

Mayville  
Financial  
Corporation

Mayville, Michigan

*Mayville State Bank*

Years Ended  
December 31,  
2017 and 2016

2017  
Annual Report

# MAYVILLE FINANCIAL CORPORATION

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MAYVILLE FINANCIAL CORPORATION (MFC) & MAYVILLE STATE BANK (MSB)

Board of Directors (Year elected to Board; Occupation)

Brad Sullivan, Chairman - 2000 ..... CFO, General Housing Corp.  
Dan Babcock, Vice Chairman - 2003 ..... CEO, Marlette Regional Hospital  
James Abbey - 2014 ..... Partner, Abbey, Abbey & Thomas PLLC  
Shelly Brooks - 2005 ..... President/CEO, Mayville State Bank  
Gary Haas, Secretary - 1981 ..... Retired CEO, Mayville State Bank  
David Osentoski - 2007 ..... Owner, Osentoski Realty  
Glen Higgins (Honorary) - 1982 ..... Retired, Super Food Services, Inc.  
Robert Steele (Honorary) - 1990 ..... Partner, Steele Dairy Farm  
Lee Tomlinson (Honorary) - 1978 ..... President, Ducker-Tomlinson, Inc.  
James Welke (Honorary) - 1986 ..... Owner, Welke Tax and Bookkeeping  
Dale Wingert (Honorary) - 1976 ..... CEO, Wingert's, Inc.

Officers and Employees (MSB unless otherwise noted)

Shelly Brooks ..... President/CEO, MSB; President & Treasurer, MFC  
Lisa Stephens ..... Senior Vice President, MSB; Vice President MFC  
Scott Wegrzyn ..... Vice President; Bank Secrecy Officer; Loan Officer  
Betty Moorhouse ..... Assistant Vice President; Branch Manager, Millington; Loan Officer  
Ben Heminger ..... Assistant Vice President; Loan Officer  
Rex Vroman ..... Assistant Vice President; Security Officer  
Bethany Wingert ..... Cashier  
Dana Zatkovic ..... Asst. Cashier  
Cammie Asmus ..... Operations Supervisor  
Anna Blackwell ..... Sr. Financial Services Representative  
Michelle Boyle ..... Asst. Manager, Supermarket Office  
Ashley Brown ..... Teller  
Lindsay Carr ..... Financial Services Representative  
Cole Coutcher ..... Teller  
Nicole Dziuba ..... Asst. Branch Manager, Millington Office  
Jenna Franks ..... Teller  
Dawn Frenzel ..... Drive-in Manager  
Maria Frye ..... Teller  
Dawson Hilts ..... Teller  
Jean Horton ..... Teller  
Ashleigh Jackson ..... Loan Review Officer/Financial Services Representative  
Nicholle Jacobs ..... Loan Processor  
Michelle Kiss ..... Custodian  
Chris Larabell ..... Information Technology Officer  
Kathleen Leach ..... Custodian  
April Long ..... Officer-in-Charge, Millington Office  
Amy Louks ..... Branch Manager, Supermarket Office  
Nikole McKellar ..... Loan Officer  
Joy Perkins ..... Bookkeeping Operations  
McKenna Pitcavage ..... Teller  
Lillian Rodgers ..... Teller  
Kimberly Smith ..... Bookkeeping Operations  
Tina TerBush ..... Officer-in-Charge, Supermarket Office  
Diane Travis ..... Custodian  
Jessica Trisch ..... Head Teller  
Kathy Wilson ..... Clerk  
Kyndra Windsor ..... Teller

Dear Shareholders:

The Board of Directors and management of Mayville Financial Corporation are pleased to submit this 133rd annual report for the year ended December 31, 2017.

Net income for 2017 was \$576,569, resulting in a net income per share of \$1.21. This net income equates to a return on average assets of 0.63% and a return on average equity of 5.99%. This performance helped retain the Bank's 5-Star rating from Bauer Financial, Inc., for the quarter ending 12/31/17; the 83rd consecutive quarter the Bank has earned this superior rating.

Shareholders received a total of \$0.75 per share in cash dividends during 2017, a return of 3.01% based on the average MFC stock price of \$24.93 for the year. The Bank maintained strong capital levels, keeping the Bank in a well-capitalized position.

The Bank continues to focus its efforts on rebuilding the loan portfolio. With the housing and refinancing market slowing from recent years, the Bank has begun to expand its lending focus into different areas to build profits from diversified loans. With rising rates in both investments and loans, the Bank is in a good position to increase balances in those areas with the resulting increase in profitability. The loan portfolio credit quality currently remains strong with low delinquencies, but adding good quality loans to the balance sheet will give a significant boost to profits.

The year ended with substantial, historic tax law reform. While tax reform is a good thing for the banking industry, it did cause some one-time adjustments with banks holding deferred tax assets on their books like Mayville State Bank. Although a reduction in income was recognized in 2017 due to tax changes, the reduction in tax rate for 2018 and subsequent years should have a favorable effect on future income.

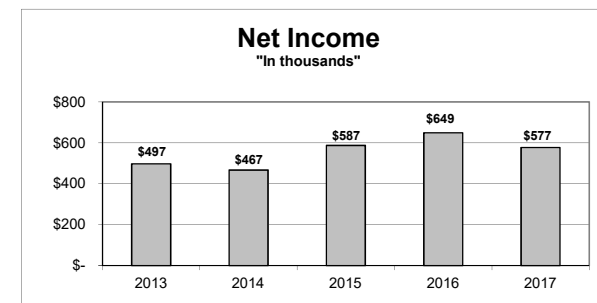
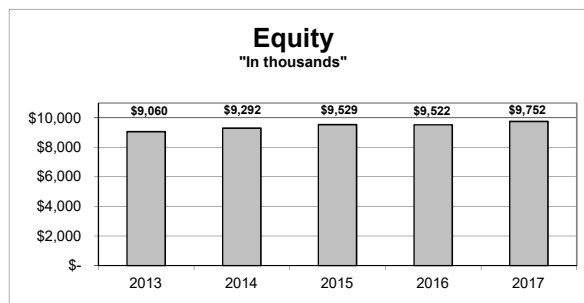
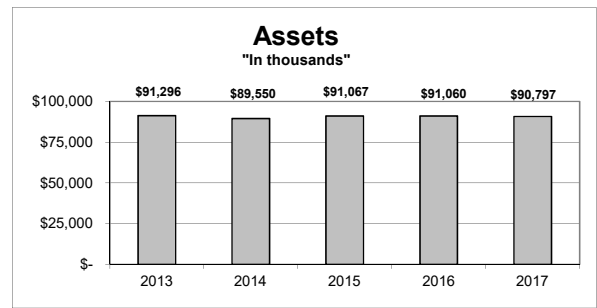
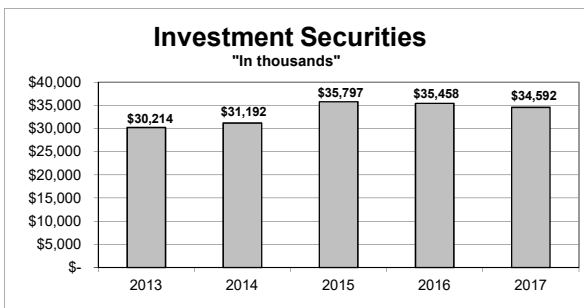
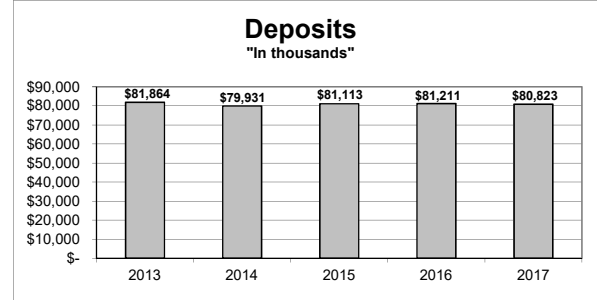
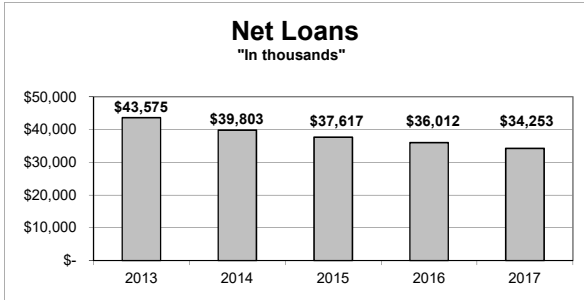
Mayville State Bank remains a strong, independent and locally-owned community bank. Our mission of providing for the financial needs of our customers while providing a good rate of return to the shareholders has remained a key to the Bank's success for the last 133 years. We thank you, our shareholders, for your continued interest in and support of Mayville Financial Corporation and its subsidiary, Mayville State Bank.

