

USCORP  
Form 10QSB  
August 10, 2007

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

**FORM 10-QSB**

---

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2007

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-19061

**USCORP**

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

87-0403330  
(I.R.S. Employer  
Identification No.)

4535 W. SAHARA AVE., SUITE 204  
Las Vegas, NV 89102  
(Address of principal executive offices)

(702) 933-4034  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934) YES  NO

As of August 1, 2007, the Registrant had 33,856,462 shares of Common Stock, par value \$.01 per share, and 5,000,000 shares of Class B Common Stock, par value \$.001 outstanding.



USCORP  
TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheet as of June 30, 2007 and September 30, 2006 (unaudited) 3

Consolidated Statements of Operations for the Six and Three Months Ended June 30, 2007 and June 30, 2006 and from Inception, May 1989 through June 30, 2007 (unaudited) 4

Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2007 and June 30, 2006 and from Inception, May 1989 through June 30, 2007 (unaudited) 5

Consolidated Statements of Changes in Shareholders' Equity from Inception, May 1989 through June 30, 2007 6

Notes to Consolidated Financial Statements (unaudited) 7

Item 2. Management's Discussion and Analysis or Plan of Operations 11

Item 3. Controls and Procedures 16

PART II – OTHER INFORMATION 18

Item 1 Legal Proceeding 18

Item 2 Unregistered Sale of Equity Securities and Use of Proceeds 18

Item 3. Defaults upon Senior Securities 18

Item 4. Submission of Matters to a Vote of Security Holders 18

Item 5. Other Information 18

Item 6. Exhibits 19

SIGNATURES 20

**PART I. FINANCIAL INFORMATION**

**DONAHUE ASSOCIATES, LLC**  
**Certified Public Accountants**  
27 Beach Road Suite CO5A  
Monmouth Beach, NJ 07750  
Tel. 732-229-7723

July 31, 2007

The Shareholders  
USCorp

We have compiled the accompanying financial statements of USCorp for the nine months ending June 30, 2007 and June 30, 2006. These financial statements have been prepared in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statement information that is the representation of management. Our compilation is in accordance with reviewing standards generally accepted by the Public Company Accounting Oversight Board in the United States of America. We have not audited or reviewed any of the projections, assumptions, or estimates used in compiling the projected financial statements and, accordingly, do not express an opinion or any form of assurance on them.

Donahue Associates LLC  
Monmouth Beach, NJ  
July 31, 2007

**USCorp**  
**(an Exploration Stage Company)**  
**Balance Sheet**  
**As of June 30, 2007 and September 30, 2006**

	<b>Unaudited</b>		<b>30-Sep-06</b>
	<b>30-Jun-07</b>		
<b>ASSETS</b>			
Current assets:			
Cash	\$ 412,558	\$	83,573
Total current assets	412,558		83,573
Other assets:			
Equipment- net	6,411		8,240
Total assets	\$ 418,969	\$	91,813
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable & accrued expenses	\$ 9,201	\$	78,317
Note payable- shareholder (Gold bullion loan)	1,062,917	\$	0
Total current liabilities	1,072,118		78,317
Note payable- shareholder (Gold bullion loan)	\$ 0		979,175
Debenture payable	543,691		0
Advances payable shareholders	56,282		0
Shareholders' equity:			
Series A preferred stock, one share convertible to eight shares of common; 10% stated dividend, stated value \$0.50, 10,000,000 shares authorized, no shares outstanding	0		0
Series B preferred stock, one share convertible to two shares of common; 10% cumulative stated dividend, stated value \$0.50, 50,000,000 shares authorized, 155,000 shares outstanding	70,165		70,165
Common stock A- \$.01 par value, authorized 550,000,000 shares, issued and outstanding, 33,806,462 shares at September 30, 2006 and 33,856,462 at June 30, 2007	338,564		338,064
Common stock B- \$.001 par value, authorized 250,000,000 shares, issued and outstanding, 5,000,000 shares at September 30, 2006 and 5,000,000 at June 30, 2007	5,000		5,000
Additional paid in capital	7,257,999		7,181,433
Accumulated deficit	(8,924,850)		(8,560,341)
Total shareholders' equity	(1,323,287)		(1,035,844)
Total Liabilities & Shareholders' Equity	\$ 418,969	\$	91,813

**See the notes to the financial statements.**



**USCorp**  
**(an Exploration Stage Company)**  
**Statements of Operations**  
**For the Nine Months and Three Months Ended June 30, 2007 and June 30, 2006**  
**and from Inception, May 1989 through June 30, 2007**

