Equitable
FINANCIAL CORP.

# NOTICE OF ANNUAL MEETING, PROXY STATEMENT AND 2018 ANNUAL REPORT

# EQUITABLE FINANCIAL CORP.

113 North Locust Street
Grand Island, Nebraska 68801

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held on Tuesday, February 19, 2019, at 11:00 a.m.

To the Stockholders of Equitable Financial Corp.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Equitable Financial Corp., a Maryland corporation (the "Company"), will be held on Tuesday, February 19, 2019, at 11:00 a.m. (central time) at The Yancey, Commons Room, 123 North Locust Street, Grand Island, Nebraska for the following purposes:

1. The election of five directors to serve for terms of three years;

2. The ratification of the independent registered public accounting firm selected by the Audit Committee as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2019; and

3. Such other matters as may properly come before the Annual Meeting.

The Board of Directors has fixed the close of business on January 18, 2019, as the record date for the determination of stockholders entitled to receive notice of and to vote at the Annual Meeting or any adjournment thereof. Shares of common stock may be voted at the Annual Meeting only if the holder is present at the Annual Meeting in person or by valid proxy.

**Whether or not you plan to attend the Annual Meeting, you are urged to mark, date, and sign the enclosed proxy card and return it promptly so that your vote can be recorded. Alternatively, you may vote by telephone or internet. Instructions for voting by telephone or internet are included on the enclosed proxy card.**

If you are present at the Annual Meeting and desire to do so, you may revoke your proxy and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS

Teresa Hartwig

Teresa Hartwig,
Secretary

Dated: January 28, 2019
Grand Island, Nebraska

**IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS**

Consistent with rules promulgated by the Securities and Exchange Commission ("SEC"), we have elected to provide access to our proxy materials both by: (i) sending you this full set of proxy materials, including a proxy card; and (ii) notifying you of the availability of our proxy materials on the internet. **This Notice of Meeting and Proxy Statement, and our Annual Report to Stockholders for the fiscal year ended June 30, 2018, are available online and may be accessed at http://investors.equitableonline.com**. We do not use "cookies" or other software that identifies visitors accessing these materials on this website. ***We encourage you to access and review all of the important information contained in the proxy materials before voting.***

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# EQUITABLE FINANCIAL CORP.

113 North Locust Street
Grand Island, Nebraska 68801

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## PROXY STATEMENT
## FOR ANNUAL MEETING OF STOCKHOLDERS
## TO BE HELD FEBRUARY 19, 2019

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This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Equitable Financial Corp. to be used at our Annual Meeting of Stockholders (the "Annual Meeting"), which will be held on Tuesday, February 19, 2019, at 11:00 a.m. (central time) at The Yancey, Commons Room, 123 North Locust Street, Grand Island, Nebraska, and any adjournment thereof. The accompanying Notice of Annual Meeting of Stockholders and this Proxy Statement are first being mailed to stockholders on or about January 28, 2019.

On July 8, 2015, Equitable Financial Corp., a federal corporation ("Old Equitable") completed its "second step" conversion from the mutual holding company structure to the fully public stock holding company structure and was succeeded by Equitable Financial Corp., a Maryland corporation ("New Equitable"). New Equitable's only subsidiary is Equitable Bank. New Equitable and Equitable Bank are sometimes collectively referred herein as the "Company." All references to company and committee actions prior to July 8, 2015, are to Old Equitable.

## REVOCATION OF PROXIES

Stockholders who execute proxies in the form solicited hereby retain the right to revoke them in the manner described below. Unless revoked, the shares represented by such proxies will be voted at the Annual Meeting and all adjournments thereof. Proxies solicited on behalf of the Board of Directors will be voted in accordance with the directions given thereon. **Where no instructions are indicated, proxies will be voted "FOR" the proposals set forth in this Proxy Statement for consideration at the Annual Meeting.**

The Board of Directors knows of no additional matters that will be presented for consideration at the Annual Meeting. Execution of a proxy, however, confers to the designated proxy holders discretionary authority to vote the shares in accordance with their best judgment on such other business, if any, that may properly come before the Annual Meeting or any adjournments thereof.

Proxies may be revoked by (i) sending written notice of revocation to our Corporate Secretary at the address shown above, (ii) submitting a new proxy by telephone, (iii) voting a later dated proxy card, or (iv) by attending the Annual Meeting and voting in person. However, if you are a stockholder whose shares of common stock are not registered in your own name, you will need appropriate documentation from your record holder to vote in person at the Annual Meeting. The presence at the Annual Meeting of any stockholder who had previously submitted a proxy shall not revoke such proxy unless the stockholder delivers his or her ballot in person at the Annual Meeting or delivers a written revocation to our Corporate Secretary prior to the voting of such proxy.

## VOTING SECURITIES

Holders of record of our common stock, par value $0.01 per share, as of the close of business on January 18, 2019, (the "Record Date") are entitled to one vote for each share then held. Stockholders are not permitted to vote their shares cumulatively. As of the Record Date, we had 3,255,046 shares of common stock issued and outstanding. The presence in person or by proxy of a majority of the outstanding shares of common stock entitled to vote is necessary to constitute a quorum at the Annual Meeting. Broker non-votes and abstentions will count towards establishing a quorum.

## VOTING PROCEDURES AND METHOD OF COUNTING VOTES

As to the election of directors, the proxy card being provided by the Board of Directors enables a stockholder to vote **"FOR"** the election of each nominee proposed by the Board of Directors, or to **"WITHHOLD"** a vote for each nominee being proposed. Directors are elected by a plurality of votes cast, without regard to either broker non-votes or proxies as to which authority to vote for each nominee being proposed is withheld.

As to the ratification of BKD, LLP as our independent registered public accounting firm, by checking the appropriate box, a stockholder may: (i) vote **"FOR"** the ratification; (ii) vote **"AGAINST"** the ratification; or (iii) **"ABSTAIN"** from voting on such ratification. The affirmative vote of a majority of the eligible votes cast at the annual meeting is required for the ratification of BKD, LLP as the independent registered public accounting firm for the year ending June 30, 2019. **Broker non-votes and abstentions will have no effect on the outcome of the vote.**

If your broker holds shares that you own in "street name," the broker generally may vote your shares on routine matters even if the broker does not receive instructions from you. "Broker non-votes" are proxies received from brokers or other nominees holding shares on behalf of their clients who have not been given specific voting instructions from their clients with respect to non-routine matters. At this Annual Meeting, a non-routine matter is the election of directors, while the ratification of the independent registered public accounting firm is considered a routine matter.

Proxies solicited hereby will be returned to us and will be tabulated by an inspector of election designated by our Board of Directors. PROXIES SOLICITED BY OUR BOARD OF DIRECTORS WILL BE VOTED IN ACCORDANCE WITH YOUR INSTRUCTIONS GIVEN ON THE PROXY. WHERE NO INSTRUCTIONS ARE INDICATED, SIGNED PROXIES WILL BE VOTED "FOR" THE PROPOSALS TO BE CONSIDERED AT THE ANNUAL MEETING.

## PROPOSAL I—ELECTION OF DIRECTORS

Our Board of Directors is currently composed of nine members. On January 15, 2018, the Board of Directors approved an increase in the size of the Board to eleven (11) directors. Our bylaws provide that approximately one-third of the directors are to be elected annually. Directors are generally elected to serve for a three year period or until their respective successors have been elected and shall qualify. Five directors will be elected at the Annual Meeting. The Nominating and Corporate Governance Committee of the Board of Directors has nominated Levi D. Fisher, Pamela L. Price, and Benedict P. Wassinger, Jr., Sean T. Mullen and Wayne G. Cadwallader to each serve as a director for a three-year term.

The table below sets forth certain information regarding the composition of our Board of Directors, including the terms of office of Board members as of the Record Date, as well as certain information regarding our executive officers. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to each nominee) will be voted at the Annual Meeting for the election of the nominees identified. If a nominee is unable to serve, the shares represented by all such proxies will be voted for the election of such substitute as the Board of Directors may recommend. At this time, the Board of Directors knows of no reason why the nominees might be unable to serve, if elected. Except as indicated herein, there are no arrangements or understandings between the nominees and any other person pursuant to which such nominee was selected. **The Board of Directors recommends a vote "FOR" the nominees to serve as directors until their respective term expires.**

| Name | Age | Position | Director Since | Term to Expire |
|---|---|---|---|---|
| Thomas E. Gdowski | 58 | President, Chief Executive Officer and Director | 2007 | 2020 |
| David L. Richardson | 39 | Community Bank President (Grand Island), Chief Lending Officer and Director | 2013 | 2019 |
| Levi D. Fisher | 41 | Community Bank President (North Platte) and Director | 2014 | 2018 |
| Benedict P. Wassinger, Jr. | 75 | Chairman of the Board | 1985 | 2018 |
| Vincent J. Dugan | 56 | Director | 2007 | 2020 |
| Gary L. Hedman | 75 | Director | 2003 | 2019 |
| Pamela L. Price | 73 | Director | 2003 | 2018 |
| William B. Westering | 69 | Director | 2017 | 2020 |
| Sean T. Mullen | 61 | Director Nominee | — | — |
| Wayne G. Cadwallader | 62 | Director Nominee | — | — |
| Douglas J. Redman | 59 | Director | 2001 | 2019 |
| Douglas J. Nodgaard | 56 | Community Bank President (Omaha) | — | — |
| Darcy M. Ray | 38 | Chief Financial Officer | — | — |

The principal occupation during the past five years of each of our directors and executive officers is set forth below. All directors and executive officers have held their present positions for all five years unless otherwise stated.

**Nominees for Election**

***Levi D. Fisher*** has served as Community Bank President (North Platte) of Equitable Bank since June, 2011. Prior to that time, Mr. Fisher served as an Agricultural Loan Officer of Equitable Bank since May, 2005. Prior to joining Equitable Bank, Mr. Fisher served as an Ag Loan Officer for United Nebraska Bank from May, 2002, to May, 2005. Mr. Fisher is a member of the Board of Directors of the Company. Mr. Fisher provides the Board with extensive knowledge of our customers and loan portfolio, particularly with respect to our North Platte market.

***Benedict P. Wassinger, Jr.*** serves as Chairman of the Board of Directors for Equitable Financial Corp. and Equitable Bank. Mr. Wassinger is a pharmacist and previous owner of Bens' Drug Store and Bens' Long Term Care Pharmacy. He currently owns A-B Health Care Services, LLC, a pharmacy consulting service for area nursing homes. With over 30 years of board service, Mr. Wassinger provides the Board of Directors with leadership and extensive institutional knowledge. In addition, his broad business experience and knowledge of the Grand Island community and market area provide great value to the Company.

***Pamela L. Price*** is currently serving as a consultant to local non-profit organizations. Formerly, Ms. Price served for 14 years as Executive Director of the Stuhr Museum Foundation. Ms. Price is also currently the Chairperson of the Company's Compensation Committee and the President of Equitable Bank Charitable Foundation Board. Ms. Price has also served, and continues to serve, on multiple statewide and community boards. Her experience in the non-profit sector provides the Board with a unique perspective on conditions in the Grand Island community and the market area.

***Sean T. Mullen*** has been a principal of Hancock & Dana, PC ("H&D"), a certified public accounting and consulting firm, since 1985. Mr. Mullen has over 35 years of experience with mergers and acquisitions, tax matters and accounting matters.

***Wayne G. Cadwallader*** is Managing Partner — Research for Elkhorn Partners Limited Partnership ("Elkhorn Partners"). Prior to joining Elkhorn Partners, Mr. Cadwallader worked for Hamblin Watsa Investment Counsel Ltd. ("Hamblin Watsa"), a subsidiary of Fairfax Financial Ltd., from October 2000 to June 2010, where he was promoted from Associate Investment Analyst to Senior Investment Analyst. Mr. Cadwallader was part of the investment team at Hamblin Watsa that managed Fairfax Financials' 22.0 billion dollars in assets. In this capacity, Mr. Cadwallader's focus was primarily equity research and, to some extent, bond research with a focus on North America. From 1998 to 2000, Mr. Cadwallader ran his own information technology consulting firm, which placed consultants with companies to develop application software. Mr. Cadwallader currently serves as a director of Orbit International Corp. and Comarco, Inc., both of which trade on the OTC market.

**Continuing Directors and Executive Officers**

***Gary L. Hedman*** is retired. He is the former President and CEO of Southern Public Power District, the largest electric utility system in Nebraska. He served in that capacity for 19 years until 2011. He is a graduate of Kansas State University with a BS degree in Business Administration with an emphasis on accounting and personnel. He is also a graduate of the National Rural Electric Management Intern Program. He has been active in the community having served as board member and president of the United Way, Grand Island Area Economic Development Corporation, Goodwill Industries and Lochland Country Club. He also served on the board of the Nebraska Power Association and served a term as President. He has been a member of the Nebraska Diplomats and has registered as a lobbyist in Nebraska. Mr. Hedman's extensive business, management and local community involvement provides the board with a valuable perspective.

***Douglas J. Redman*** served as Equitable Bank's Business Development Officer from May, 2009, until December 2010. Mr. Redman has been a partner in (i) Red Mountain 1 LLC since September, 2013, (ii) Red Mountain Breakfast Company LLC since January, 2014, and (iii) I84 Donuts LLC since September, 2015; each of which operate under a Dunkin Donuts franchise. Mr. Redman is also the former owner of several businesses, including Subway franchises, and Video Kingdom stores. Mr. Redman's experience as a small business owner provides the Board with valuable insight into managing and overseeing a business, as well as a valuable perspective on the needs of our business banking customers.

***David L. Richardson*** has served as Community Bank President (Grand Island) and Chief Lending Officer of Equitable Bank since May, 2009. Prior to that time, Mr. Richardson served as Credit Administration Manager of Equitable Bank. Mr. Richardson is a member of the Board of Directors of the Company. Mr. Richardson provides the Board with extensive knowledge of our customers and loan portfolio.

***Darcy M. Ray*** has served as Chief Financial Officer of Equitable Bank since November, 2015. Prior to that time, Ms. Ray served as Vice President of Finance and Controller of Equitable Bank since November, 2006. Ms. Ray also has served as a part-time accountant with Horst & Associates in Grand Island, Nebraska since January, 2007. Prior to joining Equitable Bank, Ms. Ray was a Staff Accountant with McDermott & Miller PC in Grand Island, Nebraska.

***Douglas J. Nodgaard*** has served as Community Bank President (Omaha) of Equitable Bank since May, 2013. Prior to joining Equitable Bank, Mr. Nodgaard served as the Chief Lending Officer of United Republic Bank from April, 2010, to May, 2013, and as Senior Vice President and Chief Marketing Officer of First Westroads Bank from January, 1999, to April, 2010.

***Vincent J. Dugan*** is the President and General Counsel of Trego/Dugan Aviation, Inc., a Nebraska-based aviation company, and the President of Trego/Dugan Aviation of Grand Island, Inc. He has served in those positions since July, 1994. Mr. Dugan has also been affiliated with the law firm of Brouillette, Dugan & Troshynski in North Platte, Nebraska since October, 2007. Mr. Dugan's experience as an attorney provides a valuable resource and perspective to the Board.