For the Board of Directors,

Shelly M. Brooks  
President  
MAYVILLE FINANCIAL CORPORATION

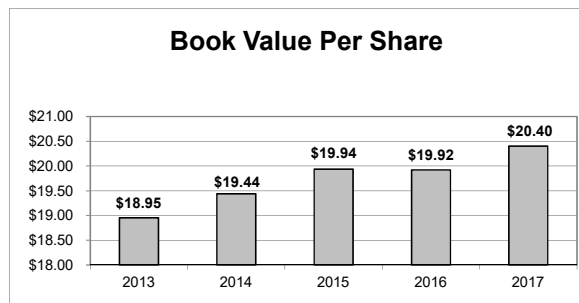
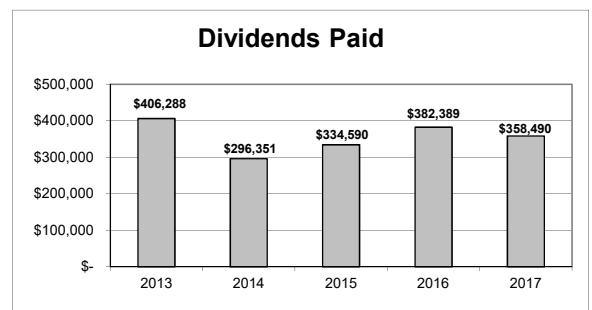
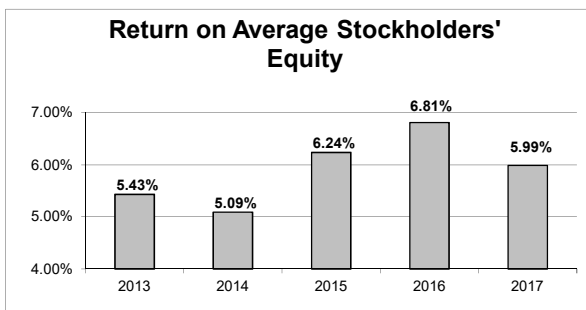
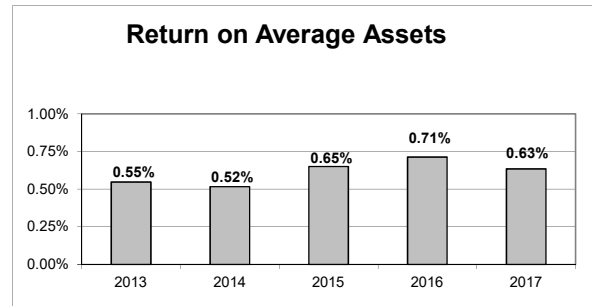
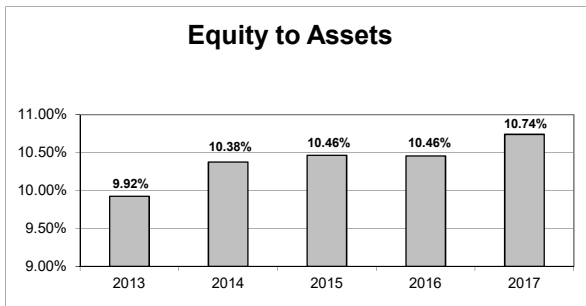
# Mayville Financial Corporation

## Financial Highlights - Five Years



# Mayville Financial Corporation

## Financial Highlights - Five Years



**INDEPENDENT AUDITORS' REPORT**

April 24, 2018

Stockholders and Board of Directors  
Mayville Financial Corporation  
Mayville, Michigan

We have audited the accompanying consolidated financial statements of *Mayville Financial Corporation* (the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Independent Accountants' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of *Mayville Financial Corporation* as of December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



# MAYVILLE FINANCIAL CORPORATION

## Consolidated Balance Sheets

		December 31	
		2017	2016
<b>ASSETS</b>			
Cash and due from banks		\$ 2,637,778	\$ 3,381,026
Federal funds sold		4,415,000	4,500,000
<b>Cash and cash equivalents</b>		<b>7,052,778</b>	<b>7,881,026</b>
Certificates of deposit held at other financial institutions		10,594,000	7,374,000
Investment securities			
Available-for-sale		32,999,823	34,797,774
Held-to-maturity		1,591,926	660,273
Federal Home Loan Bank stock, at cost		323,100	323,100
Net loans		34,252,775	36,012,459
Accrued interest receivable		313,042	302,605
Premises and equipment, net		525,125	507,727
Bank owned life insurance		2,887,239	2,803,299
Other assets		257,615	398,154
<b>Total assets</b>		<b>\$ 90,797,423</b>	<b>\$ 91,060,417</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Deposits</b>			
Interest-bearing			
NOW and money market accounts		\$ 15,423,717	\$ 14,991,114
Savings accounts		25,988,366	24,702,978
Other time deposits		25,924,886	27,868,894
Time deposits over \$250,000		314,026	312,148
<b>Total interest-bearing</b>		<b>67,650,995</b>	<b>67,875,134</b>
Noninterest-bearing		13,171,953	13,336,149
<b>Total deposits</b>		<b>80,822,948</b>	<b>81,211,283</b>
Accrued interest payable		20,287	21,450
Accrued expenses and other liabilities		202,683	305,385
<b>Total liabilities</b>		<b>81,045,918</b>	<b>81,538,118</b>
Commitments and contingencies (Notes 10, 11, and 13)			
<b>Stockholders' equity</b>			
Common stock, no par value: 1,250,000 shares authorized, 477,986 shares issued and outstanding		4,228,941	4,228,941
Retained earnings		5,732,418	5,479,805
Accumulated other comprehensive loss		(209,854)	(186,447)
<b>Total stockholders' equity</b>		<b>9,751,505</b>	<b>9,522,299</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$ 90,797,423</b>	<b>\$ 91,060,417</b>

The accompanying notes are an integral part of these consolidated financial statements.