	<b>9 Months Unaudited 30-Jun-07</b>	<b>9 Months Unaudited 30-Jun-06</b>	<b>3 Months Unaudited 30-Jun-07</b>	<b>3 Months Unaudited 30-Jun-06</b>	<b>Inception to Date</b>
<b>General and administrative expenses:</b>					
Consulting	\$ 50,148	\$ 142,470	\$ 50,148	\$ 6,241	\$ 3,302,015
Administration	193,696	223,622	56,398	86,688	3,918,010
License expense	2,500	590	0	0	163,059
Professional fees	18,666	32,204	17,666	17,870	463,115
Total general & administrative expenses	265,010	398,886	124,212	110,799	7,846,199
Net loss from operations	(265,010)	(398,886)	(124,212)	(110,799)	(7,846,199)
<b>Other income (expenses):</b>					
Interest expense	(58,547)	(47,354)	(20,023)	(15,715)	(139,248)
Loss on unhedged underlying	(40,952)	(155,618)	(9,920)	(45,018)	(326,784)
(Loss) gain on mining claim	0	0	0	0	(600,000)
Net loss before provision for income taxes	(364,509)	(601,858)	(154,155)	(171,532)	(8,912,231)
Provision for income taxes	0	0	0	0	0
Net loss before extraordinary item	(364,509)	(601,858)	(154,155)	(171,532)	(8,912,231)
<b>Extraordinary item:</b>					
Loss on early extinguishment of debt (net of tax)	0	0	0	0	(12,619)
Net loss	\$ (364,509)	\$ (601,858)	\$ (154,155)	\$ (171,532)	\$ (8,924,850)
Basic & fully diluted net loss per common share	\$ (0.01)	\$ (0.02)	\$ (0.00)	0.00	
<b>Weighted average of common shares outstanding:</b>					
Basic & fully diluted	38,840,102	38,813,281	38,856,461	38,904,776	

**See the notes to the financial statements.**

**USCorp**  
**(an Exploration Stage Company)**  
**Statements of Cash Flows**  
**For the Nine Months Ended June 30, 2007 and June 30, 2006**  
**and from Inception, May 1989 through June 30, 2007**

	Unaudited 30-Jun-07	Unaudited 30-Jun-06	Inception to Date
<b>Operating Activities:</b>			
Net loss	\$ (364,509)	\$ (601,858)	\$ (8,924,850)
Adjustments to reconcile net income items not requiring the use of cash:			
Loss on sale of mining claim	0	0	600,000
Consulting fees	5,000	79,650	1,917,520
Depreciation expense	3,494	1,626	9,503
Interest expense	42,790	39,747	139,248
Amortization of beneficial conversion feature	15,757	0	15,757
Impairment expense	0	0	2,449,466
Loss on early extinguishment of debt (net of tax)	0	0	12,619
Loss on unhedged underlying	40,952	155,618	326,784
Changes in other operating assets and liabilities :			
Accounts payable and accrued expenses	(69,116)	4,564	9,201
Net cash used by operations	(325,632)	(320,653)	(3,444,752)
<b>Investing activities:</b>			
Purchase of office equipment	(1,665)	(1,004)	(15,914)
Net cash used by investing activities	(1,665)	(1,004)	(15,914)
<b>Financing activities:</b>			
Issuance of common stock	0	0	2,151,768
Issuance of preferred stock	0	0	70,165
Issuance of gold bullion note	0	0	638,266
Issuance of convertible notes	600,000	0	600,000
Advances received (paid) shareholder	56,282	(135,606)	56,282
Capital contributed by shareholders	0	0	356,743
Net cash provided by financing activities	656,282	(135,606)	3,873,224
Net increase (decrease) in cash during the fiscal year	328,985	(457,263)	412,558
Cash balance at beginning of the fiscal year	83,573	627,372	0
Cash balance at June 30 <sup>th</sup>	\$ 412,558	\$ 170,109	\$ 412,558
<b>Supplemental disclosures of cash flow information:</b>			
Interest paid during the fiscal year	\$ 0	\$ 0	\$ 0
Income taxes paid during the fiscal year	\$ 0	\$ 0	\$ 0

**See the notes to the financial statements.**





**USCorp**  
**(an Exploration Stage Company)**  
**Statement of Changes in Shareholders Equity**  
**From Inception, May 1989 to June 30, 2007**