***Thomas E. Gdowski*** has served as President and Chief Executive Officer of Equitable Bank since December, 2008. Prior to that, Mr. Gdowski had served as Executive Vice President and Chief Operating Officer of Equitable Bank since June, 2006. Other prior positions with Equitable Bank include Chief Financial Officer (August to December, 2008), Senior Vice President (March, 2005, to June, 2006), and Chief Branch Operating Officer (November, 2005, to June, 2006). Prior to joining Equitable Bank, Mr. Gdowski served as Executive Vice President and Chief Financial Officer of United Nebraska Bank from 1993 to September, 2004. Mr. Gdowski is a member of the Board of Directors of the Company. Mr. Gdowski provides the Board with extensive knowledge of our customers and lending markets.

***William B. Westering*** has served as the managing partner of Great Plains Cattle Company, LLC since 2013. Mr. Westering is very engaged in the Grand Island community, currently serving as the Chairman of the Central Nebraska Growth Foundation. Mr. Westering has served as Chairman of the Grand Island Area Economic Development Corporation Board of Trustees, was involved with the boards of Fonner Park and Riverside Golf Club, and numerous area organizations. Mr. Westering is also a member of the Central Nebraska Shrine Club, and owned Westering Distributing in Grand Island from 1976-2000. Mr. Westering earned his business degree from Hastings College in Hastings, Nebraska. Mr. Westering joined the Board of Directors of Equitable Bank in 2017. Mr. Westering's experience as a small business owner provides the Board with valuable insight into managing and overseeing a business as well as a valuable perspective on the needs of our business banking customers.

**Board of Director Independence**

The Board of Directors determines the independence of each director in accordance with Nasdaq Stock Market rules, which include all elements of independence as set forth in the listing requirements for Nasdaq securities. The Board of Directors has determined that all of our directors are "independent" directors within the meaning of such standards, with the exceptions of Mr. Gdowski, Mr. Fisher, and Mr. Richardson. In evaluating the independence of our independent directors, we found no transactions between us and our independent directors that are required to be reported in this proxy statement and that had an impact on our determination as to the independence of our directors.

**Leadership Structure and Risk Oversight of the Board of Directors**

Our Board of Directors is chaired by Benedict P. Wassinger, Jr. who is not an executive officer. We do not have a lead independent director. We believe our structure is appropriate given the relatively small size and simple operating philosophy of our organization. In addition, we note that we have never engaged in a transaction with an affiliate of our Chairman, other than deposit transactions and loans in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with the general public. As a member of the Board for over 30 years, Mr. Wassinger provides extensive institutional and business knowledge to the Board. As a result, he can recommend solutions and prioritize the agenda for Board action.

The Board of Directors is actively involved in oversight of risks that could affect the Company. This oversight is conducted in part through committees of the Board of Directors, but the full Board of Directors has retained responsibility for general oversight of risks. The Board of Directors satisfies this responsibility through full reports by each committee chair regarding the committee's considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within the Company and Equitable Bank. Internal and external audits provide further support, identification, and management of the risks associated with operating the Company. Additionally, the Board of Directors oversees risks through the establishment of policies and procedures that are designed to guide daily operations in a manner consistent with applicable laws, regulations, and risks acceptable to the organization.

## MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The business of our Board of Directors is conducted through meetings and activities of the Board of Directors and its committees. The Board of Directors held twelve regular meetings and one special meeting during the year ended June 30, 2018. During the year ended June 30, 2018, no director attended fewer than 75 percent of the total meetings of the Board of Directors and committees on which such director served. The Board of Directors encourages each director to attend annual meetings of stockholders. Eight of the nine directors attended the annual meeting of stockholders in 2017.

**Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee consists of the following directors: Douglas J. Redman, Chairman, Vincent J. Dugan, Gary L. Hedman, and William B. Westering. Each member of the Nominating and Corporate Governance Committee is considered "independent" as defined in the Nasdaq corporate governance listing standards. Our Board of Directors has adopted a written charter for the Nominating and Corporate Governance Committee, which is available at our website at http://investors.equitableonline.com.

The functions of the Nominating and Corporate Governance Committee include the following:

- periodically review the appropriateness of the size of the Board;
- actively seek and identify individuals qualified to become Board members, consistent with the Board's needs and criteria approved by the Board;
- oversee the evaluation of the background and qualifications of any candidate for the Board, such candidate's compliance with the independence standards, and other applicable qualifications;

- recommend independence categorical standards and determinations with respect to each Board member's independence;

- recommend to the Board director nominees to be proposed for election at the annual shareholder's meeting, or to be appointed as the needs arises;

- determine whether to approve a director's request to join the Board of any other public company;

- annually review committee assignments and chair positions, and recommend the appointment of committee members; and

- recommend the appointment of the Chairman of the Board.

The Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board of Directors with skills and experience that are relevant to our business, and who are willing to continue in service are first considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining a new perspective. If any member of the Board of Directors does not wish to continue in service, or if the Nominating and Corporate Governance Committee or the Board of Directors decides not to re-nominate a member for re-election, or if the size of the Board of Directors is increased, the Nominating and Corporate Governance Committee would solicit suggestions for director candidates from all Board members. In addition, the Nominating and Corporate Governance Committee is authorized by its charter to engage a third party to assist in the identification of director nominees. The Nominating and Corporate Governance Committee would seek to identify a candidate who at a minimum satisfies the following criteria:

- has personal and professional ethics and integrity and whose values are compatible with ours;

- has had experiences and achievements that have given him or her the ability to exercise and develop good business judgment;

- is willing to devote the necessary time to the work of the Board of Directors and its committees, which includes being available for Board and committee meetings;

- is familiar with the communities in which we operate and/or is actively engaged in community activities;

- is involved in other activities or interests that do not create a conflict with his or her responsibilities to us and our stockholders; and

- has the capacity and desire to represent the balanced, best interests of our stockholders as a group, and not primarily a special interest group or constituency.

The Nominating and Corporate Governance Committee also takes into account whether a candidate satisfies the criteria for "independence" under the Nasdaq corporate governance listing standards, and if a nominee is sought for service on the Audit Committee, the financial and accounting expertise of a candidate, including whether an individual qualifies as an Audit Committee financial expert.

The Nominating and Corporate Governance Committee believes that diversity is an important component of a Board of Directors, including such factors as background, skills, experience, community involvement, expertise, gender, race, and culture.

The Nominating and Corporate Governance Committee does not have any specific written minimum qualifications or skills that it believes must be met by either a committee-recommended or a stockholder-recommended candidate in order to serve on the Board. The Nominating and Corporate Governance Committee applies an equal level of scrutiny and review to all candidates, whether they have been provided by the Committee or through a stockholder nomination. The Nominating and Corporate Governance Committee believes that at least one of our directors must possess the requisite financial sophistication to satisfy the standards required for Nasdaq-listed companies. We have not paid a fee to any third party to identify, evaluate or assist in identifying or evaluating potential nominees.

**Procedures for the Nomination of Directors by Stockholders**

The Nominating and Corporate Governance Committee will consider candidates submitted by our stockholders. Stockholders can submit the names of qualified candidates for director by writing to our Corporate Secretary, at 113 North Locust Street, Grand Island, Nebraska 68801. The Corporate Secretary must receive a submission not less than 80 days and not more than 90 days prior to the date of the annual meeting. The submission must include the following information:

- the name and address of the stockholder as they appear on the Company's books, and the number of shares of stock that are owned beneficially or of record by the stockholder;
- all information relating to the nominee's qualification to serve on the Board of Directors;
- the nominee's affidavit that he or she would not be disqualified under the provisions of Article II, Section 12 of the Company's bylaws;
- such information regarding the stockholder and the nominee as would be required to be included in the proxy statement pursuant to SEC Regulation 14A;
- the nominee's written consent to be nominated and to serve as a director if elected;
- a description of all arrangements or understandings between the stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by the stockholder;
- a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice.

A nomination submitted by a stockholder for presentation at an annual meeting of stockholders must comply with the procedural and informational requirements described in "Stockholder Proposals."

**Stockholder Communications with the Board**

A stockholder who wants to communicate with the Board of Directors, or with any individual director can write to our Chairman at 113 North Locust Street, Grand Island, Nebraska 68801, Attention: Chairman. The letter should indicate that the author is a stockholder and if shares are not held of record, should include appropriate evidence of stock ownership. Depending on the subject matter, management will:

- forward the communication to the director or directors to whom it is addressed;
- attempt to handle the inquiry directly; for example if it is a request for information about us or a stock-related matter; or
- not forward the communication if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal or otherwise inappropriate.

At each Board of Directors' meeting, management shall present a summary of all communications received since the last meeting that were not forwarded and make those communications available to the directors.

**Code of Ethics**

We have adopted a Code of Ethics that is applicable to our officers, directors and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Ethics is available on our website at http://investors.equitableonline.com. Amendments to and waivers from the Code of Ethics will also be disclosed on our website.

**Audit Committee**

The Board of Directors has adopted a written charter for the Audit Committee, which is available at our website at http://investors.equitableonline.com. The Audit Committee met four times during the year ended June 30, 2018. The Audit Committee consists of the following directors: Gary L. Hedman, William B. Westering, and Vincent J. Dugan. Responsibilities of the Audit Committee include the following:

- examine and approve the quarterly and annual financial statements prepared by the independent registered public accounting firm;
- prepare the Audit Committee Report for the annual proxy statement;
- evaluate and appoint, on an annual basis, an independent registered public accounting firm;
- review the Company's internal audit function and internal accounting controls; and
- consult with legal counsel and other advisors to ensure legal and regulatory compliance.

All members of the Audit Committee are "independent" as defined in the listing standards for Nasdaq-listed companies and under Rule 10A-3 of the Exchange Act. All members of the Audit Committee are able to read and understand financial statements, and no member of the Audit Committee has participated in the preparation of our financial statements or Equitable Bank's financial statements during the past three years. Gary L. Hedman is deemed by us to be an "audit committee financial expert." Mr. Hedman has an understanding of generally accepted accounting principles (GAAP) and has the ability and experience to review, evaluate and analyze financial statements which present the breadth and level of complexity of issues that we reasonably expect to be raised in connection with a review of our financial statements. Mr. Hedman has actively reviewed our financial statements since becoming a director in 2003. Mr. Hedman has acquired these attributes through the experience he has gained as the President and Chief Executive Officer of the Southern Public Power District, an electric utilities company, for more than 30 years.

**Audit Committee Report**

Management is responsible for our internal controls and financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of our consolidated financial statements in accordance with auditing standards generally accepted in the United States, and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

As part of its ongoing activities, the Audit Committee has:

- Reviewed and discussed our audited consolidated financial statements for the year ended June 30, 2018, with management and our independent registered public accounting firm;
- Discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, *Communications with Audit Committees*, as amended;
- Received the written disclosures and the letter from the independent registered public accounting firm required by PCAOB Rule 3526, "Communication with Audit Committees Concerning Independence," and has discussed with the independent registered public accounting firm their independence from the Company; and

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report for the year ended June 30, 2018. In addition, the Audit Committee approved the appointment of BKD, LLP as our independent registered public accounting firm for the year ending June 30, 3019.

This report has been provided by the Audit Committee:
Gary L. Hedman, Vincent J. Dugan, and William B. Westering

**Compensation Committee**

The Board of Directors has adopted a written charter for the Compensation Committee, which is available at our website at http://investors.equitableonline.com. Pamela L. Price, Chairperson, Douglas J. Redman, and Benedict P. Wassinger, Jr. serve on the Compensation Committee, which meets periodically to review the performance of officers and employees and determine compensation programs and adjustments. Mr. Gdowski is not present, does not vote on or participate in deliberations with respect to his compensation, and will not vote on compensation of other executive officers. The Compensation Committee met two times in the year ended June 30, 2018. Each member of the Compensation Committee is independent as defined under the OTCQX rules for United States banks.

The Compensation Committee provides advice and recommendations to the Board of Directors in the areas of employee salaries and benefit programs, and director compensation. Compensation of the President and Chief Executive Officer, and other executive officers for the year ended June 30, 2018, was paid by the Company and determined by the Board of Directors upon the recommendation of the Compensation Committee. The Compensation Committee administers, and has discretionary authority over the issuance of equity awards under our 2016 Equity Incentive Plan, and recommends to the Board of Directors the bonuses to be paid pursuant to our bonus program as described below under "Executive Compensation."

In order to keep costs to a minimum, the Compensation Committee did not employ an outside consultant to provide recommendations on employee or officer compensation during the year ended June 30, 2018. The Compensation Committee does not delegate authority to determine executive and director compensation to any individual or entity. However, using guidelines established by the Compensation Committee, our department of human resources provides the historical salary and bonus compensation to the Compensation Committee and gives recommendations of salary increases and annual bonuses based on the performance of the officer or employee. The Compensation Committee also relies from time to time on publicly available information including compensation surveys, market and employment conditions within the region or nation, and payroll statistics to determine officer and director compensation. Furthermore, the President and Chief Executive Officer serves as a resource to the Compensation Committee by participating in compensation-related activities purely in an informational and advisory capacity, and presents the other officers' performance summaries and recommendations relating to their compensation to the Compensation Committee for their review and approval. The President and Chief Executive Officer has no vote with respect to compensation matters decided by the Compensation Committee or the Board of Directors.

**Benefit Plans**

***2006 Equity Incentive Plan.*** The Equitable Financial Corp. 2006 Equity Incentive Plan (the "2006 Incentive Plan") was approved at our 2006 annual meeting. The 2006 Equity Incentive Plan expired on November 14, 2016. The 2006 Incentive Plan authorized the issuance of up to 176,296 stock options and 70,518 shares of restricted stock to employees and directors. The 2006 Incentive Plan was administered by the Compensation Committee of the Board of Directors. The Compensation Committee had the authority to grant awards, designate participants, determine the type or types of awards to be granted to each participant and the number, terms, and conditions of awards, and otherwise to make all other decisions and determinations that may be required under the 2006 Incentive Plan. During the term of the 2006 Equity Incentive Plan, no stock options and 68,096 shares of restricted stock were granted to employees and directors.

***2016 Equity Incentive Plan***. The Equitable Financial Corp. 2016 Equity Incentive Plan (the "2016 Incentive Plan") was approved at our 2016 annual meeting. The 2016 Incentive Plan authorizes the issuance of up to 277,642 shares of common stock pursuant to grants of restricted stock awards, restricted unit awards, incentive stock options and non-qualified stock options. The 2016 Incentive Plan is administered by the Compensation Committee of the Board of Directors. The Compensation Committee has the authority to grant awards, designate participants, determine the type or types of awards to be granted to each participant and the number, terms, and conditions of awards, and otherwise to make all other decisions and determinations that may be required under the 2016 Incentive Plan. To date 166,982 stock options and 63,461 shares of restricted stock have been granted under the 2016 Incentive Plan to employees and directors.

***Employee Savings and Profit Sharing Plan.*** Equitable Bank maintains an Employee Savings' and Profit Sharing Plan which is a qualified, tax-exempt profit sharing plan with a "cash or deferred" feature that is tax-qualified under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). All employees who have attained age 21 and have completed six months of employment are eligible to participate.

