrease in investments of $8.5 million since December 31, 2016.

Deposits increased to $391.0 million at the end of the second quarter of 2017, up $19.7 million from the end of 2016. The increase was primarily in noninterest-bearing deposits of $16.8 million and money market deposit accounts of $5.7 million. NOW and savings accounts also increased slightly by $1.9 million and $1.0 million, respectively, compared with year end 2016. Partially offsetting these increases, total certificates of deposit decreased $5.6 million when compared with December 31, 2016. At June 30, 2017, total deposits represented 83.2% of total assets.

Total debt remained flat at $34.5 million when compared with the end of 2016. Short-term borrowed funds consist of Federal Home Loan Bank advances of $8.4 million as of June 30, 2017, and December 31, 2016. All short-term borrowings are short-term portions of long-term principal reducing Federal Home Loan Bank advances. The Corporation will repay the Federal Home Loan Bank long-term advances as scheduled. The following table shows the major contractual obligations for the Corporation.

Long-term debt consists of the following:

	June 30, 2017	December 31, 2016	June 30, 2016
Advance from FHLB with a 3.39% fixed rate of interest maturing August 20, 2018 (convertible to a variable rate at quarterly options of FHLB – no conversion option has been made).	$5,000,000	$5,000,000	$5,000,000
Advance from FHLB with a 2.78% fixed rate of interest maturing September 10, 2018 (convertible to a variable rate at quarterly options of FHLB – no conversion option has been made).	5,000,000	5,000,000	5,000,000
Advance from FHLB with a 1.4325% fixed rate of interest maturing September 4, 2018 (principal reducing hybrid advance with principal reductions of $1.8 million annually).	1,800,000	1,800,000	3,600,000
Advance from FHLB with a 0.89% fixed rate of interest maturing July 24, 2017 (principal reducing hybrid advance with principal reductions of $3.33 million annually).	0	0	3,333,333
Advance from FHLB with a 1.259% fixed rate of interest maturing September 30, 2020 (principal reducing hybrid advance with principal reductions of $1.6 million).	4,800,000	4,800,000	6,400,000
Advance from FHLB with a 1.9425% fixed rate of interest maturing December 16, 2022 (principal reducing hybrid advance with principal reductions of $857 thousand annually).	4,285,714	4,285,714	5,142,857
Advance from FHLB with a 1.419% fixed rate of interest maturing August 30, 2023 (principal reducing hybrid advance with principal reductions of $857 thousand annually).	5,142,857	5,142,857	0
Total long-term debt	$26,028,571	$26,028,571	$28,476,190

The allowance for loan losses represents a reserve for potential losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated monthly based on a review of all significant loans, with a particular emphasis on nonaccruing, past due, and other loans that management believes require attention.

Other factors used in determining the adequacy of the reserve are management's judgment about factors affecting loan quality and their assumptions about the local and national economy. The allowance for loan losses was 0.96% of total loans outstanding at June 30, 2017, compared with 1.07% at December 31, 2016, and 1.08% at June 30, 2016. Net charge-offs in the 2017 second quarter were $141 thousand compared with net recoveries of $7 thousand in the second quarter of 2016. Management considers the allowance for loan losses as of June 30, 2017, adequate to cover potential losses in the loan portfolio. For more information about loans, see Part I, Item 1, "Note 4 – Loans and Allowance for Loan Losses."

Nonperforming assets were $1.3 million, or 0.27% of total assets, in the second quarter of 2017, up from $373 thousand, or 0.08% of total assets, at the end of 2016, and up from $747 thousand, or 0.18% of total assets in the same period last year. Nonaccrual loans were $1.3 million in the second quarter of 2017 mostly concentrated in one $904 thousand agricultural real estate relationship.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance-sheet risk to meet the financing needs of our customers and reduce risk exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit in the form of loans or through letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. Since many of the commitments to extend credit and standby letters of credit are expected to expire without being drawn upon, the contractual or notional amounts do not represent future cash requirements.

Financial instruments whose contract amounts represent credit risk (dollars in thousands):	June 30, 2017	June 30, 2016
Commitments to extend credit	$ 23,550	$ 31,121
Standby letters of credit and financial guarantees	$ 2,853	$ 1,089

The Corporation does not have any special purpose entities or off-balance sheet financing arrangements.

Capital Resources and Dividends

The Corporation considers a solid capital foundation as essential to continued strength and growth as well as return to our shareholders. Risk-based capital requirements and rules became effective January 1, 2015, with some conditions that phase in through January 2019. These requirements and rules increase the minimum capital ratios, add a new ratio (CET1), and designate a standardized approach for risk-weighting assets.

As of June 30, 2017, the Corporation met the definition under Basel III of a small bank holding company and, therefore, was exempt from the new consolidated risk-based and leverage capital adequacy guidelines for bank holding companies.