	Common Shares	Common Par Value	Paid in Capital	Accumulated Deficit	Total	Stock Price *
Inception	0	\$ 0	\$ 0	\$ 0	\$ 0	
Issuance of common stock	84,688	847	1,185,153		1,186,000	\$ 0.07
Net income fiscal 1990				520,000	520,000	
Balance at September 30, 1990-unaudited	84,688	847	1,185,153	520,000	1,706,000	
Net income fiscal 1991				1,108,000	1,108,000	
Balance at September 30, 1991-unaudited	84,688	847	1,185,153	1,628,000	2,814,000	
Issuance of common stock	472	5	32,411		32,416	\$ 0.22
Net income fiscal 1992				466,000	466,000	
Balance at September 30, 1992-unaudited	85,160	852	1,217,564	2,094,000	3,312,416	
Net loss fiscal 1993				(3,116,767)	(3,116,767)	
Balance at September 30, 1993-unaudited	85,160	852	1,217,564	(1,022,767)	195,649	
Net loss fiscal 1994				(63,388)	(63,388)	
Balance at September 30, 1994-unaudited	85,160	852	1,217,564	(1,086,155)	132,261	
Net income fiscal 1995				(132,261)	(132,261)	
Balance at September 30, 1995-unaudited	85,160	852	1,217,564	(1,218,416)	0	
Net loss fiscal 1996				0	0	
Balance at September 30, 1996-unaudited	85,160	852	1,217,564	(1,218,416)	0	

**USCorp**  
**(an Exploration Stage Company)**  
**Statement of Changes in Shareholders Equity**  
**From Inception, May 1989 to June 30, 2007**  
**(Continued)**

	Common Shares	Common Par Value	Paid in Capital	Accumulated Deficit	Total	Stock Price *
Stock issued for mining claim	150,000	1,500	598,500		600,000	\$ 0.20
Issuance of common stock	50,000	500	59,874		60,374	\$ 0.06
Stock issued for services	14,878	149	29,608		29,757	\$ 0.10
Net loss fiscal 1997				(90,131)	(90,131)	
Balance at September 30, 1997-unaudited	300,038	3,001	1,905,546	(1,308,547)	600,000	
Capital contributed by shareholder			58,668		58,668	
Net loss fiscal 1998				(58,668)	(58,668)	
Balance at September 30, 1998-unaudited	300,038	3,001	1,964,214	(1,367,215)	600,000	
Capital contributed by shareholder			28,654		28,654	
Net income fiscal 1999				(26,705)	(26,705)	
Balance at September 30, 1999-unaudited	300,038	3,001	1,992,868	(1,393,920)	601,949	
Capital contributed by shareholder			22,750		22,750	
Net loss fiscal 2000				(624,699)	(624,699)	
Balance at September 30, 2000-unaudited	300,038	3,001	2,015,618	(2,018,619)	0	

**USCorp**  
**(an Exploration Stage Company)**  
**Statement of Changes in Shareholders Equity**  
**From Inception, May 1989 to June 30, 2007**  
**(Continued)**

	Common Shares	Common Par Value	Paid in Capital	Accumulated Deficit	Total	Stock Price *
Issuance of common stock	103,535	1,035	611,943		612,978	\$ 0.15
Issued stock for compensation	50,000	500	19,571		20,071	\$ 0.04
Capital contributed by shareholder			21,719		21,719	
Net loss fiscal 2001				(654,768)	(654,768)	
Balance at September 30, 2001-unaudited	453,573	4,536	2,668,851	(2,673,387)	0	
Issued stock to purchase mining claim	24,200,000	242,000	2,207,466		2,449,466	\$ 0.10
Issued shares to employees	267,500	2,675	(2,675)		0	\$ 0.00
Capital contributed by shareholders			143,480		143,480	
Net loss for the fiscal year				(2,591,671)	(2,591,671)	
Balance at September 30, 2002-unaudited	24,921,073	249,211	5,017,122	(5,265,058)	1,275	
Issued stock for services	872,000	8,720	264,064		272,784	\$ 0.31
Beneficial conversion feature			3,767		3,767	
Capital contributed by shareholders			81,472		81,472	
Net loss for the fiscal year				(865,287)	(865,287)	
Balance at September 30, 2003	25,793,073	257,931	5,366,425	(6,130,345)	(505,989)	

**USCorp**  
**(an Exploration Stage Company)**  
**Statement of Changes in Shareholders Equity**  
**From Inception, May 1989 to June 30, 2007**  
**(Continued)**

	Common Shares	Common Par Value	Paid in Capital	Accumulated Deficit	Total	Stock Price *
Issuance of common stock	550,000	5,500	206,500		212,000 \$	0.39
Issued stock to pay bills	1,069,945	10,699	460,077		470,776 \$	0.44
Issued stock for services	2,118,444	21,184	652,714		673,898 \$	0.32
Net loss for the fiscal year				(964,108)	(964,108)	
Balance at September 30, 2004	29,531,462 \$	295,314 \$	6,685,716 \$	(7,094,453) \$	(113,423)	
Issuance of common stock	150,000	1,500	46,500		48,000 \$	0.32
Issued stock for services	2,840,000	28,400	331,600		360,000 \$	0.13
Issued stock to pay debt	400,000	4,000	50,000		54,000 \$	0.14
Issuance of warrants			1,817		1,817	
Net loss for the fiscal year				(628,337)	(628,337)	
Balance at September 30, 2005	32,921,462	329,214	7,115,633	(7,722,790)	(277,943)	
Issued stock for services	5,885,000	13,850	65,800		79,650 \$	0.09
Net loss for the period				(837,551)	(837,551)	
Balance at September 30, 2006	38,806,462	343,064	7,181,433	(8,560,341)	(1,035,844)	
Issued stock for services	50,000	500	4,500		5,000 \$	0.10
Beneficial conversion feature			72,066		72,066	
Net loss for the period				(364,509)	(364,509)	