The 401(k) Plan provides for employee before-tax contributions and employee Roth after-tax contributions, discretionary employer matching contributions, and discretionary employer profit-sharing contributions. Participants may elect to defer a percentage of their compensation each year instead of receiving that amount in cash, in an amount up to 75% of their compensation to the 401(k) Plan, provided that the amount deferred does not exceed $18,000 for 2018. In addition, for participants who are age 50 or older by the end of any taxable year, the participant may elect to defer additional amounts (called "catch-up contributions") to the 401(k) Plan. The "catch-up contributions" may be made regardless of any other limitations on the amount that a participant may defer to the 401(k) Plan. The maximum "catch-up contribution" that a participant can make in 2018 is $6,000. For these purposes, "compensation" includes total compensation (including salary reduction contributions made under the 401(k) Plan or the flexible benefits plan sponsored by Equitable Bank), but does not include compensation in excess of $270,000 for 2018. Employer matching contributions are made by Equitable Bank at the discretion of, and determined by, the Board of Directors. Presently, Equitable Bank makes matching contributions equal to 100% of the first 1% and 50% of the next 5% of compensation contributed to the 401(k) Plan by an employee through salary deferrals. Annual profit-sharing contributions are made by Equitable Bank at the discretion of, and determined by, the Board of Directors. All employee contributions and earnings thereon are fully and immediately vested. All employer matching profit-sharing contributions vest at the rate of 100% after two years of service with Equitable Bank. Participants also will vest in employer profit-sharing contributions when they reach the normal retirement age of 65 or later, or upon death or disability regardless of years of service.

401(k) Plan benefits will be paid to each participant in a lump sum. For the plan year ended December 31, 2017, the Company made a contribution in the amount of $133,061 to the 401(k) Plan.

***Employee Stock Ownership Plan.*** Equitable Bank maintains an Employee Stock Ownership Plan ("ESOP"). Employees who are at least 21 years old with at least three months of employment with Equitable Bank during which they have worked at least 1,000 hours are eligible to participate. The ESOP borrowed funds from Old Equitable and used those funds to purchase shares of common stock for the plan. Collateral for the loan is the common stock purchased by the ESOP. The common stock that was purchased with the loan is held in a suspense account and allocated to participants' accounts in the ESOP as the loan is repaid. Equitable Bank makes annual contributions to the ESOP which are used by the ESOP to repay the loan from Old Equitable.

Benefits under the ESOP become vested in an ESOP participant at the rate of 20% per year, starting upon an employee's completion of one year of credited service, and will be fully vested upon completion of five years of credited service. Participants' interest in their account under the ESOP will also fully vest in the event of termination of service due to their normal retirement, death, disability or upon a change in control (as defined in the plan). Vested benefits will be payable generally upon the participants' termination of employment with Equitable Bank, and will be paid in the form of common stock, or to the extent participants' accounts contain cash, benefits will be paid in cash. However, participants have the right to elect to receive their benefits entirely in the form of cash or common stock, or a combination of both.

**Transactions With Certain Related Persons**

The Sarbanes-Oxley Act of 2002 generally prohibits publicly traded companies from making loans to their executive officers and directors, but it contains a specific exemption from such prohibition for loans made by federally insured financial institutions, such as Equitable Bank, to their executive officers and directors in compliance with federal banking regulations. Federal law requires that all loans or extensions of credit to executive officers and directors must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public and must not involve more than the normal risk of repayment or present other unfavorable features. Federal regulations adopted under this law permit executive officers and directors to receive the same terms that are widely available to other employees as long as the director or executive officer is not given preferential treatment compared to the other participating employees. Loans to directors and executive officers must be approved by the disinterested members of the Board of Directors regardless of amounts.

As of June 30, 2018, loans and drawn open lines of credit to executive officers, directors, and their associates totaled approximately $5,001,000. All of the loans to related persons were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with other persons not related to Equitable Bank, and did not involve more than the normal risk of collectability or present other unfavorable features.

**Equity Compensation Plan Information**

The following table provides information as of June 30, 2018, regarding shares outstanding and available for issuance under the Company's 2016 Equity Incentive Plan.

| Plan Category | (a) Number of Securities to be Issued Upon exercise of Outstanding Options, Warrants and Rights | (b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | (c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 166,982 | $ 10.00 | 47,199 |
| Equity compensation plans not approved by security holders | ---- | $ ---- | ---- |
| | | | |
| Total | 166,982 | $ 10.00 | 47,199 |

## PROPOSAL II— RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has approved the appointment of BKD, LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2019. The Board of Directors is submitting the selection of BKD, LLP as our independent registered public accounting firm to the stockholders for ratification as a matter of good corporate practice. If the ratification of the appointment of BKD, LLP is not approved by a majority of the votes cast and entitled to vote at the annual meeting, other independent registered public accounting firms may be considered by the Audit Committee of the Board of Directors. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such change is in the best interests of the Company and its stockholders. A representative of BKD, LLP is expected to attend the Annual Meeting to respond to appropriate questions and to make a statement, if deemed appropriate. **The Board of Directors recommends that stockholders vote "FOR" the ratification of the appointment of BKD, LLP as the Company's independent registered public accounting firm.**

During the past two fiscal years the aggregate fees billed for professional services rendered by BKD, LLP were as follows:

***Audit Fees.*** Fees paid to BKD, LLP for the audit of our annual financial statements for the year ended June 30, 2018, and for the review of our quarterly reports were $119,955.05. Fees paid to BKD, LLP for the audit of our annual financial statements for the year ended June 30, 2017, and for the review of our quarterly reports were $132,255.

***Audit-Related Fees***. Fees paid to BKD, LLP for audit-related services were $0 for the year ended June 30, 2018. Fees paid to BKD, LLP for audit-related services were $0 for the year ended June 30, 2017.

***Tax Fees***. Aggregate fees paid to BKD, LLP for tax compliance, tax advice and tax planning were $8,000 for the year ended June 30, 2018. Aggregate fees paid to BKD, LLP for tax compliance, tax advice and tax planning were $12,700 for the year ended June 30, 2017.

***All Other Fees***. Fees paid to BKD, LLP for other services were $0 for the year ended June 30, 2018. Fees paid to BKD, LLP for other services were $0 for the year ended June 30, 2017.

The Audit Committee considered whether the provision of non-audit services was compatible with maintaining the independence of its independent registered public accounting firm. The Audit Committee concluded that performing such services in the years ended June 30, 2018, and 2017, did not affect the independent registered public accounting firm's independence in performing their function as our independent registered public accounting firm.

**Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of independent registered public accounting firm**

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services, and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to particular services or category of services, and is generally subject to a specific budget. The Audit Committee has delegated pre-approval authority to its Chairman when expedited services are necessary. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. All of the audit-related fees, tax fees, and other fees paid in 2018 and 2017, were approved per the Audit Committee's pre-approval policies.

## STOCKHOLDER PROPOSALS

In order to be eligible for inclusion in our proxy materials for next year's Annual Meeting of Stockholders, any stockholder's proposal to take action at such meeting must be received at our executive office, 113 North Locust Street, Grand Island, Nebraska 68801, no later than July 1, 2019. Any such proposals shall be subject to the requirements of the proxy rules adopted under the Exchange Act.

The Company's bylaws provide an advance notice procedure for certain business, or nominations to the Board of Directors, to be brought before an annual meeting of stockholders. Any stockholder desiring to make a nomination for the election of directors or a proposal for new business at a meeting of stockholders must submit written notice to the Company at least 80 days prior and no more than 90 days prior to such meeting. However, if less than 90 days' notice or prior public disclosure of the date of the meeting is given to stockholders, such written notice must be submitted by a stockholder not later than the tenth day following the day on which notice of the meeting was mailed to stockholders or such public disclosure was made. No adjournment or postponement of a meeting of stockholders shall commence a new period for the giving of notice hereunder.

A stockholder's notice must be in writing and set forth (a) as to each person whom the stockholder proposes to nominate for election as a director, (i) all information relating to such person that would indicate such person's qualification to serve on the Board of Directors of the Company; (ii) an affidavit that such person would not be disqualified under the provisions of Article II, Section 12 of the Company's bylaws; (iii) such information relating to such person that is required to be disclosed in connection with solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act, or any successor rule or regulation and (iv) a written consent of each proposed nominee to be named as a nominee and to serve as a director if elected; and (b) as to the stockholder giving the notice: (i) the name and address of such stockholder as they appear on the Company's books and of the beneficial owner, if any, on whose behalf the nomination is made; (ii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by such stockholder and such beneficial owner; (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder; (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice; and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act or any successor rule or regulation.

The notice with respect to stockholder proposals that are not nominations for director must set forth as to each matter such stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (ii) the name and address of such stockholder as they appear on the Company's books and of the beneficial owner, if any, on whose behalf the proposal is made; (iii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by such stockholder and such beneficial owner; (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business; and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

The 2019 annual meeting of stockholders is expected to be held on November 19, 2019. It is expected that advance written notice for certain business, or nominations to the Board of Directors, to be brought before the next annual meeting must be given to us no earlier than August 21, 2019, and no later than September 31, 2019. If notice is received before August 21, 2019, or later than September 31, 2019, it will be considered untimely, and we will not be required to present the matter at the stockholders meeting.

Nothing in this proxy statement will be deemed to require us to include in our proxy statement and proxy relating to an annual meeting any stockholder proposal that does not meet all of the requirements for inclusion established by the SEC in effect at the time such proposal is received.

## MISCELLANEOUS

The Board of Directors is not aware of any business to come before the Annual Meeting other than the matters described above in the Proxy Statement. However, if any matters should properly come before the Annual Meeting, it is intended that holders of the proxies will act as directed by a majority of the Board of Directors, except for matters related to the conduct of the Annual Meeting, as to which they shall act in accordance with their best judgment.

The cost of solicitation of proxies will be borne by the Company. We will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of common stock. In addition to solicitations by mail, directors, officers, and regular employees of Equitable Bank may solicit proxies personally or by telephone without additional compensation.

A copy of our Annual Report for the year ended June 30, 2018, will be furnished without charge to stockholders as of the Record Date upon written request to the Corporate Secretary, Equitable Financial Corp., 113 North Locust Street, Grand Island, Nebraska 68801. Additionally, all annual meeting materials can be found at http://investors.equitableonline.com.

**BY ORDER OF THE BOARD OF DIRECTORS**

Teresa Hartwig,
Corporate Secretary

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# Equitable Financial Corp.

Independent Auditor’s Report and Consolidated Financial Statements

June 30, 2018 and 2017

**Item 8. Financial Statements and Supplementary Data.**

BKD
CPAs & Advisors

1248 "O" Street, Suite 1040 | Lincoln, NE 68508-1461
402.473.7600 | Fax 402.473.7698 | bkd.com

# Independent Auditor's Report

Audit Committee, Board of Directors and Stockholders
Equitable Financial Corp.
Grand Island, Nebraska

We have audited the accompanying consolidated financial statements of Equitable Financial Corp. and its subsidiary, which comprise the consolidated balance sheet as of June 30, 2018, and the related consolidated statement of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Equitable Financial Corp. and its subsidiary as of June 30, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Lincoln, Nebraska
October 9, 2018

BKD
CPAs & Advisors

1120 S. 101st Street, Suite 410 | Omaha, NE 68124-1088
402.392.1040 | Fax 402.392.1772 | bkd.com

## Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Equitable Financial Corp.
Grand Island, Nebraska

We have audited the accompanying consolidated balance sheet of Equitable Financial Corp. (Company) as of June 30, 2017, and the related consolidated statement of income, comprehensive income, change in stockholders' equity and cash flows for the year then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audit also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Equitable Financial Corp. as of June 30, 2017, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Lincoln, Nebraska
September 28, 2017

**Equitable Financial Corp. and Subsidiary**

**Consolidated Balance Sheets**
**June 30, 2018 and 2017**

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| **Assets** | | |
| Cash and due from financial institutions | $ 2,743,454 | $ 4,753,438 |
| Interest-earning deposits | 2,010,889 | 127,569 |
| | 4,754,343 | 4,881,007 |
| Securities available-for-sale | 1,272,916 | 1,410,955 |
| Securities held-to-maturity | 700,154 | 735,978 |
| Federal Home Loan Bank stock, at cost | 283,600 | 453,400 |
| Loans, net of allowance for loan losses of $4,292,000 and $3,555,000, respectively | 264,781,238 | 236,545,125 |
| Premises and equipment, net | 6,042,544 | 5,424,855 |
| Foreclosed assets, net | 227,700 | 223,200 |
| Accrued interest receivable | 1,582,699 | 1,297,908 |
| Deferred taxes, net | 400,396 | 862,009 |
| Customer list intangible | 1,415,705 | 277,940 |
| Other assets | 2,063,088 | 1,730,111 |
| **Total assets** | $ 283,524,383 | $ 253,842,488 |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities: | | |
| Noninterest-bearing deposits | $ 34,310,163 | $ 29,546,051 |
| Interest-bearing deposits | 202,677,976 | 179,512,265 |
| | 236,988,139 | 209,058,316 |
| Lines of credit | 1,543,000 | 399,000 |
| Federal Home Loan Bank Borrowings | 5,000,000 | 6,745,400 |
| Advance payments from borrowers for taxes and insurance | 468,989 | 432,960 |
| Accrued interest payable and other liabilities | 1,971,388 | 820,229 |
| **Total liabilities** | 245,971,516 | 217,455,905 |
| Common stock in ESOP subject to contingent repurchase obligation | 1,012,570 | 815,280 |
| Stockholders' equity: | | |
| Common stock, $0.01 par value, 25,000,000 shares authorized 3,315,470 and 3,372,532 shares issued and outstanding at June 30, 2018 and June 30, 2017, respectively | 33,155 | 33,725 |
| Additional paid-in capital | 25,191,460 | 25,794,124 |
| Retained earnings | 13,883,937 | 12,474,958 |
| Unearned ESOP shares | (969,291) | (1,107,692) |
| Shares reserved for stock compensation | (551,149) | (797,950) |
| Accumulated other comprehensive loss, net of tax | (35,245) | (10,582) |
| Reclassification of ESOP shares | (1,012,570) | (815,280) |
| **Total stockholders' equity** | 36,540,297 | 35,571,303 |
| **Total liabilities and stockholders' equity** | $ 283,524,383 | $ 253,842,488 |

See Notes to Consolidated Financial Statements.