# MAYVILLE FINANCIAL CORPORATION

## Consolidated Statements of Income

	Year Ended December 31	
	2017	2016
<b>Interest and dividend income</b>		
Loans (including fees)	\$ 1,922,773	\$ 2,056,732
Investment securities		
Available-for-sale	535,610	514,197
Held-to-maturity	29,099	38,657
Federal funds sold and other	41,156	15,271
Other interest and dividend income	158,925	102,518
<b>Total interest and dividend income</b>	<b>2,687,563</b>	<b>2,727,375</b>
Interest expense on deposits	234,077	248,301
<b>Net interest income</b>	<b>2,453,486</b>	<b>2,479,074</b>
<b>Noninterest income</b>		
Service charges on deposit accounts	314,100	342,132
Other	352,972	319,794
<b>Total noninterest income</b>	<b>667,072</b>	<b>661,926</b>
<b>Noninterest expenses</b>		
Compensation	1,091,841	1,083,755
Profit sharing and other employee benefits	275,359	255,888
Occupancy and equipment	186,689	239,333
FDIC assessments	28,500	37,000
ATM processing fees	124,754	114,505
Professional fees	91,043	95,866
Directors fees	70,730	70,140
Data processing fees	143,483	-
Other	346,590	413,950
<b>Total noninterest expenses</b>	<b>2,358,989</b>	<b>2,310,437</b>
<b>Income before federal income taxes</b>	<b>761,569</b>	<b>830,563</b>
Federal income taxes	185,000	182,000
<b>Net income</b>	<b>\$ 576,569</b>	<b>\$ 648,563</b>
<b>Net income per basic share of common stock</b>	<b>\$ 1.21</b>	<b>\$ 1.36</b>

The accompanying notes are an integral part of these consolidated financial statements.

# MAYVILLE FINANCIAL CORPORATION

## Consolidated Statements of Comprehensive Income

	Year Ended December 31	
	2017	2016
<b>Available-for-sale securities</b>		
Unrealized holding gains (losses) arising during the year	\$ 16,857	\$ (411,121)
Reclassification adjustment for net realized gains included in net income	-	(2,128)
<b>Comprehensive income (loss) before income tax (expense) benefit</b>	16,857	(413,249)
Income tax (expense) benefit related to other comprehensive (income) loss	(5,730)	140,500
<b>Other comprehensive income (loss)</b>	11,127	(272,749)
Net income	576,569	648,563
<b>Comprehensive income</b>	<b>\$ 587,696</b>	<b>\$ 375,814</b>

The accompanying notes are an integral part of these consolidated financial statements.

## MAYVILLE FINANCIAL CORPORATION

### Consolidated Statements of Stockholders' Equity

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
Balances, January 1, 2016	477,986	\$ 4,228,941	\$ 5,213,631	\$ 86,302	\$ 9,528,874
Comprehensive income	-	-	648,563	(272,749)	375,814
Cash dividends paid (\$0.80 per share)	-	-	(382,389)	-	(382,389)
<b>Balances, December 31, 2016</b>	<b>477,986</b>	<b>4,228,941</b>	<b>5,479,805</b>	<b>(186,447)</b>	<b>9,522,299</b>
Comprehensive income	-	-	576,569	11,127	587,696
Cash dividends paid (\$0.75 per share)	-	-	(358,490)	-	(358,490)
Reclassification resulting from enactment of federal tax legislation	-	-	34,534	(34,534)	-
<b>Balances, December 31, 2017</b>	<b>477,986</b>	<b>\$ 4,228,941</b>	<b>\$ 5,732,418</b>	<b>\$ (209,854)</b>	<b>\$ 9,751,505</b>

The accompanying notes are an integral part of these consolidated financial statements.

# MAYVILLE FINANCIAL CORPORATION

## Consolidated Statements of Cash Flows

	Year Ended December 31	
	2017	2016
<b>Cash flows from operating activities</b>		
Net income	\$ 576,569	\$ 648,563
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for foreclosed asset losses	8,100	-
Depreciation	56,923	70,647
Increase in cash surrender value of bank owned life insurance	(83,940)	(90,846)
Net amortization of investment securities premiums	295,040	279,075
Gain on sale of foreclosed assets	(3,803)	(14,548)
Gain on calls of investment securities	-	(2,128)
Deferred income tax expense	98,000	13,000
Changes in operating assets and liabilities which (used) provided cash		
Accrued interest receivable	(10,437)	(5,124)
Other assets	95,739	(181,217)
Accrued interest payable	(1,163)	(1,024)
Accrued expenses and other liabilities	(108,432)	43,194
<b>Net cash provided by operating activities</b>	<b>922,596</b>	<b>759,592</b>
<b>Cash flows from investing activities</b>		
Net change in certificates of deposit held at other financial institutions	(3,220,000)	(745,000)
Activity in held-to-maturity securities		
Purchases	(1,078,191)	(497,148)
Maturities, prepayments and calls	146,538	2,157,145
Activity in available-for-sale securities		
Purchases	(5,123,851)	(9,720,999)
Maturities, sales, prepayments and calls	6,643,619	7,709,849
Loan principal collections, net	1,683,384	1,515,872
Proceeds from sales of foreclosed assets	18,803	201,798
Purchases of premises and equipment	(74,321)	(19,526)
<b>Net cash (used in) provided by investing activities</b>	<b>(1,004,019)</b>	<b>601,991</b>
<b>Cash flows from financing activities</b>		
Acceptances and withdrawals of deposits, net	(388,335)	98,473
Cash dividends paid	(358,490)	(382,389)
<b>Net cash used in financing activities</b>	<b>(746,825)</b>	<b>(283,916)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(828,248)</b>	<b>1,077,667</b>
Cash and cash equivalents, beginning of year	7,881,026	6,803,359
<b>Cash and cash equivalents, end of year</b>	<b>\$ 7,052,778</b>	<b>\$ 7,881,026</b>

The accompanying notes are an integral part of these consolidated financial statements.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

### 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Consolidation and Nature of Business*

The accompanying consolidated financial statements include the accounts of *Mayville Financial Corporation*, a registered bank holding company (the “Corporation”), and its wholly owned subsidiary, Mayville State Bank (the “Bank”), and the Bank’s subsidiary Mayville Financial Services. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Corporation is independently owned and operates a community bank engaged in the business of retail and commercial banking services through its three branches located in Tuscola County in Michigan. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all the Bank’s primary markets. The Bank’s results of operations can be significantly affected by changes in interest rates or changes in the automotive and agricultural industries which comprise a significant portion of the local economic environment.

#### *Concentration Risks*

The Bank’s primary deposit products are interest and noninterest-bearing checking accounts, savings accounts, and time deposits, and its primary lending products are real estate mortgages, commercial, and consumer loans. The Bank does not have significant concentrations with respect to any one industry, customer, or depositor.

The Bank is a state chartered bank and a member of the Federal Deposit Insurance Corporation (“FDIC”) Bank Insurance Fund. The Bank is subject to the regulations and supervision of the FDIC and state regulators and undergoes periodic examinations by these regulatory authorities. The Corporation is further subject to regulations and supervision of the Federal Reserve Board governing bank holding companies.

#### *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the determination of the allowance for loan losses and the associated valuation of impaired loans.

#### *Summary of Significant Accounting Policies*

Accounting policies used in preparation of the accompanying consolidated financial statements are in conformity with accounting principles generally accepted in the United States of America. The principles which materially affect the determination of the consolidated financial position and results of operations of the Corporation and its subsidiary are summarized below.