Total risk-based capital for the Corporation and the Bank are composed of CET1, additional Tier 1 capital, and Tier 2 capital. CET 1 capital includes common stock plus related surplus and retained earnings less intangible assets. Additional Tier 1 capital is currently the same as the CET1. Tier 2 capital consists of allowances for possible loan and lease losses, subject to limitations. The Tier 1 leverage ratio is based on average assets. Our total risk-based capital ratio now stands at 13.53%, which is 35 percent in excess of the regulatory standard for "well-capitalized". See Footnote 1, Summary of Significant Accounting Policies, Recent Market and Regulatory Developments section, elsewhere in this report for further discussion on Basel III and capital requirements. The Corporation's and the Bank's risk-based capital ratios as of June 30, 2017, are shown in the following table.

Risk Based Capital Ratios

				Basel III Regulatory Guidelines	
Risk-Based Capital Ratios	Southwest Georgia Financial Corporation[1]	Southwest Georgia Bank	For Well Capitalized	2017 Required Minimum Capital Phase-in Guidelines	2019 Required Minimum Capital Plus Buffer
Common Equity Tier 1 capital	12.59%	11.65%	6.50%	5.75%	7.00%
Tier 1 capital	12.59%	11.65%	8.00%	7.25%	8.50%
Total risk-based capital	13.53%	12.59%	10.00%	9.25%	10.50%
Tier 1 leverage ratio	8.96%	8.24%	5.00%	4.00%	4.00%

(1) Corporation meets the requirements of the exemption as a small bank holding company.

In June 2017, the Corporation paid a quarterly cash dividend of $0.11 per common share. A cash dividend of $0.11 per common share was also paid in March 2017. The Board of Directors will continue to assess conditions for future dividend payments.

Interest Rate Sensitivity

The Corporation's most important element of asset/liability management is the monitoring of its sensitivity and exposure to interest rate movements which is the Corporation's primary market risk. We have no foreign currency exchange rate risk, commodity price risk, or any other material market risk. The Corporation has no trading investment portfolio, nor do we have any interest rate swaps or other derivative instruments.

Our primary source of earnings, net interest income, can fluctuate with significant interest rate movements. To lessen the impact of these movements, we seek to maximize net interest income while remaining within prudent ranges of risk by practicing sound interest rate sensitivity management. We attempt to accomplish this objective by structuring the balance sheet so that the differences in repricing opportunities between assets and liabilities are minimized. Interest rate sensitivity refers to the responsiveness of earning assets and interest-bearing liabilities to changes in market interest rates. The Corporation's interest rate risk management is carried out by the Asset/Liability Management Committee which operates under policies and guidelines established by the Bank's Board of Directors. The principal objective of asset/liability management is to manage the levels of interest-sensitive assets and liabilities to minimize net interest income fluctuations in times of fluctuating market interest rates. To effectively measure and manage interest rate risk, the Corporation uses computer simulations that determine the impact on net interest income of numerous interest rate scenarios, balance sheet trends and strategies. These simulations cover the following financial instruments: short-term financial instruments, investment securities, loans, deposits, and borrowings. These simulations incorporate assumptions about balance sheet dynamics, such as loan and deposit growth and pricing, changes in funding mix, and asset and liability repricing and maturity characteristics. Simulations are run under various interest rate scenarios to determine the impact on net income and capital. From these computer simulations, interest rate risk is quantified and appropriate strategies are developed and implemented. The Corporation also maintains an investment portfolio which receives monthly cash flows from mortgage-backed securities principal payments, and staggered maturities and provides flexibility over time in managing exposure to changes in interest rates. Any imbalances in the repricing opportunities at any point in time constitute a financial institution's interest rate sensitivity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation's management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the effectiveness of its disclosure controls and procedures (as defined in federal securities rules) as of the end of the period covered by this report. Based on, and as of the date of, that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the Securities and Exchange Commission's rules and forms and that the Corporation's disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by the Corporation under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting. Management's assessment of the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2016, was included in Item 8 of the form 10K , dated December 31, 2016, under the heading "Management's Report on Internal Control Over Financial Reporting".

The annual report form 10K, dated December 31, 2016, does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permits the Corporation to provide only management's report in the annual report.

Changes in Internal Control over Financial Reporting

No changes were made to the Corporation's internal control over financial reporting during this quarter that materially affected or could reasonably likely to materially affect the Corporation's internal controls over financial reporting.

PART II. - OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit 31.1	Section 302 Certification of Periodic Financial Report by Chief Executive Officer.
Exhibit 31.2	Section 302 Certification of Periodic Financial Report by Chief Financial Officer.
Exhibit 32.1	Section 906 Certification of Periodic Financial Report by Chief Executive Officer.
Exhibit 32.2	Section 906 Certification of Periodic Financial Report by Chief Financial Officer.
Exhibit 101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2017, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheets at June 30, 2017, and December 31, 2016; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2017, and 2016; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017, and 2016; (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016; and (v) Notes to Consolidated Financial Statements.

* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHWEST GEORGIA FINANCIAL CORPORATION

/s/George R. Kirkland

BY: GEORGE R. KIRKLAND
EXECUTIVE VICE PRESIDENT, CHIEF FINANCIAL OFFICER AND TREASURER

Date: August 14, 2017