# Equitable Financial Corp. and Subsidiary
## Consolidated Statements of Income
## Years Ended June 30, 2018 and 2017

| | For the year ended | |
|---|---|---|
| | June 30, 2018 | June 30, 2017 |
| Interest income: | | |
| Loans | $ 11,366,276 | $ 9,225,388 |
| Securities | 62,072 | 47,078 |
| Other | 100,937 | 23,111 |
| **Total interest income** | 11,529,285 | 9,295,577 |
| Interest expense: | | |
| Deposits | 1,738,334 | 1,125,318 |
| Federal Home Loan Bank borrowings | 88,650 | 10,970 |
| Other | 5,956 | 3,786 |
| **Total interest expense** | 1,832,940 | 1,140,074 |
| **Net interest income** | 9,696,345 | 8,155,503 |
| Provision for loan losses | 699,773 | 644,029 |
| **Net interest income after provision for loan losses** | 8,996,572 | 7,511,474 |
| Noninterest income: | | |
| Service charges on deposit accounts | 674,463 | 631,673 |
| Brokerage fee income | 702,279 | 722,640 |
| Gain on sale of loans | 495,663 | 856,222 |
| Other loan fees | 253,669 | 283,310 |
| Other income | 365,832 | 151,503 |
| **Total noninterest income** | 2,491,906 | 2,645,348 |
| Noninterest expense: | | |
| Salaries and employee benefits | 5,147,684 | 4,773,321 |
| Director and committee fees | 169,100 | 166,000 |
| Data processing fees | 634,324 | 552,608 |
| Occupancy and equipment | 1,034,919 | 967,055 |
| Regulatory fees and deposit insurance premium | 256,406 | 170,262 |
| Advertising and public relations | 241,458 | 239,677 |
| Professional fees | 401,274 | 379,076 |
| Supplies, telephone and postage | 271,602 | 275,065 |
| Other expenses | 779,304 | 717,890 |
| **Total noninterest expense** | 8,936,071 | 8,240,954 |
| Income before income taxes | 2,552,407 | 1,915,868 |
| Income tax expense | (1,143,428) | (680,824) |
| **Net income** | $ 1,408,979 | $ 1,235,044 |
| Basic earnings per share | $ 0.45 | $ 0.37 |
| Diluted earnings per share | $ 0.44 | $ 0.35 |

See Notes to Consolidated Financial Statements.

**Equitable Financial Corp. and Subsidiary**
**Consolidated Statements of Comprehensive Income**
**For the Years Ended June 30, 2018 and 2017**

| | For the year ended | |
|---|---|---|
| | **June 30, 2018** | **June 30, 2017** |
| Net income | $ 1,408,979 | $ 1,235,044 |
| Other comprehensive income: | | |
| Unrealized loss on securities available-for-sale, net of tax | (24,663) | (14,658) |
| **Comprehensive income** | $ 1,384,316 | $ 1,220,386 |

See Notes to Consolidated Financial Statements.

**Equitable Financial Corp. and Subsidiary**
**Consolidated Statements of Changes in Stockholders' Equity**
**For the years ended June 30, 2018 and 2017**

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Unearned ESOP Shares | Shares Reserved for Stock Compensation | Accumulated Other Comprehensive Loss | Amount Reclassified on ESOP Shares | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, June 30, 2016 | $ 34,771 | $ 26,844,426 | $ 11,239,913 | $ (1,246,045) | $ (338,332) | $ 4,076 | $ (564,723) | $ 35,974,086 |
| Net income | — | — | 1,235,045 | — | — | — | — | 1,235,045 |
| Other comprehensive loss | — | — | — | — | — | (14,658) | — | (14,658) |
| Release of 15,857 unearned ESOP shares | — | 13,751 | — | 138,353 | — | — | — | 152,104 |
| Stock compensation expense | — | (54,403) | — | — | 168,646 | — | — | 114,243 |
| Equity Incentive Plan stock issued | 635 | 627,629 | — | — | (628,264) | — | — | — |
| Stock Buyback | (1,681) | (1,637,279) | — | — | — | — | — | (1,638,960) |
| Reclassification due to release and changes in fair value of common stock in ESOP subject to contingent repurchase obligation of ESOP shares | — | — | — | — | — | — | (250,557) | (250,557) |
| Balance, June 30, 2017 | $ 33,725 | $ 25,794,124 | $ 12,474,958 | $ (1,107,692) | $ (797,950) | $ (10,582) | $ (815,280) | $ 35,571,303 |
| Net Income | — | — | 1,408,979 | — | — | — | — | 1,408,979 |
| Other comprehensive loss | — | — | — | — | — | (24,663) | — | (24,663) |
| Release of 15,863 unearned ESOP shares | — | 28,107 | — | 138,401 | — | — | — | 166,508 |
| Stock compensation expense | — | (25,549) | — | — | 246,801 | — | — | 221,252 |
| Stock Buyback | (570) | (605,222) | — | — | — | — | — | (605,792) |
| Reclassification due to release and changes in fair value of common stock in ESOP subject to contingent repurchase obligation of ESOP shares | — | — | — | — | — | — | (197,290) | (197,290) |
| Balance, June 30, 2018 | $ 33,155 | $ 25,191,460 | $ 13,883,937 | $ (969,291) | $ (551,149) | $ (35,245) | $ (1,012,570) | $ 36,540,297 |

See Notes to Consolidated Financial Statements.

## Equitable Financial Corp. and Subsidiary
## Consolidated Statements of Cash Flows
## Years Ended June 30, 2018 and 2017

| | For the year ended | |
|---|---|---|
| | June 30, 2018 | June 30, 2017 |
| Cash Flows from Operating Activities: | | |
| Net income | $ 1,408,979 | $ 1,235,045 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 356,091 | 342,875 |
| Federal Home Loan Bank stock dividends | (9,200) | (3,100) |
| ESOP expense | 166,508 | 152,104 |
| Stock compensation expense | 221,252 | 114,243 |
| Amortization of deferred loan origination costs, net | 513,097 | 508,623 |
| Amortization of intangibles | 62,235 | 22,235 |
| Amortization of premiums and discounts | 1,116 | 9,693 |
| Gain on sale of loans | (495,663) | (856,222) |
| (Gain)/Loss on sale of foreclosed assets | 30,298 | (4,579) |
| Loss on disposal of premises and equipment | 5,078 | — |
| Provision for loan losses | 699,773 | 644,029 |
| Deferred taxes | 461,613 | 561,635 |
| Loans originated for sale | (19,576,882) | (33,226,181) |
| Proceeds from sale of loans | 19,893,218 | 33,721,173 |
| Loss on investment in partnership | 4,416 | 4,859 |
| Changes in: | | |
| Accrued interest receivable | (284,791) | (150,441) |
| Other assets | (147,432) | 82,929 |
| Accrued interest payable and other liabilities | 191,159 | (363,621) |
| **Net cash provided by operating activities** | 3,500,865 | 2,795,299 |
| | | |
| Cash Flows from Investing Activities: | | |
| Net change in loans | (29,977,405) | (39,306,004) |
| Proceeds from sale of foreclosed assets, net | 491,288 | 243,226 |
| Securities available-for-sale: | | |
| Proceeds from calls and principal repayments | 104,100 | 209,200 |
| Purchases | — | (985,400) |
| Securities held-to-maturity: | | |
| Proceeds from calls and principal repayments | 35,688 | 43,861 |
| Redemption of Federal Home Loan Bank stock | 400,500 | — |
| Purchases of Federal Home Loan Bank stock | (221,500) | (220,400) |
| Purchase of customer list intangible | (240,000) | — |
| Purchase of premises and equipment | (978,859) | (493,269) |
| **Net cash used in investing activities** | (30,386,188) | (40,508,786) |

(Continued)

**Equitable Financial Corp. and Subsidiary**
**Consolidated Statements of Cash Flows (Continued)**
**Years Ended June 30, 2018 and 2017**

| | For the year ended | |
|---|---|---|
| | June 30, 2018 | June 30, 2017 |
| Cash Flows from Financing Activities: | | |
| Net change in deposits | $ 27,929,823 | $ 22,095,964 |
| Net change in federal funds purchased | 1,144,000 | 399,000 |
| Proceeds from Federal Home Loan Bank borrowings | 23,150,000 | 17,140,400 |
| Repayments of Federal Home Loan Bank borrowings | (24,895,400) | (10,395,000) |
| Net change in advance payments from borrowers for taxes and insurance | 36,029 | 45,794 |
| Stock Buyback | (605,793) | (1,638,960) |
| **Net cash provided by financing activities** | 26,758,659 | 27,647,198 |
| **Decrease in cash and cash equivalents** | (126,664) | (10,066,289) |
| Cash and Cash Equivalents: | | |
| Beginning | 4,881,007 | 14,947,296 |
| Ending | $ 4,754,343 | $ 4,881,007 |
| Supplemental Cash Flow Information: | | |
| Interest paid on deposits and borrowings | $ 1,784,604 | $ 1,131,966 |
| Income taxes paid | $ 868,401 | $ 162,879 |
| Supplemental Noncash Disclosure: | | |
| Transfer of loans to foreclosed assets | $ 526,086 | $ — |
| Deferred payments on purchase of customer list intangible | $ 960,000 | $ — |

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Equitable Financial Corp. (the "Company") and its wholly owned subsidiary, Equitable Bank (the "Bank"). All significant intercompany transactions and balances are eliminated in consolidation.

Stock Conversion: On July 8, 2015, Equitable Financial, MHC, the Company's former federally chartered mutual holding company, consummated its "second step" mutual-to-stock conversion, and the Company consummated its initial stock offering. In the offering, the Company sold 1,983,160 shares of its common stock, par value $0.01 per share, at $8.00 per share in a subscription offering and community offering, including 118,989 shares, equal to 6.0% of the shares sold in the offering, to the Equitable Bank employee stock ownership plan.

In accordance with applicable federal conversion regulations, at the time of the completion of our mutual-to-stock conversion, we established a liquidation account in an amount equal to the Company's total equity as of the latest balance sheet date in the final prospectus used in the Conversion. Each eligible account holder or supplemental account holder is entitled to a proportionate share of this liquidation account in the event of a complete liquidation of the Bank, and only in such event. This share will be reduced if the eligible account holder's or supplemental account holder's deposit balance falls below the amounts on the date of record as of any June 30 and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after Conversion in the related deposit balance.

Following completion of the Conversion, the Bank may not declare, pay a dividend on, or repurchase any of its capital stock of the Bank, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements.

Nature of business: The primary business of the Company is the ownership of the Bank. Through the Bank, the Company is engaged in the business of retail banking, with operations conducted through its main office and branches, which are located in Grand Island, North Platte and Omaha, Nebraska. The Bank's primary services include accepting deposits, making loans and investing in securities.

Use of estimates: In preparing the accompanying consolidated financial statements, management is required 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 consolidated financial statements and the reported amounts of revenue and expenses for the reporting period. Estimates significant to the consolidated financial statement include the allowance for loan losses, deferred tax valuation allowances, fair values of financial instruments and foreclosed assets. Actual results could differ from those estimates. The allowance for loan losses is inherently subjective as it requires material estimates that are susceptible to significant change. The fair value disclosure of investments and other financial instruments is an estimate that can be computed within a range.

Risks and uncertainties: Changes in economic conditions in the United States, and more specifically Nebraska, could impact the credit worthiness of the Company's borrowers and the borrowers' ability to service their outstanding loans with the Company. Additionally, the Company is subject to interest rate risk in which changes in the interest rate environment could negatively impact the Company's net interest margin.

Cash flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days when purchased, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, and advance payments from borrowers for taxes and insurance. The Bank is required to maintain reserve funds in cash and/or on deposit for the Federal Reserve bank. The reserve required on June 30, 2018 was $1,076,000.

Securities: Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available-for-sale when they might be sold before maturity. Securities classified as available-for-sale are carried at fair value with unrealized holding gains and losses reported in other comprehensive income or loss, net of tax.

Interest income is recognized under the interest method and includes amortization of purchase premium and discount. Gains and losses on sales are recorded on the trade date based on the amortized cost of the security sold and determined using the specific identification method.

Declines in the fair value of securities available-for-sale below their amortized cost are evaluated to determine whether the loss is temporary or other-than-temporary. If the Company (a) has the intent to sell a debt security or (b) more-likely-than-not will be required to sell the debt security before its anticipated recovery, then the Company recognizes the entire unrealized loss in earnings as an other-than-temporary loss. If neither of these conditions are met, the Company evaluates whether a credit loss exists. The impairment is separated into (a) the amount of the total impairment related to the credit loss and (b) the amount of total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income (loss).

Federal Home Loan Bank stock: The Bank is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment. In accordance with the applicable accounting guidance, the stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB. With consideration given to the previous criteria, management concluded that the stock was not impaired at June 30, 2018 and June 30, 2017.

Loans, net: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at their outstanding unpaid principal balances, less an allowance for loan losses, premiums and discounts on loans purchased, and net deferred loan fees/costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding. Direct loan origination fees and costs are generally being deferred and the net amounts amortized as an adjustment of the related loan's yield. The Company generally amortizes these amounts over the contractual life. Direct loan origination fees and costs related to loans sold to unrelated third parties are recognized as income or expense in the current consolidated statement of income.

The Company's portfolio segments are as follows:

- Commercial
- Agricultural
- Residential real estate
- Other

The Company's classes of loans are as follows:

- Commercial – operating
- Commercial – real estate
- Agricultural – operating
- Agricultural – real estate
- Residential real estate – 1-4 family
- Residential real estate – home equity
- Other – construction and land
- Other – consumer

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent for 31 days or greater.

For all classes of loans, loans will generally be placed on nonaccrual status when the loan has become greater than 90 days past due; or when management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful.

When a loan is placed on nonaccrual status, payments received will be applied to the principal balance. However, interest may be taken on a cash basis in the event the loan is fully secured and the risk of loss is minimal. Previously recorded but uncollected interest on a loan placed in nonaccrual status is accounted for as follows: if the previously accrued but uncollected interest and the principal amount of the loan is protected by sound collateral value based upon a current, independent qualified appraisal, such interest may remain on the Company's books. If such interest is not so protected, it is considered a loss with the amount thereof recorded in the current year being reversed against current interest income, and the amount recorded in the prior year being charged against the allowance for possible loan losses.

For all classes of loans, nonaccrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- The loan is well secured and in the process of collection, and
- Future principal and interest payments are not in doubt.

Troubled debt restructures: Troubled debt restructuring exists when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Company) to the borrower that it would not otherwise consider. These concessions could include forgiveness of principal, extension of maturity dates, and reduction of stated interest rates or accrued interest. The Company is attempting to maximize its recovery of the balances of the loans through these various concessionary restructurings. See Note 3 for disclosure of the Company's troubled debt restructurings.

Allowance for loan losses: For all portfolio segments, the allowance for loan losses is maintained at the level considered adequate by management of the Company to provide for losses that are probable. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Subsequent recoveries, if any, are credited to the allowance. In determining the adequacy of the allowance balance, the Company makes continuous evaluations of the loan portfolio and related off-balance sheet commitments, considers current economic conditions, historical loan loss experience, review of specific problem loans and other factors.

A discussion of the risk characteristics and the allowance for loan losses by each portfolio segment follows:

For commercial loans, the Company focuses on small and mid-sized businesses in their geographical footprint. The Company provides a wide range of commercial loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes. Approval is generally based on the following factors:

- Sufficient cash flow to support debt repayment;
- Ability and stability of current management of the borrower;
- Positive earnings and financial trends;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business;
- Value and marketability of collateral.

Collateral for commercial loans generally includes accounts receivable, inventory, equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for commercial loans. For term loans, the typical maximum term is 10 years. The lending policy includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 1 year. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. The Company provides a wide range of agriculture loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes. Approval is generally based on the following factors:

- Sufficient cash flow to support debt repayment;
- Ability and stability of current management of the borrower;
- Positive earnings and financial trends;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

Collateral for agricultural loans generally includes accounts receivable, inventory (typically grain or livestock), equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for agricultural loans. For term loans, the typical maximum term is 10 years. The lending policy includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 1 year. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

In some instances for all loans, it may be appropriate to originate or purchase loans that are exceptions to the guidelines and limits established within the lending policy described above and below. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are clearly noted as such and specifically identified in loan approval documents.