#### *Cash and Cash Equivalents*

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold. Generally, federal funds are sold for a one-day period. The Bank maintains deposit accounts in various financial institutions which generally exceed the FDIC insured limits or are not insured. Management does not believe the Corporation is exposed to any significant interest, credit or other financial risk as a result of these deposits.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

### *Certificates of Deposit Held at Other Financial Institutions*

Certificates of deposit held at other financial institutions mature within five years and are carried at cost.

### *Fair Value Measurements*

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

A description of each category in the fair value hierarchy is as follows:

- 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 the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2 to the consolidated financial statements.

### *Investment Securities*

Debt securities that management has the ability and positive intent to hold to maturity are classified as held-to-maturity and are recorded at amortized cost. Securities not classified as held-to-maturity are classified as available-for-sale and are recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, recorded in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investment securities. Realized gains or losses on the sale of available-for-sale securities are recorded in investment income on the trade date and are determined using the specific identification method.

Investment securities are reviewed at each reporting period for possible other-than-temporary impairment ("OTTI"). In determining whether an other-than-temporary impairment exists for debt securities, management must assert that: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. If these conditions are not met, the Corporation must recognize an other-than-temporary impairment charge through earnings for the difference between the debt security's amortized cost basis and its fair value. For these debt securities, the Corporation separates the total impairment into the credit loss component and the amount of the loss related to other factors.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

In order to determine the amount of the credit loss for a debt security, the Corporation calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows management expects to recover. The amount of the total other-than-temporary impairment related to the credit risk is recognized in earnings and is included in noninterest income. The amount of the total other-than-temporary impairment related to other risk factors is recognized as a component of other comprehensive income. For debt securities that have recognized an other-than-temporary impairment through earnings, if through subsequent evaluation there is a significant increase in the cash flow expected, the difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

### *Federal Home Loan Bank Stock*

The Bank is a member of the Federal Home Loan Bank System and is required to invest in capital stock of the Federal Home Loan Bank of Indianapolis (“FHLB”). The amount of the required investment is based upon the available balance of the Bank’s outstanding home mortgage loans or advances from the FHLB and is carried at cost plus the value assigned to stock dividends.

### *Loans*

Loans that management has the positive intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Management estimates that direct costs incurred in originating loans approximate the origination fees generated on these loans. Therefore, net deferred loan origination fees on loans classified as held-to-maturity are not included on the accompanying consolidated balance sheets.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on non-accrual or are charged off, is reversed against interest income while interest accrued but not collected in prior years is reversed against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income is recognized daily as it is earned according to the terms of the loan agreement.

Nonperforming loans of the loan portfolio are comprised of those loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more as to interest or principal payments, and loans modified under troubled debt restructurings (nonperforming originated loans).

### *Allowance for Loan Losses*

The allowance for loan losses (“allowance”) is an estimate of loan losses inherent in the Bank’s loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the appropriateness of the total allowance after loan losses. Loan losses are charged off against the allowance when the Bank determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

The allowance consists of general reserves, specific reserves related to impaired loans, and an unallocated component. The general component covers nonimpaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent 5 years. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement or in nonaccrual status.

The Bank evaluates the credit quality of loans in the consumer loan portfolio, including residential real estate loans, based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans past due as to principal or interest 90 days or more are considered in a nonperforming status for purposes of credit quality evaluation.

Under certain circumstances, the Bank will provide borrowers relief through loan restructurings. A loan restructuring constitutes a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Bank grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.



# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

The Bank assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

**Pass:** A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

**Special Mention (or Watch):** Special mention loans (or watch) have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention (watch) loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

**Substandard:** Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

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

**Loss:** Loans classified as loss are considered uncollectible and are charged off immediately.

The majority of the Bank's consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Bank's collection department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

The Bank maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial and industrial, commercial real estate, real estate construction, residential real estate, and consumer and other with risk characteristics described as follows:

- Commercial and Industrial:** Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.
- Commercial Real Estate:** Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.
- Real Estate Construction:** Real estate construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within a specified cost and time line. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.
- Residential Real Estate:** The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.
- Consumer and Other:** The consumer and other loan portfolio is comprised of a large number of small loans, including automobile, personal loans, credit cards, etc. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be appropriate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the appropriateness of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators review the appropriateness of the allowance. The regulatory agencies may require changes to the allowance based on their judgment about information available at the time of their examination.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

### *Foreclosed Assets*

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, on the date of transfer, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expenses on the consolidated statements of income. Other real estate owned amounted to \$76,300 and \$23,100 at December 31, 2017 and 2016, respectively, and is included in other assets on the accompanying consolidated balance sheets.

### *Off-Balance Sheet Credit Related Financial Instruments*

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit arrangements. Such financial instruments are considered to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is considered insignificant, the commitments are generally recorded only when they are funded.

### *Premises and Equipment*

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation which is computed principally by the straight-line method based upon the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Management annually reviews these assets to determine whether carrying values have been impaired.

### *Bank Owned Life Insurance*

The Corporation holds life insurance policies purchased on the lives of key members of management. In the event of death of one of these individuals, the Corporation, as beneficiary of the policies, would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be currently realized as of the balance sheet date. The change in cash surrender value is an adjustment of premiums paid in determining the net expense or income recognized under the contracts for the year and is included in other noninterest income.

### *Income Taxes*

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred income tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in federal income tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected more likely than not to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

### *Advertising Costs*

The cost of advertising and promotions are expensed as incurred. The Corporation incurred \$29,832 and \$32,816 in advertising costs in 2017 and 2016, respectively.

### *Net Income Per Share*

Net income per basic share of common stock represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the year, which was 477,986 in 2017 and 2016.

### *Subsequent Events*

In preparing these consolidated financial statements, the Corporation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2017, the most recent consolidated balance sheet presented herein, through April 24, 2018, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified other than as disclosed in Note 11 and the new accounting pronouncement issued in February 2018 as disclosed below.

### *New Accounting Pronouncement*

*ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, was issued in February 2018 to eliminate the stranded tax effects associated with the change in the federal corporate income tax rate included in the Tax Cuts and Jobs Act of 2017. The amendments in the update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted change in the federal corporate income tax rate. The amount of the reclassification is based on the difference between the historical corporate income tax rate and the enacted 21 percent corporate income tax rate, or approximately \$34,500 in 2017. Although the update is effective for fiscal years beginning after December 31, 2018, the Corporation has elected to early adopt the guidance in 2017.

*ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, was issued in 2016 with the intention of improving financial reporting by requiring timelier recording of credit losses on loans and certain other financial instruments held by financial institutions.

The ASU requires that the measurement of all expected credit losses for financial assets that are measured at amortized cost at the reporting date be based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions will also use forward-looking information to develop their credit loss estimates.

The ASU requires enhanced disclosures to assist investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an institution's portfolio.

In addition, the ASU amends existing guidance on accounting for credit losses on available-for-sale debt securities, purchased financial assets with credit deterioration, and also applies to certain off-balance sheet credit exposures.

The ASU on credit losses will take effect for fiscal years beginning after December 15, 2020. Management is currently evaluating the provisions of ASU 2016-13 to determine the potential impact on the Corporation's consolidated financial statements.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

### 2. FAIR VALUE MEASUREMENTS

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Marketable securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis such as investment securities held-to-maturity, impaired loans, foreclosed assets, and certain other assets. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure financial assets recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. The description includes an indication of the level of the fair value hierarchy in which the assets are classified.