For commercial loans and agricultural loans, the allowance for estimated losses on loans consists of specific and general components.

The specific component relates to loans that are classified as impaired, as defined below. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

For commercial loans and agricultural loans, a loan is considered impaired when, based on current information and events, it is probable that the Company 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 case-by-case basis 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.

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical charge-off experience. The qualitative factors are determined based on an assessment of internal and/or external influences on credit quality that are not fully reflected in the historical loss data. The Company's credit quality indicator for all loans excluding commercial, agriculture and construction and land loans is past due or performance status. The Company's credit quality indicator for commercial, agriculture and construction and land loans is internal risk ratings.

For commercial and agriculture loans, the Company utilizes the following internal risk rating scale:

1. Highest Quality – Loans represent a credit extension of the highest quality. Excellent liquidity, management and character in an industry with favorable conditions. High quality financial information, history of strong cash flows and superior collateral including readily marketable assets, prime real estate, U.S. government securities, U.S. government agencies, highly rated municipal bonds, insured savings accounts, and insured certificates of deposit drawn on high-quality financial institutions.

2. Good Quality – Loans which have a sound primary and secondary source of repayment. Strong to good liquidity, management and character in an industry with favorable conditions. Good quality financial information and margins of cash flow coverage is consistently good. Loans may be unsecured, secured by quality (but less readily marketable) assets, high quality real estate or traded stocks, lower grade municipal bonds (which must still be investment grade), and uninsured certificates of deposit on other financial institutions may also be included in this grade.

3. Acceptable Quality – Loans where the borrower is a reasonable credit risk and demonstrates the ability to repay the debt from normal business operations. Good liquidity, management and character in an industry that is more sensitive to external factors. Alternative sources of refinancing may be less available in periods of uncertain economic conditions. Term debt is moderate but cash flow margins fall within bank policy guidelines. Quality of financial information is adequate but is not as detailed and sophisticated as information found on higher-grade loans. Secured by business assets that conform to usual lending parameters for margin and eligibility or real estate that is deemed to be of satisfactory quality in an area that may not be prime but still within viable economic centers.

4. Fair Quality – Loans where the borrower is a reasonable credit risk but shows a more erratic earnings history (a loss may have been realized in the past four years). Liquidity is limited and primary repayment is susceptible to unfavorable external factors. Industry characteristics are generally stable. Borrower is more highly leveraged with increased levels of term debt. Cash flow margins remain adequate but may not fall within the policy guidelines. Quality of financial information is adequate and interim reporting may be required. Secured by business assets with an adequate collateral margin or real estate that is of fair quality and location. Property may have limited alternative uses and may be considered a "special use" facility.

5. Special Mention – Loans in this category have the potential for developing weaknesses that deserve extra attention from the account manager and other management personnel. If the developing weakness is not corrected or mitigated, the ability of the borrower to repay the Company's debt in the future may deteriorate. This grade should not be assigned to loans that bear certain peculiar risks normally associated with the type of financing involved, unless circumstances have caused the risk to increase to a level higher than would have been acceptable when the credit was originally approved. If a loan's actual, not potential, weakness or problems are clearly evident and significant it should generally be graded in one of the following grade categories.

6. Substandard – Loans and other credit extensions are considered to be inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. These loans, even if apparently protected by collateral value, have a well-defined weakness or weaknesses that jeopardize the liquidation of debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

7. Doubtful – Loans and other credit extensions have all the weaknesses inherent in those graded "6" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include: proposed merger, acquisition, or liquidation actions; capital injection; perfecting liens on collateral and refinancing plans. Loans in this classification should be placed in non-accrual status, with collections applied to principal.

8. Loss – Loans are considered uncollectible and cannot be justified as a viable asset of the Bank. This classification does not mean the loan has absolutely no recovery value. However, it is not prudent to delay writing off this loan even though partial recovery may be obtained in the future.

For commercial and agricultural loans or credit relationships with aggregate exposure greater than $250,000, a loan review is required within 12 months of the most recent credit review. The reviews are completed in enough detail to, at a minimum, validate the risk rating. Additionally, the reviews shall determine whether any documentation exceptions exist, appropriate written analysis is included in the loan file, and whether credit policies have been properly adhered to.

Many of the residential real estate loans underwritten by the Company conform to the underwriting requirements of Freddie Mac or other secondary market aggregators to allow the Company to resell loans in the secondary market. Servicing rights are retained on many, but not all, of the residential real estate loans sold in the secondary market. The lending policy establishes minimum appraisal and other credit guidelines.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. As of June 30, 2017 and June 30, 2016, loans held for sale were immaterial to the consolidated financial statements.

Periodically, the Company originates first mortgage loans for other investors. Generally, the Company receives fees equivalent to a stated percentage of the loan amount. This fee is recognized as income at the time of closing. From time to time, the Company also originates loans for sale in the secondary market. Gain on sale of loans in the secondary market is included in noninterest income.

The Company provides many types of consumer and other loans, including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type.

For residential real estate loans and consumer and other loans, these large groups of smaller balance homogenous loans are collectively evaluated for impairment. In estimating the allowance for loan losses for these loans, the Company applies quantitative and qualitative factors on a portfolio segment basis. Quantitative factors are based on historical charge-off experience and qualitative factors are based on an assessment of internal and/or external influences on credit quality that are not fully reflected in the historical loss data. Accordingly, the Company generally does not separately identify individual residential real estate loans and/or consumer and other loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Troubled debt restructures are considered impaired loans and are subject to the same allowance methodology as described above for impaired loans by portfolio segment.

Mortgage servicing rights: Mortgage servicing rights are recognized separately when rights are acquired through purchase or through sale of financial assets. The Company subsequently measures each class of servicing assets on the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value of each reporting date.

Intangible assets: Intangible assets with finite lives are being amortized on the straight-line basis over 15 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee has the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Premises and equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is included in noninterest expense and is computed on 25 to 40 years for buildings and improvements that extend the life of the original building, 10 to 20 years for routine building improvements, 5 to 15 years for furniture and equipment, 5 years for vehicles, and 2 to 5 years for computer equipment. The cost of maintenance and repairs is charged to expense as incurred.

Long-term assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized by the Company for the years ended June 30, 2018 and 2017.

Foreclosed assets: Assets acquired through foreclosure are initially recorded at fair value, less estimated costs to sell, establishing a new cost basis. If the fair value less costs to sell is less than the respective loan balance, a charge against the allowance for loan losses is recorded upon property acquisition. Declines in property value subsequent to acquisition are charged to operations. Holding costs are expensed as incurred.

Brokerage fee income: Acting as an agent, the Company earns brokerage income by buying and selling securities on behalf of its customers through independent third parties and earning fees on the transactions. These fees are recorded on the settlement date, which is not materially different than the trade date.

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

The Company follows the guidance on accounting for uncertainty in income taxes which allows the Company to recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. When applicable, the Company recognizes interest and penalties on income taxes as a component of income tax (benefit) expense.

Employee Stock Ownership Plan: The cost of shares issued to the Employee Stock Ownership Plan ("ESOP") but not yet allocated to participants is presented in the consolidated balance sheet as a reduction of stockholders' equity. Compensation expense is recorded based on the market price of the shares as the shares are committed to be released for allocation to participant accounts. Because participants may require the Company to purchase their ESOP shares upon termination of their employment, the appraised fair value of all earned and allocated ESOP shares is reclassified from stockholders' equity.

Stock based compensation: Compensation cost for stock based compensation is recognized based on the fair value of these awards at the date of the grant over the requisite service period, usually the vesting period. The Company uses a Black-Scholes pricing model and related assumption for estimating the fair value of stock options and a five-year vesting period for stock options and restricted stock awards.

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

Fair value of financial instruments: Fair values of financial instruments are estimated using relevant market value information and other assumptions, as more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Earnings per share: Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period, including allocated and committed to be released ESOP shares. Diluted earnings per share shows the dilutive effect, if any, of additional common shares issuable under stock options or awards.

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

Comprehensive income (loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains (losses) on securities available-for-sale, net of tax.

## Note 2. Securities

The fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) are as follows:

| June 30, 2018 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Government-sponsored agencies securities | $ 989,372 | $ — | $ (42,379) | $ 946,993 |
| Residential mortgage-backed securities | 332,536 | — | (6,613) | 325,923 |
| | $ 1,321,908 | $ — | $ (48,992) | $ 1,272,916 |

| June 30, 2017 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Government-sponsored agencies securities | $ 986,919 | $ — | $ (17,974) | $ 968,945 |
| Residential mortgage-backed securities | 440,070 | 1,973 | (33) | 442,010 |
| | $ 1,426,989 | $ 1,973 | $ (18,007) | $ 1,410,955 |

The carrying amount, unrecognized gross gains and losses, and fair value of securities held-to-maturity are as follows:

| June 30, 2018 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Residential mortgage-backed securities | $ 100,154 | $ 4,252 | $ — | $ 104,406 |
| Municipal securities | 600,000 | — | (4,238) | 595,762 |
| | $ 700,154 | $ 4,252 | $ (4,238) | $ 700,168 |

| June 30, 2017 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Residential mortgage-backed securities | $ 135,978 | $ 10,279 | $ — | $ 146,257 |
| Municipal securities | 600,000 | — | (384) | 599,616 |
| | $ 735,978 | $ 10,279 | $ (384) | $ 745,873 |

Securities available-for-sale and held-to-maturity consist of investments in bonds securitized by the Government National Mortgage Association, U.S. Government-sponsored agencies, and local municipal securities. Interest income from U.S. Government-sponsored agencies approximated $19,000 and $12,000 for the years ended June 30, 2018 and 2017, respectively. Interest income from municipal securities approximated $19,000 and $17,000 for the years ended June 30, 2018 and 2017, respectively.

The contractual maturities of the residential mortgage-backed securities at June 30, 2018 are not disclosed because the securities are not due at a single maturity date. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Approximately $947,000 of U.S. Government-sponsored agency securities will mature in the year ending June 30, 2023. Approximately $400,000 in municipal securities will mature in the year ending June 30, 2019 with the remaining balance maturing in the year ending June 30, 2020.

There were no sales of securities for the years ended June 30, 2018 and 2017.

The duration of gross unrealized losses is not disclosed as such amounts are immaterial to the consolidated financial statements. The Company has not recognized other-than-temporary impairment on any securities for the years ended June 30, 2018 and 2017.

The following table shows the amount of securities pledged at June 30, 2018 and 2017:

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Securities available-for-sale, at fair value | $ 1,272,916 | $ 1,410,955 |
| Securities held-to-maturity, at amortized cost | 700,154 | 643,978 |

## Note 3. Loans

Loans at June 30 are as follows:

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Commercial: | | |
| Operating | $ 23,566,018 | $ 20,139,045 |
| Real estate | 97,345,243 | 86,809,938 |
| Agricultural: | | |
| Operating | 27,535,419 | 26,739,407 |
| Real estate | 32,385,547 | 31,105,790 |
| Residential real estate: | | |
| 1-4 family | 49,066,376 | 43,060,013 |
| Home equity | 12,337,649 | 11,748,363 |
| Other: | | |
| Construction and land | 22,136,237 | 16,175,698 |
| Consumer | 4,021,407 | 3,674,674 |
| Total loans | 268,393,896 | 239,452,928 |
| Deferred loan origination costs, net | 679,342 | 647,197 |
| Allowance for loan losses | (4,292,000) | (3,555,000) |
| | (3,612,658) | (2,907,803) |
| Loans, net | $ 264,781,238 | $ 236,545,125 |

Changes in the allowance for loan losses, by portfolio segment, during the years ended June 30, 2018 and 2017 are summarized as follows:

| | Commercial | Agricultural | Residential Real Estate | Other | Total |
|---|---|---|---|---|---|
| | | | 2018 | | |
| Balance, beginning | $ 1,703,000 | $ 918,000 | $ 656,000 | $ 278,000 | $ 3,555,000 |
| Provision charged to expense | 317,376 | 29,000 | 175,576 | 177,821 | 699,773 |
| Recoveries | 42,808 | — | 2,424 | 5,940 | 51,172 |
| Loans charged off | (6,184) | — | — | (7,761) | (13,945) |
| Balance, ending | $ 2,057,000 | $ 947,000 | $ 834,000 | $ 454,000 | $ 4,292,000 |

| | Commercial | Agricultural | Residential Real Estate | Other | Total |
|---|---|---|---|---|---|
| | | | 2017 | | |
| Balance, beginning | $ 1,337,000 | $ 738,000 | $ 655,000 | $ 217,000 | $ 2,947,000 |
| Provision charged to expense | 396,291 | 180,000 | (1,432) | 69,170 | 644,029 |
| Recoveries | 24,511 | — | 2,620 | 3,208 | 30,339 |
| Loans charged off | (54,802) | — | (188) | (11,378) | (66,368) |
| Balance, ending | $ 1,703,000 | $ 918,000 | $ 656,000 | $ 278,000 | $ 3,555,000 |

The allowance for loan losses, by impairment evaluation and portfolio segment, as of June 30, 2018 and 2017, is summarized as follows:

| | Commercial | Agricultural | Residential Real Estate | Other | Total |
|---|---|---|---|---|---|
| | | | June 30, 2018 | | |
| Allowance for loans individually evaluated for impairment | $ 202,731 | $ 758 | $ 134,835 | $ 100,927 | $ 439,251 |
| Allowance for loans collectively evaluated for impairment | 1,854,269 | 946,242 | 699,165 | 353,073 | 3,852,749 |
| | $ 2,057,000 | $ 947,000 | $ 834,000 | $ 454,000 | $ 4,292,000 |
| Loans individually evaluated for impairment | $ 3,219,208 | $ 15,000 | $ 3,046,930 | $ 544,184 | $ 6,825,322 |
| Loans collectively evaluated for impairment | 117,692,053 | 59,905,966 | 58,357,095 | 25,613,460 | 261,568,574 |
| | $ 120,911,261 | $ 59,920,966 | $ 61,404,025 | $ 26,157,644 | $ 268,393,896 |
| Allowance as a percentage of loans individually evaluated for impairment | 6.30 % | 5.05 % | 4.43 % | 18.55 % | 6.44 % |
| Allowance as a percentage of loans collectively evaluated for impairment | 1.58 % | 1.58 % | 1.20 % | 1.38 % | 1.47 % |
| Allowance as a percentage of total loans evaluated for impairment | 1.70 % | 1.58 % | 1.36 % | 1.74 % | 1.60 % |

| | Commercial | Agricultural | Residential Real Estate | Other | Total |
|---|---|---|---|---|---|
| | | | June 30, 2017 | | |
| Allowance for loans individually evaluated for impairment | $ 6,487 | $ 17,973 | $ 29,271 | $ 1,949 | $ 55,680 |
| Allowance for loans collectively evaluated for impairment | 1,696,513 | 900,027 | 626,729 | 276,051 | 3,499,320 |
| | $ 1,703,000 | $ 918,000 | $ 656,000 | $ 278,000 | $ 3,555,000 |
| Loans individually evaluated for impairment | $ 870,377 | $ 864,357 | $ 3,142,020 | $ 20,408 | $ 4,897,162 |
| Loans collectively evaluated for impairment | 106,078,606 | 56,980,840 | 51,666,356 | 19,829,964 | 234,555,766 |
| | $ 106,948,983 | $ 57,845,197 | $ 54,808,376 | $ 19,850,372 | $ 239,452,928 |
| Allowance as a percentage of loans individually evaluated for impairment | 0.75 % | 2.08 % | 0.93 % | 9.55 % | 1.14 % |
| Allowance as a percentage of loans collectively evaluated for impairment | 1.60 % | 1.58 % | 1.21 % | 1.39 % | 1.49 % |
| Allowance as a percentage of total loans evaluated for impairment | 1.59 % | 1.59 % | 1.20 % | 1.40 % | 1.48 % |

The aging in terms of unpaid principal balance of the loan portfolio, by classes of loans, as of June 30, 2018 and 2017, is summarized as follows:

| | Current | 31-60 days Past Due | 61-90 days Past Due | > 90 days Past Due (Nonaccrual) | Total | Non accrual Loans |
|---|---|---|---|---|---|---|
| | | | June 30, 2018 | | | |
| Classes of loans: | | | | | | |
| Commercial: | | | | | | |
| Operating | $ 23,413,072 | $ 39,731 | $ 37,067 | $ 76,148 | $ 23,566,018 | $ 1,266,787 |
| Real estate | 96,038,648 | 1,306,595 | — | — | 97,345,243 | 1,891,282 |
| Agricultural: | | | | | | |
| Operating | 27,535,419 | — | — | — | 27,535,419 | — |
| Real estate | 32,370,547 | 15,000 | — | — | 32,385,547 | 15,000 |
| Residential real estate: | | | | | | |
| 1-4 family | 48,856,481 | 190,097 | 6,565 | 13,233 | 49,066,376 | 1,538,655 |
| Home equity | 12,337,649 | — | — | — | 12,337,649 | 180,940 |
| Other: | | | | | | |
| Construction and land | 22,136,237 | — | — | — | 22,136,237 | 526,726 |
| Consumer | 4,003,298 | 17,457 | — | 652 | 4,021,407 | 18,109 |
| | $ 266,691,351 | $ 1,568,880 | $ 43,632 | $ 90,033 | $ 268,393,896 | $ 5,437,499 |

| | Current | 31-60 days Past Due | 61-90 days Past Due | > 90 days Past Due (Nonaccrual) | Total | Non accrual Loans |
|---|---|---|---|---|---|---|
| | | | June 30, 2017 | | | |
| Classes of loans: | | | | | | |
| Commercial: | | | | | | |
| Operating | $ 20,072,350 | $ 33,060 | $ 13,240 | $ 20,395 | $ 20,139,045 | $ 154,671 |
| Real estate | 86,809,938 | — | — | — | 86,809,938 | 640,881 |
| Agricultural: | | | | | | |
| Operating | 26,699,805 | 32,754 | — | 6,848 | 26,739,407 | 6,848 |
| Real estate | 30,263,281 | 47,900 | — | 794,609 | 31,105,790 | 857,509 |
| Residential real estate: | | | | | | |
| 1-4 family | 42,722,767 | 164,549 | — | 172,697 | 43,060,013 | 675,197 |
| Home equity | 11,748,363 | — | — | — | 11,748,363 | 22,649 |
| Other: | | | | | | |
| Construction and land | 16,175,698 | — | — | — | 16,175,698 | — |
| Consumer | 3,670,927 | — | 3,747 | — | 3,674,674 | 24,124 |
| | $ 238,163,129 | $ 278,263 | $ 16,987 | $ 994,549 | $ 239,452,928 | $ 2,381,879 |

For each class of loans, the following summarizes the unpaid principal balance by credit quality indicator as of June 30, 2018 and 2017:

| | Commercial — Operating | Commercial — Real Estate | Agricultural — Operating | Agricultural — Real Estate | Other — Construction and Land | Total |
|---|---|---|---|---|---|---|
| | June 30, 2018 | | | | | |
| Internally assigned risk rating: | | | | | | |
| Highest Quality (rating 1) | $ — | $ — | $ 258,744 | $ 302,991 | $ — | $ 561,735 |
| Good Quality (rating 2) | 261,037 | 8,142,864 | 1,666,856 | 3,374,038 | 287,423 | 13,732,218 |
| Acceptable Quality (rating 3) | 8,709,194 | 47,981,474 | 8,370,149 | 7,273,016 | 13,395,960 | 85,729,793 |
| Fair Quality (rating 4) | 12,678,045 | 35,653,313 | 15,716,096 | 20,014,294 | 8,452,854 | 92,514,602 |
| Special Mention (rating 5) | 150,000 | 145,888 | 945,699 | 280,791 | — | 1,522,378 |
| Substandard (rating 6) | 1,767,742 | 5,421,704 | 577,875 | 1,140,417 | — | 8,907,738 |
| Doubtful (rating 7) | — | — | — | — | — | — |
| Loss (rating 8) | — | — | — | — | — | — |
| | $ 23,566,018 | $ 97,345,243 | $ 27,535,419 | $ 32,385,547 | $ 22,136,237 | $ 202,968,464 |

| | Commercial — Operating | Commercial — Real Estate | Agricultural — Operating | Agricultural — Real Estate | Other — Construction and Land | Total |
|---|---|---|---|---|---|---|
| | June 30, 2017 | | | | | |
| Internally assigned risk rating: | | | | | | |
| Highest Quality (rating 1) | $ — | $ — | $ 324,038 | $ 326,045 | $ — | $ 650,083 |
| Good Quality (rating 2) | 177,795 | 6,638,998 | 5,185,147 | 3,541,630 | 2,868,632 | 18,412,202 |
| Acceptable Quality (rating 3) | 8,470,283 | 44,240,531 | 9,271,425 | 12,354,765 | 10,426,245 | 84,763,249 |
| Fair Quality (rating 4) | 11,313,276 | 31,603,455 | 11,489,750 | 13,116,352 | 2,880,821 | 70,403,654 |
| Special Mention (rating 5) | — | 1,948,017 | 403,234 | — | — | 2,351,251 |
| Substandard (rating 6) | 177,691 | 2,378,937 | 65,813 | 1,766,998 | — | 4,389,439 |
| Doubtful (rating 7) | — | — | — | — | — | — |
| Loss (rating 8) | — | — | — | — | — | — |
| | $ 20,139,045 | $ 86,809,938 | $ 26,739,407 | $ 31,105,790 | $ 16,175,698 | $ 180,969,878 |

| | Residential RE — 1-4 Family | Residential RE — Home Equity | Other — Consumer | Total |
|---|---|---|---|---|
| | June 30, 2018 | | | |
| Delinquency status*: | | | | |
| Performing | $ 47,479,335 | $ 12,156,709 | $4,003,298 | $63,639,342 |
| Nonperforming | 1,587,041 | 180,940 | 18,109 | 1,786,090 |
| | $ 49,066,376 | $ 12,337,649 | $4,021,407 | $65,425,432 |

| | Residential RE — 1-4 Family | Residential RE — Home Equity | Other — Consumer | Total |
|---|---|---|---|---|
| | June 30, 2017 | | | |
| Delinquency status*: | | | | |
| Performing | $ 42,220,268 | $ 11,725,714 | $ 3,650,519 | $ 57,596,501 |
| Nonperforming | 839,745 | 22,649 | 24,155 | 886,549 |
| | $ 43,060,013 | $ 11,748,363 | $ 3,674,674 | $ 58,483,050 |

* Performing loans are those which are accruing and less than 31 days past due. Nonperforming loans are those on nonaccrual and accruing loans that are greater than or equal to 31 days past due.

At June 30, 2018 and June 30, 2017 there were no loans 90 days past due and still accruing.

For commercial loans and agricultural loans, the Company's credit quality indicator is internally assigned risk ratings. Each commercial loan is assigned a risk rating upon origination. The risk rating is reviewed every 12 months, at a minimum, and on as needed basis depending on the specific circumstances of the loan.

For residential real estate and other loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

Loans, by classes of loans, considered to be impaired as of June 30, 2018 and 2017 are summarized as follows:

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| | | | 2018 | | |
| Classes of loans: | | | | | |
| Impaired loans with no specific allowance recorded: | | | | | |
| Commercial: | | | | | |
| Operating | $ 112,953 | $ 112,679 | $ — | $ 101,206 | $ 3,999 |
| Real estate | 1,913,437 | 1,891,282 | — | 1,278,331 | 57,519 |
| Residential real estate: | | | | | |
| 1-4 family | 1,467,194 | 1,464,537 | — | 1,495,231 | 74,047 |
| Home equity | 5,838 | 5,828 | — | 6,118 | 368 |
| | 3,499,422 | 3,474,326 | — | 2,880,886 | 135,933 |
| Impaired loans with specific allowance recorded: | | | | | |
| Commercial: | | | | | |
| Operating | 1,243,128 | 1,215,248 | 202,731 | 1,095,835 | 43,366 |
| Agricultural: | | | | | |
| Real estate | 15,242 | 15,000 | 758 | 15,133 | 879 |
| Residential real estate: | | | | | |
| 1-4 family | 1,407,029 | 1,395,625 | 123,388 | 969,808 | 38,618 |
| Home equity | 181,072 | 180,940 | 11,447 | 98,313 | 5,125 |
| Other: | | | | | |
| Construction and land | 537,278 | 526,726 | 97,983 | 527,707 | 12,202 |
| Consumer | 17,724 | 17,457 | 2,944 | 19,078 | 979 |
| | 3,401,473 | 3,350,996 | 439,251 | 2,725,874 | 101,169 |
| Total impaired loans: | | | | | |
| Commercial: | | | | | |
| Operating | 1,356,081 | 1,327,927 | 202,731 | 1,197,041 | 47,365 |
| Real estate | 1,913,437 | 1,891,282 | — | 1,278,331 | 57,519 |
| Agricultural: | | | | | |
| Operating | — | — | — | — | — |
| Real estate | 15,242 | 15,000 | 758 | 15,133 | 879 |
| Residential real estate: | | | | | |
| 1-4 family | 2,874,223 | 2,860,162 | 123,388 | 2,465,039 | 112,665 |
| Home equity | 186,910 | 186,768 | 11,447 | 104,431 | 5,493 |
| Other: | | | | | |
| Construction and land | 537,278 | 526,726 | 97,983 | 527,707 | 12,202 |
| Consumer | 17,724 | 17,457 | 2,944 | 19,078 | 979 |
| | $ 6,900,895 | $ 6,825,322 | $ 439,251 | $ 5,606,760 | $ 237,102 |

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| | | | 2017 | | |
| Classes of loans: | | | | | |
| Impaired loans with no specific allowance recorded: | | | | | |
| Commercial: | | | | | |
| Operating | $ 164,823 | $ 164,128 | $ — | $ 163,276 | $ 10,709 |
| Real estate | 643,226 | 640,881 | — | 321,613 | 14,232 |
| Agricultural: | | | | | |
| Operating | 7,503 | 6,848 | — | 7,256 | — |
| Real estate | 432,468 | 371,452 | — | 437,100 | — |
| Residential real estate: | | | | | |
| 1-4 family | 2,448,574 | 2,439,137 | — | 2,523,171 | 142,377 |
| Home equity | 7,880 | 7,868 | — | 8,712 | 584 |
| | 3,704,474 | 3,630,314 | — | 3,461,128 | 167,902 |
| Impaired loans with specific allowance recorded: | | | | | |
| Commercial: | | | | | |
| Operating | 65,701 | 65,369 | 6,487 | 40,279 | 3,037 |
| Agricultural: | | | | | |
| Real estate | 525,068 | 486,056 | 17,973 | 511,830 | 951 |
| Residential real estate: | | | | | |
| 1-4 family | 695,327 | 679,474 | 28,857 | 699,391 | 18,137 |
| Home equity | 15,553 | 15,541 | 414 | 16,717 | 1,240 |
| Other: | | | | | |
| Consumer | 20,433 | 20,408 | 1,949 | 23,116 | 1,213 |
| | 1,322,082 | 1,266,848 | 55,680 | 1,291,333 | 24,578 |
| Total impaired loans: | | | | | |
| Commercial: | | | | | |
| Operating | 230,524 | 229,497 | 6,487 | 203,555 | 13,746 |
| Real estate | 643,226 | 640,881 | — | 321,613 | 14,232 |
| Agricultural: | | | | | |
| Operating | 7,503 | 6,848 | — | 7,256 | — |
| Real estate | 957,536 | 857,508 | 17,973 | 948,930 | 951 |
| Residential real estate: | | | | | |
| 1-4 family | 3,143,901 | 3,118,611 | 28,857 | 3,222,562 | 160,514 |
| Home equity | 23,433 | 23,409 | 414 | 25,429 | 1,824 |
| Other: | | | | | |
| Consumer | 20,433 | 20,408 | 1,949 | 23,116 | 1,213 |
| | $ 5,026,556 | $ 4,897,162 | $ 55,680 | $ 4,752,461 | $ 192,480 |

Impaired loans, for which no allowance has been provided as of June 30, 2018 and 2017, have adequate collateral, based on management's current estimates.