#### *Investment Securities*

Investment securities classified as 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 and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 1 securities include U.S. Treasury notes. Level 2 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 and liquidity assumptions. Level 2 securities include states and municipal securities and mortgage-backed securities, and securities issued by government-sponsored entities and municipal bonds in active markets. Securities classified as Level 3 include securities in less liquid markets and may include certain municipal securities. The Corporation does not have any Level 3 securities at December 31, 2017 or 2016.

#### *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 an allowance for loan losses is established. 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 accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, liquidation value, 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. At December 31, 2017 and 2016, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. 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 classifies the impaired loan as nonrecurring Level 2. When a current 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 classifies the impaired loan as nonrecurring Level 3.

## MAYVILLE FINANCIAL CORPORATION

### Notes to Consolidated Financial Statements

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement at the reporting date.

#### *Assets Recorded at Fair Value on a Recurring Basis*

The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a recurring basis as of December 31:

2017	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
U.S. Treasury notes	\$ 749,180	\$ -	\$ -	\$ 749,180
Government-sponsored enterprises	-	12,925,200	-	12,925,200
States and municipal	-	17,077,736	-	17,077,736
Mortgage-backed	-	2,247,707	-	2,247,707
<b>Total assets at fair value</b>	<b>\$ 749,180</b>	<b>\$ 32,250,643</b>	<b>\$ -</b>	<b>\$ 32,999,823</b>

2016	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
U.S. Treasury notes	\$ 753,868	\$ -	\$ -	\$ 753,868
Government-sponsored enterprises	-	14,749,093	-	14,749,093
States and municipal	-	16,373,420	-	16,373,420
Mortgage-backed	-	2,921,393	-	2,921,393
<b>Total assets at fair value</b>	<b>\$ 753,868</b>	<b>\$ 34,043,906</b>	<b>\$ -</b>	<b>\$ 34,797,774</b>

#### *Assets Recorded at Fair Value on a Nonrecurring Basis*

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a nonrecurring basis as of December 31:

2017	Assets at Carrying Value			
	Level 1	Level 2	Level 3	Total
Impaired loans (1)	\$ -	\$ -	\$ 669,123	\$ 669,123

2016	Assets at Carrying Value			
	Level 1	Level 2	Level 3	Total
Impaired loans (1)	\$ -	\$ -	\$ 904,037	\$ 904,037

(1) Certain impaired loans were remeasured and reported at fair value through a specific valuation allowance based upon the estimated fair value of the underlying collateral. Impaired loans of \$669,123 and \$904,037 at December 31, 2017 and 2016, respectively, were reduced by a specific valuation allowance totaling \$111,000 and \$197,000 as of December 31, 2017 and 2016, respectively.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

Quantitative information about Level 3 fair value measurements is as follows as of December 31:

2017		Level 3 Instruments		
Instrument	Fair Value	Valuation Technique	Unobservable Input	Range
Impaired Loans	\$ 669,123	Discounted Appraisal Value	Discount Applied to Collateral Appraisal	10% - 30%

2016		Level 3 Instruments		
Instrument	Fair Value	Valuation Technique	Unobservable Input	Range
Impaired Loans	\$ 904,037	Discounted Appraisal Value	Discount Applied to Collateral Appraisal	10% - 30%

### 3. INVESTMENT SECURITIES

The amortized cost and fair value of available-for-sale investment securities, including gross unrealized gains and losses, are summarized as follows as of December 31:

2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Held-to-Maturity</b>				
States and municipal	\$ 1,591,926	\$ 112	\$ 820	\$ 1,591,218
<b>Available-for-Sale</b>				
U.S. Treasury notes	752,453	-	3,273	749,180
Government-sponsored enterprises	12,991,389	9,390	75,579	12,925,200
States and municipal	17,252,908	2,941	178,113	17,077,736
Mortgage-backed	2,268,973	183	21,449	2,247,707
Total available-for-sale	33,265,723	12,514	278,414	32,999,823
<b>Total</b>	<b>\$ 34,857,649</b>	<b>\$ 12,626</b>	<b>\$ 279,234</b>	<b>\$ 34,591,041</b>

2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Held-to-Maturity</b>				
States and municipal	\$ 660,273	\$ 1,466	\$ 1,560	\$ 660,179
<b>Available-for-Sale</b>				
U.S. Treasury notes	756,142	-	2,274	753,868
Government-sponsored enterprises	14,743,263	64,248	58,418	14,749,093
States and municipal	16,619,890	8,101	254,571	16,373,420
Mortgage-backed	2,961,236	379	40,222	2,921,393
Total available-for-sale	35,080,531	72,728	355,485	34,797,774
<b>Total</b>	<b>\$ 35,740,804</b>	<b>\$ 74,194</b>	<b>\$ 357,045</b>	<b>\$ 35,457,953</b>

## MAYVILLE FINANCIAL CORPORATION

### Notes to Consolidated Financial Statements

There were no securities pledged as of December 31, 2017 or 2016.

The amortized cost and fair value of held-to-maturity securities and available-for-sale securities grouped by contractual maturity at December 31, 2017, are summarized as follows:

	Maturing			Securities with Variable Monthly Payments	Total
	Due in One Year Or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years		
<b>Held-to-Maturity</b>					
States and municipal	\$ 1,153,221	\$ 438,705	\$ -	\$ -	\$ 1,591,926
<b>Available-for-sale</b>					
U.S. Treasury notes	752,453	-	-	-	752,453
Government-sponsored enterprises	3,704,145	9,287,244	-	-	12,991,389
States and municipal	2,139,394	13,742,738	1,370,776	-	17,252,908
Mortgage-backed	-	-	-	2,268,973	2,268,973
<b>Total available-for-sale</b>	<b>6,595,992</b>	<b>23,029,982</b>	<b>1,370,776</b>	<b>2,268,973</b>	<b>33,265,723</b>
<b>Total amortized cost</b>	<b>\$ 7,749,213</b>	<b>\$ 23,468,687</b>	<b>\$ 1,370,776</b>	<b>\$ 2,268,973</b>	<b>\$ 34,857,649</b>
<b>Fair value</b>	<b>\$ 7,733,898</b>	<b>\$ 23,249,843</b>	<b>\$ 1,359,593</b>	<b>\$ 2,247,707</b>	<b>\$ 34,591,041</b>

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Because of their variable monthly payments, mortgage-backed securities are not reported by a specific maturity group.

There were no sales of available-for-sale securities during the years ended December 31, 2017 or 2016. During 2016, gross realized gains amounted to \$2,128 as a result of calls on available-for-sale securities. This resulted in a reclassification of \$2,128 (\$1,404 net of tax) from accumulated other comprehensive income to gain on calls of securities, a component of other noninterest income on the 2016 consolidated statements of income.



# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

Information pertaining to securities with unrealized losses aggregated by investment category and the length of time that individual securities have been in a continuous loss position at December 31 is as follows:

	Less than 12 Months		Over 12 Months		Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss		
<b>2017</b>						
<b>Securities held-to-maturity</b>						
States and municipal	\$ 336,942	\$ 820	\$ -	\$ -	\$ 336,942	\$ 820
<b>Securities available-for-sale</b>						
U.S. Treasury notes	\$ -	\$ -	\$ 749,180	\$ 3,273	\$ 749,180	\$ 3,273
Government-sponsored enterprises	4,267,104	19,789	4,893,599	55,790	9,160,703	75,579
States and municipal	13,466,069	124,429	2,185,132	53,684	15,651,201	178,113
Mortgage-backed	1,870,808	11,935	244,013	9,514	2,114,821	21,449
<b>Total securities available-for-sale</b>	<b>\$19,603,981</b>	<b>\$ 156,153</b>	<b>\$ 8,071,924</b>	<b>\$ 122,261</b>	<b>\$27,675,905</b>	<b>\$ 278,414</b>
	Less than 12 Months		Over 12 Months		Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss		
<b>2016</b>						
<b>Securities held-to-maturity</b>						
States and municipal	\$ 259,794	\$ 1,560	\$ -	\$ -	\$ 259,794	\$ 1,560
<b>Securities available-for-sale</b>						
U.S. Treasury notes	\$ 753,868	\$ 2,274	\$ -	\$ -	\$ 753,868	\$ 2,274
Government-sponsored enterprises	5,401,064	58,418	-	-	5,401,064	58,418
States and municipal	13,971,461	254,571	-	-	13,971,461	254,571
Mortgage-backed	2,813,139	40,222	-	-	2,813,139	40,222
<b>Total securities available-for-sale</b>	<b>\$22,939,532</b>	<b>\$ 355,485</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$22,939,532</b>	<b>\$ 355,485</b>

As of December 31, 2017, the Corporation's investment security portfolio consisted of 158 securities, 87 of which were in an unrealized loss position. The unrealized losses are related to the Corporation's U.S. Treasury notes, government-sponsored enterprises, states and municipal and mortgage-backed securities.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

As of December 31, 2017 and 2016, management conducted an analysis to determine whether securities currently in an unrealized loss position should be considered other-than-temporarily-impaired (“OTTI”). Such analyses considered, among other factors, the following criteria:

- Has the value of the investment declined more than what is deemed reasonable based on a risk and maturity adjusted discount rate?
- Is the investment credit rating below investment grade?
- Is it probable that the issuer will be unable to pay the amount when due?
- Is it more likely than not that the Corporation will not have to sell the security before recovery of its cost basis?
- Has the duration of the investment been extended for an unreasonable period of time?

Based on the Corporation’s analysis using the above criteria, the fact that management has asserted that it does not have the intent to sell these securities in an unrealized loss position, and that it is more likely than not the Corporation will not have to sell the securities before recovery of their cost basis, management does not believe that the values of any securities are other-than-temporarily impaired as of December 31, 2017 or 2016.

## 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank grants commercial, consumer and residential mortgage loans to customers situated primarily in the Tuscola County Area. The ability of the Bank’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Substantially all of the consumer and residential loans are collateralized by various items of property, while commercial loans are collateralized primarily by business assets and personal guarantees; a portion of loans are unsecured.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

The allowance for loan losses and recorded investment in loans are as follows for the years ended December 31:

2017	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Residential Real Estate	Consumer and Other	Unallocated	Total
<b>Allowance for loan losses:</b>							
Balance at beginning of year	\$ 2,862	\$ 16,358	\$ 183	\$ 441,820	\$ 21,911	\$ 83,536	\$ 566,670
Provisions for loan losses	932	(3,698)	590	(94,465)	14,355	82,286	-
Loans charged off	-	-	-	(54,850)	(8,710)	-	(63,560)
Recoveries	-	-	-	12,222	673	-	12,895
<b>Balance at end of year</b>	<b>\$ 3,794</b>	<b>\$ 12,660</b>	<b>\$ 773</b>	<b>\$ 304,727</b>	<b>\$ 28,229</b>	<b>\$ 165,822</b>	<b>\$ 516,005</b>
<b>Allowance for loan losses attributable to:</b>							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 111,000	\$ -	\$ -	\$ 111,000
Collectively evaluated for impairment	3,794	12,660	773	193,727	28,229	165,822	405,005
<b>Total allowance for loan losses</b>	<b>\$ 3,794</b>	<b>\$ 12,660</b>	<b>\$ 773</b>	<b>\$ 304,727</b>	<b>\$ 28,229</b>	<b>\$ 165,822</b>	<b>\$ 516,005</b>
<b>Loans:</b>							
Individually evaluated for impairment	\$ -	\$ 159,812	\$ -	\$ 1,135,237	\$ -	\$ -	\$ 1,295,049
Collectively evaluated for impairment	1,516,375	3,465,969	772,721	25,648,887	2,069,779	-	33,473,731
<b>Total loans</b>	<b>1,516,375</b>	<b>3,625,781</b>	<b>772,721</b>	<b>26,784,124</b>	<b>2,069,779</b>	<b>-</b>	<b>34,768,780</b>
Accrued interest receivable	15,354	11,355	-	104,052	5,487	-	136,248
<b>Total recorded investment in loans</b>	<b>\$ 1,531,729</b>	<b>\$ 3,637,136</b>	<b>\$ 772,721</b>	<b>\$ 26,888,176</b>	<b>\$ 2,075,266</b>	<b>\$ -</b>	<b>\$ 34,905,028</b>

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

2016	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Residential Real Estate	Consumer and Other	Unallocated	Total
<b>Allowance for loan losses:</b>							
Balance at beginning of year	\$ 3,613	\$ 23,946	\$ 151	\$ 571,286	\$ 18,703	\$ 39,237	\$ 656,936
Provisions for loan losses	(751)	(7,588)	32	(42,322)	6,330	44,299	-
Loans charged off	-	-	-	(95,536)	(10,213)	-	(105,749)
Recoveries	-	-	-	8,392	7,091	-	15,483
<b>Balance at end of year</b>	<b>\$ 2,862</b>	<b>\$ 16,358</b>	<b>\$ 183</b>	<b>\$ 441,820</b>	<b>\$ 21,911</b>	<b>\$ 83,536</b>	<b>\$ 566,670</b>
<b>Allowance for loan losses attributable to:</b>							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 197,000	\$ -	\$ -	\$ 197,000
Collectively evaluated for impairment	2,862	16,358	183	244,820	21,911	83,536	369,670
<b>Total allowance for loan losses</b>	<b>\$ 2,862</b>	<b>\$ 16,358</b>	<b>\$ 183</b>	<b>\$ 441,820</b>	<b>\$ 21,911</b>	<b>\$ 83,536</b>	<b>\$ 566,670</b>
<b>Loans:</b>							
Individually evaluated for impairment	\$ -	\$ 15,037	\$ -	\$ 1,360,118	\$ -	\$ -	\$ 1,375,155
Collectively evaluated for impairment	1,225,175	4,239,603	183,213	27,484,507	2,071,476	-	35,203,974
<b>Total loans</b>	<b>1,225,175</b>	<b>4,254,640</b>	<b>183,213</b>	<b>28,844,625</b>	<b>2,071,476</b>	<b>-</b>	<b>36,579,129</b>
Accrued interest receivable	15,689	8,192	-	104,267	8,299	-	136,447
<b>Total recorded investment in loans</b>	<b>\$ 1,240,864</b>	<b>\$ 4,262,832</b>	<b>\$ 183,213</b>	<b>\$ 28,948,892</b>	<b>\$ 2,079,775</b>	<b>\$ -</b>	<b>\$ 36,715,576</b>

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

The following table shows the loans allocated by management's internal risk ratings as of December 31:

2017	Commercial Credit Risk Profile by Risk Rating				Total
	Pass	Special Mention or Watch	Substandard	Doubtful	
<b>Risk Rating</b>					
Commercial and industrial	\$ 1,215,444	\$ 300,931	\$ -	\$ -	\$ 1,516,375
Commercial and real estate	3,421,291	44,678	159,812	-	3,625,781
<b>Total</b>	<b>\$ 4,636,735</b>	<b>\$ 345,609</b>	<b>\$ 159,812</b>	<b>\$ -</b>	<b>\$ 5,142,156</b>

The following table shows the homogeneous loans allocated by payment activity as of December 31:

2017	Consumer Credit Risk Profile by Payment Activity				Total
	Real Estate Construction	Residential Real Estate	Consumer and Other		
<b>Payment activity</b>					
Performing	\$ 772,721	\$ 26,705,622	\$ 2,069,779	\$ -	\$ 29,548,122
Nonperforming	-	78,502	-	-	78,502
<b>Total</b>	<b>\$ 772,721</b>	<b>\$ 26,784,124</b>	<b>\$ 2,069,779</b>	<b>\$ -</b>	<b>\$ 29,626,624</b>

The following table shows the loans allocated by management's internal risk ratings as of December 31:

2016	Commercial Credit Risk Profile by Risk Rating				Total
	Pass	Special Mention or Watch	Substandard	Doubtful	
<b>Risk Rating</b>					
Commercial and industrial	\$ 942,636	\$ 282,539	\$ -	\$ -	\$ 1,225,175
Commercial and real estate	4,190,068	49,535	-	15,037	4,254,640
<b>Total</b>	<b>\$ 5,132,704</b>	<b>\$ 332,074</b>	<b>\$ -</b>	<b>\$ 15,037</b>	<b>\$ 5,479,815</b>

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

The following table shows the homogeneous loans allocated by payment activity as of December 31:

2016	Consumer Credit Risk Profile by Payment Activity			
	Real Estate Construction	Residential Real Estate	Consumer and Other	Total
<b>Payment activity</b>				
Performing	\$ 183,213	\$ 28,780,864	\$ 2,071,476	\$ 31,035,553
Nonperforming	-	63,761	-	63,761
<b>Total</b>	<b>\$ 183,213</b>	<b>\$ 28,844,625</b>	<b>\$ 2,071,476</b>	<b>\$ 31,099,314</b>

The following table shows an aging analysis of the loan portfolio by time past due as of December 31:

2017	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Commercial and industrial	\$ 1,424,059	\$ 92,316	\$ -	\$ -	\$ 1,516,375
Commercial real estate	3,599,575	26,206	-	-	3,625,781
Real estate construction	772,721	-	-	-	772,721
Residential real estate	25,813,496	892,126	78,502	-	26,784,124
Consumer and other	1,989,633	80,146	-	-	2,069,779
<b>Total</b>	<b>\$ 33,599,484</b>	<b>\$ 1,090,794</b>	<b>\$ 78,502</b>	<b>\$ -</b>	<b>\$ 34,768,780</b>

2016	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Commercial and industrial	\$ 1,225,175	\$ -	\$ -	\$ -	\$ 1,225,175
Commercial real estate	4,254,640	-	-	-	4,254,640
Real estate construction	183,213	-	-	-	183,213
Residential real estate	28,005,594	775,270	-	63,761	28,844,625
Consumer and other	2,020,299	51,177	-	-	2,071,476
<b>Total</b>	<b>\$ 35,688,921</b>	<b>\$ 826,447</b>	<b>\$ -</b>	<b>\$ 63,761</b>	<b>\$ 36,579,129</b>

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

The following table presents information related to impaired loans as of December 31:

2017	Loan Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>Loans with no related allowance recorded</b>					
Commercial real estate	\$ 159,812	\$ 159,812	\$ -	\$ 165,806	\$ 10,654
Residential real estate	466,114	466,114	-	477,660	32,889
<b>Loans with an allowance recorded</b>					
Residential real estate	669,123	669,123	111,000	682,002	45,343
<b>Total impaired loans</b>					
Commercial real estate	159,812	159,812	-	165,806	10,654
Residential real estate	1,135,237	1,135,237	111,000	1,159,662	78,232
<b>Total</b>	<b>\$ 1,295,049</b>	<b>\$ 1,295,049</b>	<b>\$ 111,000</b>	<b>\$ 1,325,468</b>	<b>\$ 88,886</b>

2016	Loan Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>Loans with no related allowance recorded</b>					
Commercial real estate	\$ 15,037	\$ 15,037	\$ -	\$ 15,883	\$ 1,122
Residential real estate	456,081	456,081	-	469,281	31,209
<b>Loans with an allowance recorded</b>					
Residential real estate	904,037	904,037	197,000	952,723	65,476
<b>Total impaired loans</b>					
Commercial real estate	15,037	15,037	-	15,883	1,122
Residential real estate	1,360,118	1,360,118	197,000	1,422,004	96,685
<b>Total</b>	<b>\$ 1,375,155</b>	<b>\$ 1,375,155</b>	<b>\$ 197,000</b>	<b>\$ 1,437,887</b>	<b>\$ 97,807</b>

The Bank does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual.

## MAYVILLE FINANCIAL CORPORATION

### Notes to Consolidated Financial Statements

A summary of loans that were modified in troubled debt restructurings during the year ended December 31, 2017, is as follows:

	Troubled Debt Restructurings		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	1	\$ 34,311	\$ 34,311

All modifications during 2017 consisted of interest rate reductions.

There were no troubled debt restructurings modified during the year ended December 31, 2016.

TDRs that defaulted during 2017 and 2016 were not significant.

### 5. FORECLOSED ASSETS

Real estate owned activity was as follows:

	2017	2016
Beginning balance	\$ 23,100	\$ 121,450
Loans transferred to real estate owned	76,300	88,900
Direct write-downs	(8,100)	-
Sales of real estate owned	(15,000)	(187,250)
<b>End of year</b>	<b>\$ 76,300</b>	<b>\$ 23,100</b>

At December 31, 2017, the balance of real estate owned consisted of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. There were no formal foreclosure proceedings in process at December 31, 2017 or 2016.

Expenses related to foreclosed assets are included in other noninterest expenses on the consolidated statements of income and consist of the following:

	2017	2016
Net gain on sales	\$ (3,803)	\$ (14,548)
Direct write-downs	8,100	-
Operating expenses	2,564	5,406
	<b>\$ 6,861</b>	<b>\$ (9,142)</b>



# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

### 6. PREMISES AND EQUIPMENT

Net premises and equipment consists of the following amounts at December 31:

	2017	2016
Land and improvements	\$ 318,428	\$ 318,428
Buildings and improvements	1,186,495	1,156,531
Furniture and equipment	<u>1,137,213</u>	<u>1,739,629</u>
Total	2,642,136	3,214,588
Less accumulated depreciation	<u>2,117,011</u>	<u>2,706,861</u>
<b>Premises and equipment, net</b>	<b><u>\$ 525,125</u></b>	<b><u>\$ 507,727</u></b>

Depreciation expense was \$56,923 and \$70,647 for 2017 and 2016, respectively.