The following summarizes the number and recorded investment of troubled debt restructurings ("TDRs") as of June 30, 2018 and 2017:

| | June 30, 2018 | |
|---|---|---|
| | Number of TDRs | Recorded Investment |
| Concession — Extension of maturity: | | |
| Commercial: | | |
| Operating | 8 | $ 282,929 |
| Real estate | 2 | 1,913,437 |
| Residential real estate: | | |
| 1-4 family | 5 | 947,119 |
| Home equity | 2 | 173,597 |
| | 17 | $ 3,317,082 |
| Concession — Reduction of interest rate below market: | | |
| Commercial: | | |
| Operating | 1 | $ 31,165 |
| Residential real estate: | | |
| 1-4 family | 43 | 1,326,212 |
| Home equity | 1 | 13,313 |
| | 45 | $ 1,370,690 |
| Total: | | |
| Commercial: | | |
| Operating | 9 | $ 314,094 |
| Real estate | 2 | 1,913,437 |
| Residential real estate: | | |
| 1-4 family | 48 | 2,273,331 |
| Home equity | 3 | 186,910 |
| | 62 | $ 4,687,772 |

| | June 30, 2017 | |
|---|---|---|
| | Number of TDRs | Recorded Investment |
| Concession — Extension of maturity: | | |
| Commercial: | | |
| Operating | 10 | $ 177,272 |
| Real estate | 1 | 643,226 |
| Agricultural: | | |
| Real estate | 7 | 775,731 |
| Residential real estate: | | |
| 1-4 family | 28 | 1,370,885 |
| Home equity | 2 | 7,881 |
| | 48 | $ 2,974,995 |
| Concession — Reduction of interest rate below market: | | |
| Commercial: | | |
| Operating | 1 | $ 39,836 |
| Residential real estate: | | |
| 1-4 family | 48 | 1,637,621 |
| Home equity | 1 | 15,553 |
| | 50 | $ 1,693,010 |
| Total: | | |
| Commercial: | | |
| Operating | 11 | $ 217,108 |
| Real estate | 1 | 643,226 |
| Agricultural: | | |
| Real estate | 7 | 775,731 |
| Residential real estate: | | |
| 1-4 family | 76 | 3,008,506 |
| Home equity | 3 | 23,434 |
| | 98 | $ 4,668,005 |

The following summarizes the number and investment in TDRs, by type of concession, that were restructured during the years ended June 30, 2018 and 2017:

| For the year ended June 30, 2018 | Number of TDRs | Recorded Investment |
|---|---|---|
| Concession — Extension of maturity: | | |
| Commercial: | | |
| Operating | 3 | $ 188,551 |
| Real estate | 1 | 1,326,611 |
| Residential real estate: | | |
| 1-4 family | 2 | 491,926 |
| Home equity | 1 | 167,759 |
| | 7 | $ 2,174,847 |
| Total: | | |
| Commercial: | | |
| Operating | 3 | $ 188,551 |
| Real estate | 1 | 1,326,611 |
| Residential real estate: | | |
| 1-4 family | 2 | 491,926 |
| Home equity | 1 | 167,759 |
| | 7 | $ 2,174,847 |

| For the year ended June 30, 2017 | Number of TDRs | Recorded Investment |
|---|---|---|
| Concession — Extension of maturity: | | |
| Commercial: | | |
| Operating | 3 | $ 77,919 |
| Real estate | 1 | 643,226 |
| Residential real estate: | | |
| 1-4 family | 1 | 128,075 |
| | 5 | $ 849,220 |
| Total: | | |
| Commercial: | | |
| Operating | 3 | 77,919 |
| Real estate | 1 | $ 643,226 |
| Residential real estate: | | |
| 1-4 family | 1 | 128,075 |
| | 5 | $ 849,220 |

## Note 4. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were approximately $113,883,000 and $112,128,000 at June 30, 2018 and 2017, respectively. Included in other assets are approximately $872,000 and $853,000 of mortgage servicing rights at June 30, 2018 and 2017, respectively.

During the years ended June 30, 2018 and 2017, the Company sold approximately $19,893,000 and $33,721,000, respectively, of fixed-rate loans secured by one-to-four family residential real estate, which resulted in a pre-tax gain on the sale of approximately $496,000 and $856,000 for years ended June 30, 2018 and 2017, respectively.

The Company entered into an agreement with the FHLB to originate mortgage loans on behalf of the FHLB and to sell closed loans to the FHLB under the FHLB Mortgage Partnership Finance ("MPF") program. Under the terms of the agreement, the Company retains a portion of the credit risk associated with each conventional loan pool under a risk-sharing agreement. The Company's credit losses are capped by the credit enhancement amount established for each pool of loans. Losses beyond that cap are absorbed by the FHLB. At June 30, 2018 and 2017, the amount of conventional loans outstanding that were originated and sold to the FHLB in the MPF was $32,005,787 and $26,882,089, respectively, with possible credit enhancement losses capped at $695,952 and $583,203 at June 30, 2018 and 2017, respectively. The Company has no history of losses and no losses were accrued in the Company's consolidated financial statements at June 30, 2018 and 2017.

## Note 5. Accrued Interest Receivable

Accrued interest receivable at June 30 is summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Securities | $ 4,960 | $ 5,373 |
| Loans | 1,577,739 | 1,292,535 |
| | $ 1,582,699 | $ 1,297,908 |

## Note 6. Premises and Equipment, Net

Premises and equipment, net at June 30 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Land and land improvements | $ 2,101,553 | $ 1,485,458 |
| Buildings and improvements | 7,045,600 | 7,038,547 |
| Furniture and equipment | 1,142,159 | 1,124,046 |
| Computer equipment | 816,786 | 630,248 |
| Vehicles | 140,057 | 57,016 |
| Assets in process | 35,677 | — |
| | 11,281,832 | 10,335,315 |
| Less accumulated depreciation | (5,239,288) | (4,910,460) |
| | $ 6,042,544 | $ 5,424,855 |

## Note 7. Intangible Assets

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer List | $ 1,532,231 | $ 116,526 | $ 332,231 | $ 54,291 |

Amortization expense for the years ended June 30, 2018 and 2017, was $62,235 and $22,235, respectively. Estimated amortization expense for each of the following five years is:

| Year Ending June 30, | |
|---|---|
| 2019 | $ 102,000 |
| 2020 | 102,000 |
| 2021 | 102,000 |
| 2022 | 102,000 |
| 2023 | 102,000 |

## Note 7. Deposits

Deposits as of June 30 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Noninterest-bearing demand | $ 34,310,163 | $ 29,546,051 |
| Interest-bearing NOW | 59,037,403 | 49,252,671 |
| Money market | 65,906,640 | 67,039,151 |
| Savings | 17,931,065 | 17,104,400 |
| Certificates of deposit | 59,802,868 | 46,116,043 |
| | $ 236,988,139 | $ 209,058,316 |

Certificates of deposit of $250,000 or more were approximately $7,761,000 and $4,737,000 at June 30, 2018 and 2017, respectively.

At June 30, 2018, the scheduled maturities of certificates of deposit are as follows:

| Year Ending June 30, | |
|---|---|
| 2019 | $ 34,733,921 |
| 2020 | 15,310,970 |
| 2021 | 3,666,310 |
| 2022 | 1,353,864 |
| 2023 and beyond | 4,737,803 |
| | $ 59,802,868 |

Interest expense on deposit accounts is summarized as follows for the years ended June 30:

| | 2018 | 2017 |
|---|---|---|
| Interest-bearing NOW | $ 379,115 | $ 186,561 |
| Money market | 543,521 | 477,148 |
| Savings | 45,567 | 38,922 |
| Certificates of deposit | 770,131 | 422,687 |
| | $ 1,738,334 | $ 1,125,318 |

## Note 8. Borrowings

The Company has a line of credit with the FHLB of Topeka which expires July 5, 2019. The line of credit accrues interest at a variable rate (2.11% at June 30, 2018). At June 30, 2018 there was no balance in the line of credit. At June 30, 2017 the balance in the line of credit was $6,745,400. At June 30, 2018 the Company had an advance outstanding with FHLB in the amount of $5 million at an interest rate of 1.55%. This advance has a maturity date of August 9, 2018. At June 30, 2017 there were no advances outstanding. The Company maintains a collateral pledge agreement covering secured advances whereby the Company has agreed to pledge certain real estate loans to secure advances from the FHLB of Topeka. All stock in the FHLB of Topeka is pledged as additional collateral for these advances. At June 30, 2018 and 2017, approximately $64.7 million and $61.8 million, respectively, of real estate loans collateralized the advances. At June 30, 2018, the Company had the ability to borrow an additional $39.0 million in FHLB advances.

The Company has an unsecured line with Midwest Independent Bank, Pacific Cost Bankers Bank, Bankers Bank of the West and Zions Bank. The outstanding balance with Midwest Independent Bank was $1.5 million and $399,000 at June 30, 2018 and 2017, respectively. At June 30, 2018, the Company had the ability to borrow $3.5 million from Midwest Independent Bank, $4.0 million from Pacific Coast Bankers Bank, $1.0 million with Bankers Bank of the West and $6.0 million with Zions Bank

## Note 9. Regulatory Matters

The Bank is subject to 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 Company's consolidated 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 the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. Management believes, as of June 30, 2018, that the Bank meets all capital adequacy requirements to which it is subject and is classified as well capitalized.

Actual capital levels and minimum required levels for the Bank were:

| | | | Minimum Required for Capital Adequacy Purposes | | Minimum Required to Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| **June 30, 2018** | | | | | | |
| Total capital (to risk-weighted assets) | $ 31,901 | 12.1 % | $ 21,008 | 8.0 % | $ 26,260 | 10.0 % |
| Common equity Tier 1 capital (to risk-weighted assets) | 28,606 | 10.9 % | 11,817 | 4.5 % | 17,069 | 6.5 % |
| Tier 1 (core) capital (to risk-weighted assets) | 28,606 | 10.9 % | 15,756 | 6.0 % | 21,008 | 8.0 % |
| Tier 1 (core) capital (to adjusted total assets) | 28,606 | 9.9 % | 11,599 | 4.0 % | 14,499 | 5.0 % |
| **June 30, 2017** | | | | | | |
| Total capital (to risk-weighted assets) | $ 30,893 | 13.2 % | $ 18,740 | 8.0 % | $ 23,425 | 10.0 % |
| Common equity Tier 1 capital (to risk-weighted | 27,956 | 11.9 % | 10,541 | 4.5 % | 15,226 | 6.5 % |
| Tier 1 (core) capital (to risk-weighted assets) | 27,956 | 11.9 % | 14,055 | 6.0 % | 18,740 | 8.0 % |
| Tier 1 (core) capital (to adjusted total assets) | 27,956 | 11.4 % | 9,806 | 4.0 % | 12,257 | 5.0 % |

Federal regulations require the Bank to comply with a Qualified Thrift Lender ("QTL") test, which requires that 65% of assets be maintained in housing-related finance and other specified assets. If the QTL test is not met, limits are placed on growth, branching, new investment, FHLB advances, and dividends or the institution must convert to a commercial bank charter. Management believes the QTL test has been met.

In July 2013, the Federal Reserve Board and the Federal Deposit Insurance Corporation issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revised minimum capital requirements and adjusted prompt corrective action thresholds. The final rules revised the regulatory capital elements, added a new common equity Tier 1 capital ratio, increased the minimum Tier 1 capital ratio requirement, and implemented a new capital conservation buffer. The rules also permitted certain banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. Management chose the one-time election to retain the existing treatment. The final rules took effect for community banks on January 1, 2015, subject to a transition period for certain parts of the rules. The new minimum capital level requirements applicable to Equitable Bank are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital to risk-weighted assets ratio of 6% (increased from 4%); (iii) a total capital to risk-weighted assets ratio of 8% (unchanged from prior rules); and (iv) a Tier 1 leverage ratio of 4%. The rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratios resulting in the following ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital to risk-weighted assets ratio of 8.5%; (iii) a total capital to risk-weighted assets ratio of 10.5%; and a tier 1 leverage ratio unchanged at 4%. The phase-in period for the capital conservation buffer requirement started January 1, 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution is subject to further limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses of its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such actions. The minimum requirements do not include the capital conservation buffer.

**Note 10. Income Taxes**

The Company's deferred tax position was impacted as a result of the newly enacted Tax Cuts and Jobs Act (the "Act") which was signed into law on December 22, 2017. The effect reflects the revaluation of our net deferred tax asset based on the new U.S. federal tax rate of 21% whereas the old rate was 34%. The federal tax rate is computed using a blended rate of approximately 28% as a result of part of the fiscal year being calculated at 34% and the other at 21%.

Income tax expense for the year ended June 30 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Current: | | |
| Federal | $ (566,709) | $ (35,227) |
| State | (106,812) | (83,962) |
| Deferred: | | |
| Federal | (469,907) | (561,635) |
| | $ (1,143,428) | $ (680,824) |

A reconciliation of the provision for income taxes computed at the statutory federal corporate tax rate of 28.6% in 2018 and 34.0% in income tax expense in the statements of income for the year ended June 30 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Provision computed at the statutory federal tax rate | $ (716,205) | $ (651,395) |
| State income taxes, net of federal tax | (76,843) | (55,045) |
| Effect of Tax Cuts & Jobs Act | (347,957) | — |
| Return-to-provision, net | — | 24,562 |
| Other | (2,423) | 1,054 |
| Total income tax expense | $ (1,143,428) | $ (680,824) |

Retained earnings at June 30, 2018 and 2017 include certain historical additions to bad debt reserves of approximately $2,132,000 for which no deferred federal income tax liability has been recorded. This amount represents an allocation of income to bad debt deductions for tax purposes alone. If, in the future, this portion of retained earnings is used for any purpose other than to absorb bad debt losses, federal taxes would be imposed at the then-applicable rates.

The net deferred tax asset at June 30 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Gross deferred tax assets: | | |
| Allowance for loan losses | $ 901,320 | $ 1,208,020 |
| General business credits | — | 324,364 |
| Foreclosed asset writedowns | 31,248 | 50,592 |
| Unrealized loss on securities | 13,747 | 6,393 |
| Other | 93,749 | 50,760 |
| | 1,040,064 | 1,640,129 |
| Gross deferred tax liabilities: | | |
| Additions in excess of base year loan reserve | (361,781) | (572,404) |
| Depreciation | (112,357) | (73,623) |
| FHLB stock dividends | (30,469) | (74,630) |
| Other | (135,061) | (57,463) |
| | (639,668) | (778,120) |
| Net deferred tax asset | $ 400,396 | $ 862,009 |

No significant income tax uncertainties were identified. Therefore, the Company recognized no adjustment for unrecognized income tax benefits during the years ended June 30, 2018 and 2017. Corporate tax returns for the 2015 through 2017 years remain open to examination by taxing authorities.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in noninterest expenses. During the years ended June 30, 2018 and 2017, there were no interest and penalties recognized, nor were any balances for the payment of interest and penalties accrued at June 30, 2018 and 2017.

**Note 11. Employee Benefit Plans**

The Company has a 401(k) and profit sharing plan (the "Plans") covering substantially all employees. Annual contributions to the Plans are made at the discretion of and determined by the Board of Directors. Participant interests are vested over a period from one to five years of service. Contributions were made of approximately $130,000 and $121,000 for the years ended June 30, 2017 and 2016, respectively.

On November 8, 2005, the Company adopted an employee stock ownership plan (the "ESOP") for the benefit of substantially all employees. The ESOP borrowed $1,292,620 from the Company and used those funds to acquire 129,262 shares of the Company's stock in connection with the reorganization at a price of $10.00 per share.

On July 8, 2015, the ESOP borrowed $951,912 from the Company and used the funds to acquire 118,989 shares of the Company's stock in connection with the stock offering at a price of $8.00 per share.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on ESOP assets. Annual principal and interest payments for the note dated November 8, 2005 are made by the ESOP prior to the calendar year December 31. Annual principal and interest payments from the note dated November 8, 2005 are approximately $145,000 until maturity at December 31, 2019. Annual principal and interest payments from the note dated July 8, 2015 are approximately $65,000 until maturity at July 8, 2035.

As shares are released from collateral, the Company will report compensation expense equal to the current market price of the shares and the shares will become outstanding for earnings-per-share computations. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce accrued interest. Because participants may require the Company to purchase their ESOP shares upon termination of their employment, the fair value of all earned and allocated ESOP shares may become a liability.

The ESOP has a plan year-end of December 31. The Company has recorded compensation expense of $166,508 and $152,104 for shares that were released and committed to be released for the years ended June 30, 2018 and 2017, respectively.

Shares held by the ESOP at June 30 were as follows:

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Allocated shares | 98,393 | 86,104 |
| Shares allocated to be released | 7,932 | 7,929 |
| Unearned ESOP shares | 118,980 | 134,843 |
| Total ESOP shares | 225,305 | 228,876 |
| Fair value of unearned ESOP shares | $ 1,280,225 | $ 1,348,430 |
| Fair value of allocated shares subject to repurchase obligation | $ 1,012,570 | $ 815,280 |

The Company approved the Equitable Financial Corp. 2006 Equity Incentive Plan ("2006 Plan") in November 2006 and the Equitable Financial Corp. 2016 Equity Incentive Plan ("2016 Plan") in November 2016. Both plans provide for awards of stock options and restricted stock to officers, employees and directors. The cost of the plan is based on the fair value of the awards at the grant date. The fair value of stock is based on the closing price of the Company's stock on the grant date. The cost of the awards are being recognized over five-year vesting periods during which participants are required to provide services in exchange for the awards. As of December 31, 2016, the 2006 plan has been terminated.

The maximum number of shares authorized under the 2016 Plan is 198,316 stock options and 79,326 shares of restricted stock to employees and directors. As of June 30, 2018, 158,653 stock options and 63,461 stock awards were awarded. These options and awards were all granted in February 2017 at an exercise price of $9.90 per share.

The table below represents the stock option activity for the period shown:

| | Awards | Weighted Average Exercise Price | Remaining Contractual Life (Years) |
|---|---|---|---|
| Options outstanding at July 1, 2017 | 158,653 | $ 9.90 | 9.70 |
| Granted | — | — | — |
| Options outstanding at June 30, 2018 | 158,653 | $ 9.90 | 8.67 |

The cost of the stock options will be amortized in monthly installments over the noted five-year vesting period, with the first vesting date of February 21, 2018. Stock option expense was $42,202 and $14,067 for the fiscal years ended June 30, 2018 and 2017, respectively.

The fair value of the Company's stock options was determined using the Black-Schols option pricing formula. The following assumptions were used in the formula:

| | |
|---|---|
| Expected Volatility | 9.54 % |
| Risk-free interest rate | 1.90 % |
| Expected dividend yield | — |
| Expected life (in years) | 5.00 |
| Exercise price for the stock options | $ 9.90 |

Expected volatility – Based on the historical volatility of share price of the Company.

Risk-free interest rate – Based on the U.S. Treasury yield curve and expected life of the options at the time of grant.

Dividend yield – The Company had not paid any dividends at the time of valuation.

Expected life – Based on five-year vesting period.

Exercise price for the stock options – Based on the closing price of the Company's stock on the date of grant.

Restricted stock awards are accounted for as fixed grants using the fair value of the Company's stock at the time of the grant. Unvested restricted stock awards may not be disposed of or transferred during the vesting period. Restricted stock awards carry with them the right to receive dividends.

The table below represents the restricted stock award activity for the period shown:

| | Service-Based Stock Awards | Weighted Grant Date Fair Value |
|---|---|---|
| Non-vested at July 1, 2016 | 39,281 | $ 4.32 |
| Granted | 63,461 | 9.90 |
| Vested | (13,617) | 4.32 |
| Non-vested at June 30, 2017 | 89,125 | $ 6.97 |
| Non-vested at July 1, 2017 | 89,125 | $ 6.97 |
| Vested | (26,320) | 7.03 |
| Non-vested at June 30, 2018 | 62,805 | $ 9.14 |

As of June 30, 2018, there was $494,699 of total unrecognized compensation costs related to non-vested restricted stock awards. The cost is expected to be recognized over a weighted-average period of 3.5 years. Compensation expense attributable to the restricted stock awards totaled $179,050 and $100,176 for the years ended June 30, 2018 and 2017, respectively.

## Note 12. Earnings per Share

Amounts reported in earnings per share reflect earnings available to common stockholders for the period divided by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is calculated by dividing earnings available to common stockholders for the period by the sum of the weighted average common shares outstanding and the weighted average dilutive shares.

The following table presents a reconciliation of the components used to compute basic earnings per share for the years ended June 30:

| | For the year ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Weighted average common shares outstanding | 3,321,162 | 3,299,269 |
| Net income available to common stockholders | $ 1,408,979 | $ 1,235,045 |
| Basic earnings per share | $ 0.42 | $ 0.37 |

The following table presents a reconciliation of the components used to compute diluted earnings per share for the years ended June 30:

| | For the year ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Weighted average common shares outstanding | 3,321,162 | 3,299,269 |
| Weighted average of net additional shares from restricted stock awards | 20,983 | 200,289 |
| Weighted average number of shares outstanding | 3,342,145 | 3,499,558 |
| Net income available to common stockholders | $ 1,408,979 | $ 1,235,045 |
| Diluted earnings per share | $ 0.42 | $ 0.35 |

**Note 13. Loan Commitments and Other Related Activities**

The Company is party to various financial instruments with off-balance-sheet risk. The Company uses these financial instruments in the normal course of business to meet the financing needs of customers and to effectively manage exposure to interest rate risk. These financial instruments include commitments to extend credit, standby letters of credit, and unused lines of credit. When viewed in terms of the maximum exposure, these instruments may involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Credit risk is the possibility that a counterparty to a financial instrument will be unable to perform its contractual obligations. Interest rate risk is the possibility that, due to changes in economic conditions, the Company's net interest income will be adversely affected.

The following is a summary of the contractual or notional amount of each significant class of off-balance-sheet financial instruments outstanding. The Company's exposure to credit loss in the event of nonperformance by the counterparty for commitments to extend credit, standby letters of credit, and unused lines of credit is represented by the contractual or notional amount of these instruments.

The contractual or notional amounts as of June 30 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Financial instruments wherein contractual amounts represent credit risk: | | |
| Commitments to extend credit | $ 13,370,000 | $ 19,271,000 |
| Standby letters of credit | 226,000 | 200,000 |
| Unused lines of credit | 33,933,000 | 33,227,000 |

At June 30, 2018, fixed-rate commitments were approximately $21,299,000.

Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary, by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. The collateral held varies but primarily consists of single-family residential real estate.

The Company is party to an operating lease for a branch facility, with expiration in June 2022. Future commitments under the operating lease approximate the following:

| Year Ending June 30, | | |
|---|---|---|
| 2019 | $ | 110,000 |
| 2020 | | 110,000 |
| 2021 | | 110,000 |
| 2022 | | 110,000 |

Rental expense, included in occupancy and equipment expense in the consolidated statements of income, totaled approximately $122,000 and $81,000 for the years ended June 30, 2017 and 2016, respectively.

**Note 14. Fair Value Measurements**

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and requires disclosure of fair value measurements. The fair value hierarchy set forth in the Topic is as follows:

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

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

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There were no transfers between levels during the years ended June 30, 2018 and 2017, nor were there any changes in valuation techniques used for assets or liabilities measured at fair value at June 30, 2018 and 2017.

Assets and liabilities recorded at fair value on a recurring basis: A description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

*Securities Available-for-Sale* — Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | Fair Value Measurement at June 30, 2018 Using | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
| Assets | | | | |
| Securities available-for-sale . . . | $ 1,272,916 | $ — | $ 1,272,916 | $ — |

| | Fair Value Measurement at June 30, 2017 Using | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
| Assets | | | | |
| Securities available-for-sale . . . | $ 1,410,955 | $ — | $ 1,410,955 | $ — |

Assets and liabilities recorded at fair value on a nonrecurring basis: A description of the valuation methodologies used for assets and liabilities measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

*Impaired Loans* — From time to time, a loan is considered impaired and an allowance for credit losses is established. The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of collateral was determined based on appraisals. In some cases, adjustments were made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments were based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement.

*Foreclosed Assets* — Foreclosed assets are carried at estimated fair value of the property, less disposal costs. The fair value of the property is determined based upon appraisals. As with impaired loans, if significant adjustments are made to the appraised value, based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement.

At June 30, 2018 and 2017 the fair value of impaired loans and foreclosed assets were immaterial.

The Financial Instruments Topic of the FASB Accounting Standards Codification requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Fair value is determined under the framework discussed above. The Topic excludes all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The following methods and assumptions used in estimating fair value disclosure for financial instruments are described below:

*Cash and due from financial institutions* — For cash and due from financial institutions, the current carrying amount is a reasonable estimate of fair value.

*Interest-earning deposits* — For interest-earning deposits, the current carrying amount is a reasonable estimate of fair value.

*Time deposits with financial institutions* — The fair value of fixed rate time deposits is estimated by discounting the future cash flows using the current rates for the same remaining maturities. The fair value of variable rate time deposits approximates carrying value.

*Securities* — The fair value of securities is determined using quoted prices, when available in an active market. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or a discounted cash flows model.

*Federal Home Loan Bank stock* — For restricted equity securities, the carrying value approximates fair value.

*Loans, net* — The fair value of fixed rate loans 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 and for the same remaining maturities. The fair value of variable rate loans approximates carrying value.

*Mortgage servicing rights* — The fair value is based on a discounted cash flow analysis calculated using a proprietary valuation model from a third party.

*Deposits* — The carrying value of noninterest-bearing deposits approximates fair value. The fair value of fixed rate deposits is estimated by discounting the future cash flows using the current rates for the same remaining maturities.

*Federal Home Loan Bank borrowings* — The estimated fair value of fixed rate advances from the FHLB is determined by discounting the future cash flows of existing advances using rates currently available on advances from the FHLB having similar characteristics. Adjustable rate advances' carrying value approximates fair value.

*Accrued interest* — The carrying amounts of accrued interest approximate fair value.

*Off-balance sheet items* — The fair value of off-balance-sheet items is based on current fees or cost that would be charged to enter into or terminate such arrangements. These were not considered material and are not presented in the below tables.

The estimated fair value of financial instruments is as follows:

| **June 30, 2018** | **Fair Value Hierarchy Level** | **Carrying Amount** | **Estimated Fair Value** |
|---|---|---|---|
| Financial assets: | | | |
| Cash and due from financial institutions | Level 1 | $ 2,743,454 | $ 2,743,000 |
| Interest-earning deposits | Level 1 | 2,010,889 | 2,011,000 |
| Securities available-for-sale | See previous table | 1,272,916 | 1,273,000 |
| Securities held-to-maturity | Level 2 | 700,154 | 700,000 |
| Federal Home Loan Bank stock | Level 1 | 283,600 | 284,000 |
| Loans, net | Level 2 | 264,781,238 | 259,143,000 |
| Mortgage servicing rights | Level 2 | 872,044 | 1,383,000 |
| Credit enhancement receivable | Level 2 | 118,610 | 119,000 |
| Accrued interest receivable | Level 1 | 1,582,699 | 1,583,000 |
| Financial liabilities: | | | |
| Noninterest-bearing deposits | Level 2 | 34,310,163 | 34,310,000 |
| Interest-bearing deposits | Level 2 | 202,677,976 | 204,190,000 |
| Lines of credit | Level 1 | 1,543,000 | 1,543,000 |
| Federal Home Loan Bank Borrowings | Level 2 | 5,000,000 | 4,997,000 |
| Accrued interest payable and other liabilities | Level 1 | 1,971,388 | 1,971,000 |

| June 30, 2017 | Fair Value Hierarchy Level | Carrying Amount | Estimated Fair Value |
|---|---|---|---|
| Financial assets: | | | |
| Cash and due from financial institutions | Level 1 | $ 4,753,438 | $ 4,753,000 |
| Interest-earning deposits | Level 1 | 127,569 | 128,000 |
| Securities available-for-sale | See previous table | 1,410,955 | 1,411,000 |
| Securities held-to-maturity | Level 2 | 735,978 | 746,000 |
| Federal Home Loan Bank stock | Level 1 | 453,400 | 453,000 |
| Loans, net | Level 2 | 236,545,125 | 232,931,000 |
| Mortgage servicing rights | Level 2 | 852,715 | 1,089,000 |
| Accrued interest receivable | Level 1 | 1,297,908 | 1,298,000 |
| Financial liabilities: | | | |
| Noninterest-bearing deposits | Level 2 | 29,546,051 | 29,546,000 |
| Interest-bearing deposits | Level 2 | 179,512,265 | 185,040,000 |
| Lines of credit | Level 2 | 399,000 | 399,000 |
| Federal Home Loan Bank borrowings | Level 2 | 6,745,400 | 6,745,000 |
| Accrued interest payable and other liabilities | Level 1 | 820,229 | 820,000 |

## Note 15. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss components at June 30 were as follows:

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Unrealized holding losses on securities available-for-sale | $ (48,992) | $ (16,034) |
| Tax expense | 13,747 | 5,452 |
| | $ (35,245) | $ (10,582) |

## Note 16. Transactions with Related Parties

In the ordinary course of business, the Company granted loans to principal officers, directors, and their affiliates. Annual activity consisted of the following for the year ended June 30:

| | 2018 | 2017 |
|---|---|---|
| Beginning balance | $ 5,736,349 | $ 2,723,398 |
| New loans or transfers in | 1,395,704 | 4,133,252 |
| Repayments or transfers out | (2,131,274) | (1,120,301) |
| Ending balance | $ 5,000,779 | $ 5,736,349 |

Deposits from principal officers, directors, and their affiliates at June 30, 2018 and 2017 approximated $568,000 and $1,047,000, respectively.

**Note 18. Stock Buyback**

The Company has authorized two stock repurchase programs for an aggregate of 342,303 shares of the Company's issued common stock. Under the first stock repurchase program, which was approved on October 7, 2016, the Company was authorized to repurchase up to 173,857 shares of the Company's issued common stock. The first stock repurchase program expired on October 7, 2017

On November 21, 2017, a second repurchase program was approved, which authorized the repurchase up to 168,446 shares of the Company's issued common stock.

Under each repurchase program, repurchases were or will be conducted through open market purchases, which may include purchase under a trading plan adopted pursuant to SEC Rule 10b5-1, or through privately negotiated transactions. Repurchases will be made from time to time, depending on market conditions and other factors. There is no guarantee as to the exact number of shares to be repurchased by the Company.

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company's common stock as of June 30, 2018 and 2017.

| Period | Total Number of Shares Purchased | Weighted Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| 07/01/17 - 07/31/17 | 1,600 | $ 10.20 | 169,686 | 4,171 |
| 08/01/17 - 08/31/17 | 2,000 | 10.15 | 171,686 | 2,171 |
| 09/01/17 - 09/30/17 | — | — | 171,686 | 2,171 |
| 10/01/17 - 10/31/17 | — | — | 171,686 | 2,171 |
| 11/01/17 - 11/30/17 | 436 | 10.40 | 172,122 | 168,010 |
| 12/01/17 - 12/31/17 | 6,500 | 10.35 | 179,058 | 161,510 |
| 01/01/18 - 01/31/18 | 2,000 | 10.50 | 181,058 | 159,510 |
| 02/01/18 - 02/28/18 | 15,000 | 10.65 | 196,058 | 144,510 |
| 03/01/18 - 03/31/18 | 27,000 | 10.62 | 223,058 | 117,510 |
| 04/01/18 - 04/30/18 | — | — | 223,058 | 117,510 |
| 05/01/18 - 05/31/18 | — | — | 223,058 | 117,510 |
| 06/01/18 - 06/30/18 | 2,200 | 10.73 | 225,258 | 115,310 |
| Total | 56,736 | $ 10.57 | | |

## Note 19. Subsequent Events

Subsequent events have been evaluated through October 9, 2018, which is the date the financial statements were issued.

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