### 7. DEPOSITS

Scheduled maturities of time deposits for each of the five years succeeding December 31, 2017, and thereafter, are summarized as follows:

Year	Amount
2018	\$ 19,548,428
2019	2,668,915
2020	1,810,660
2021	1,475,326
2022	728,203
Thereafter	<u>7,380</u>
<b>Total</b>	<b><u>\$ 26,238,912</u></b>

### 8. FEDERAL INCOME TAXES

The provision for federal income taxes consists of the following components for the years ended December 31:

	2017	2016
Currently payable	\$ 87,000	\$ 169,000
Deferred expense	<u>98,000</u>	<u>13,000</u>
<b>Income taxes</b>	<b><u>\$ 185,000</u></b>	<b><u>\$ 182,000</u></b>

## MAYVILLE FINANCIAL CORPORATION

### Notes to Consolidated Financial Statements

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, among other provisions. The Corporation remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%, resulting in an immediate tax charge of approximately \$89,000 in 2017.

A reconciliation between federal income tax expense reported and the amount computed by applying the statutory federal income tax rate of 34% to income before federal income taxes is as follows for the years ended December 31:

	2017	2016
Income tax provision at statutory rate	\$ 259,000	\$ 283,000
Effect of tax-exempt interest income	(96,000)	(76,000)
Remeasurement of deferred taxes due to changes in federal tax law	89,000	-
Other - net	(67,000)	(25,000)
<b>Income taxes</b>	<b>\$ 185,000</b>	<b>\$ 182,000</b>

Significant components of the Corporation's deferred income tax assets and liabilities presented in the accompanying consolidated balance sheets within other assets are comprised of the following amounts as of December 31:

	2017 (Remeasured at 21% Tax Rate)	2016
<b>Deferred tax assets</b>		
Allowance for loan losses	\$ 79,000	\$ 141,000
Nonaccrued interest	4,000	3,000
Other	1,000	2,000
Depreciation	10,000	20,000
Unrealized loss on available-for-sale securities	56,000	96,000
<b>Total deferred tax assets</b>	<b>150,000</b>	<b>262,000</b>
<b>Deferred tax liabilities</b>		
Prepaid expenses	1,000	2,000
Accretion	-	6,000
FHLB stock dividends	2,000	7,000
Unrealized gain on available-for-sale securities	4,000	-
<b>Total deferred tax liabilities</b>	<b>7,000</b>	<b>15,000</b>
<b>Net deferred tax asset</b>	<b>\$ 143,000</b>	<b>\$ 247,000</b>

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

The Corporation concluded that there are no significant uncertain tax positions requiring recognition in the Corporation's consolidated financial statements based on the evaluation performed for the years 2014 through 2017, the years which remain subject to examination by major tax jurisdictions as of December 31, 2017. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly increase in the next 12 months. The Corporation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2017 or 2016, and it is not aware of any claims for such amounts by federal or state income tax authorities.

### 9. RELATED PARTY TRANSACTIONS

#### *Loans*

In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their affiliates. Such loans aggregated approximately \$383,600 and \$430,000 as of December 31, 2017 and 2016, respectively.

#### *Deposits*

Deposits of Corporation directors, executive officers and their affiliates were approximately \$1,949,000 and \$1,173,000 as of December 31, 2017 and 2016, respectively.

### 10. OFF-BALANCE SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policy in making commitments, including requirements for collateral, as it does for on-balance-sheet instruments; no significant losses are anticipated as a result of these commitments.

At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2017	2016
Unfunded commitments under lines of credit	\$ 3,480,000	\$ 3,505,000
Commercial and standby letters of credit	809,700	256,000

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

Unfunded commitments under commercial lines of credit, revolving home equity lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. The commitments for equity lines of credit may expire without being drawn upon. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. A majority of such commitments are at fixed rates of interest; a portion is unsecured.

Commitments to extend credit, if any, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

### 11. LEASE

During 2016, the Bank renewed a two year, non-cancelable operating lease agreement with Wingert's Inc., whose owner is a shareholder and former Bank director, relating to the operation of the Bank's Supermarket Branch; such lease was extended in January 2018 for an additional one year. In addition, the Bank renewed a three year, operating lease agreement relating to an ATM location. Total lease expense was \$47,862 and \$48,874 in 2017 and 2016, respectively.

The following is a schedule of annual future minimum lease payments required under operating leases with initial or remaining non-cancelable lease terms in excess of one year for years after December 31, 2017:

Year	Non-Cancelable Operating Leases
2018	\$ 48,798
2019	1,000
<b>Total minimum payments due</b>	<b>\$ 49,798</b>

### 12. REGULATORY REQUIREMENTS

#### *Capital Requirements*

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, capital and certain off-balance-sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

Failure to meet capital requirements can initiate regulatory action. The final rules related to the implementation of the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015, with full compliance of all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The capital conservation buffer as of December 31, 2017 is 1.25% (0.625% for 2016). The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Quantitative measurements established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table). Management believes, as of December 31, 2017 and 2016, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are also presented in the table.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
(Dollars in thousands)						
Total Capital to Risk Weighted Assets	\$ 9,715	27.62 %	\$ 3,254	9.25 %	\$ 3,518	10.00 %
Tier 1 (Core) Capital to Risk Weighted Assets	9,275	26.36	2,551	7.25	2,814	8.00
Common Tier 1 (CET1)	9,275	26.36	2,023	5.75	2,287	6.50
Tier 1 (Core) Capital to Average Assets	9,275	10.31	3,599	4.00	4,499	5.00

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2016	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Total Capital to Risk Weighted Assets	\$ 9,615	25.57 %	\$ 3,243	8.625 %	\$ 3,760	10.00 %
Tier 1 (Core) Capital to Risk Weighted Assets	9,144	24.32	2,491	6.625	3,008	8.00
Common Tier 1 (CET1)	9,144	24.32	1,927	5.125	2,444	6.50
Tier 1 (Core) Capital to Average Assets	9,144	10.10	3,621	4.00	4,526	5.00

### *Restrictions on Cash and Amounts Due from Banks*

Banks are generally required by regulatory agencies to maintain legal cash reserves based on the level of certain customer deposits. There was no required reserve balance at December 31, 2017 or 2016.

### *Restrictions on Dividends, Loans and Advances*

Federal and state banking regulations place certain restrictions on the amount of loans or advances that can be extended to the Corporation by the Bank and dividends that can be paid to the Corporation by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

## 13. CONTINGENCIES

### *Litigation*

The Corporation may be party to litigation arising during the normal course of business. No such litigation has been asserted as of December 31, 2017.

### *Environmental Issues*

As a result of acquiring real estate from foreclosure proceedings, the Corporation is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted as of December 31, 2017.

## 14. EMPLOYEE BENEFIT PLANS

The Bank sponsors a profit sharing plan qualified under Section 401(k) of the Internal Revenue Code. Substantially all full-time employees of the Bank are covered under the Plan. Contributions to the Plan are discretionary, and amounted to \$26,500 and \$28,000 in 2017 and 2016, respectively.

# MAYVILLE FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

### 15. SUPPLEMENTAL CASH FLOWS INFORMATION

#### *Other Cash Flow Information*

Cash paid for interest and income taxes amounted to the following during the years ended December 31:

	2017	2016
Interest	<u>\$ 235,240</u>	<u>\$ 249,325</u>
Income taxes	<u>\$ 151,631</u>	<u>\$ 202,284</u>

#### *Non-Cash Investing Activities*

Collateral repossessed on real estate loans having carrying values in the amount of \$76,300 and \$88,900 on the date of transfer was transferred to foreclosed assets in 2017 and 2016, respectively.

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