Edgar Filing: USCORP - Form 10QSB

Balance at June 30, 2007	38,856,462 \$	343,564 \$	7,257,999 \$	(8,924,850) \$	(1,323,287)
--------------------------	---------------	------------	--------------	----------------	-------------

\*- Prices adjusted for stock splits.

Please see the notes to the financial statements.

10

---

**USCorp**  
**(an Exploration Stage Company)**  
**Notes to the Financial Statements**  
**For the Nine Months Ended June 30, 2007 and June 30, 2006**

**1. Organization of the Company and Significant Accounting Principles**

USCorp (the "Company") is a publicly held corporation formed in May 1989 in the state of Nevada as The Movie Greats Network, Inc. In August 1992, the Company changed its name to The Program Entertainment Group, Inc. In August 1997 the Company changed its name to Santa Maria Resources, Inc. In September 2000 the Company changed its name to Fantasticon, Inc. and in January 2002 the Company changed its name to USCorp

In April 2002 the Company acquired US Metals, Inc. ("USMetals"), a Nevada corporation, by issuing 24,200,000 shares of common stock. US Metals became a wholly owned subsidiary of the Company.

The Company, through its wholly owned subsidiary, USMetals, owns 141 Lode Mining Claims in the Eureka Mining District of Yavapai County, Arizona, called the Twin Peaks Mine; and through its wholly owned subsidiary Southwest Resource Development, Inc., owns 22 Placer and 89 Lode Claims on five properties in the Mesquite Mining District of Imperial County, California, which the Company refers to as the Chocolate Mountain Region Claims and the Picacho Salton Claims.

The Company has no business operations to date.

*Use of Estimates-* The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses at the date of the financial statements and for the period they include. Actual results may differ from these estimates.

*Cash and interest bearing deposits-* For the purpose of calculating changes in cash flows, cash includes all cash balances and highly liquid short-term investments with an original maturity of three months or less.

*Long Lived Assets-* The Company reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

*Shareholder Loans Payable-* The Company applies Emerging Issues Task Force (EITF) No. 98-5, *Accounting for Convertible Debt Issued with Beneficial Conversion Features*. EITF No.98-5 requires that a beneficial conversion feature be recognized upon the issuance of the debt with a favorable conversion feature, and the resultant debt discount be amortized to interest expense during the period from the date of issuance to the date the securities become convertible.

*Property and Equipment-* Property and equipment are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful life of the asset, which is estimated at three years.

*Income taxes-* The Company accounts for income taxes in accordance with the Statement of Accounting Standards No. 109 (SFAS No. 109), *Accounting for Income Taxes*. SFAS No. 109 requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between financial statement and income tax bases of assets and liabilities that will result in taxable

income or deductible expenses in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets and liabilities to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period adjusted for the change during the period in deferred tax assets and liabilities.

*Mineral Properties-* The Company uses the successful efforts method of accounting for mineral properties. Costs incurred to acquire mineral interest in properties, to drill and equip exploratory sites within the claims groups are capitalized. Costs to conduct exploration and assay work that does not find proved reserves, geological and geophysical costs and costs of carrying and retaining unproved sites are expensed. Potential mineral properties are periodically assessed for impairment of value and a loss will be recognized at the time of impairment.



*Revenue Recognition-* Mineral sales will result from undivided interests held by the Company in mineral properties. Sales of minerals will be recognized when delivered to be picked up by the purchaser. Mineral sales from marketing activities will result from sales by the Company of minerals produced by the Company (or affiliated entities) and will be recognized when delivered to purchasers. Mining revenues generated from the Company's day rate contracts, included in mine services revenue, will be recognized as services are performed or delivered.

*Exploration Stage Company-* the Company has had no operations or revenues since its inception and therefore qualifies for treatment as an Exploration Stage company as per Statement of Financial Accounting Standards (SFAS) No. 7. As per SFAS No. 7, financial transactions are accounted for as per generally accepted accounting principles. Costs incurred during the development stage are accumulated in "losses accumulated during the exploration stage" and are reported in the Stockholders' Equity section of the balance sheet.

## **2. Going Concern**

The accompanying financial statements have been presented in accordance with generally accepted accounting principals, which assume the continuity of the Company as a going concern. However, the Company has incurred significant losses since its inception and has no business operations and continues to rely on the issuance of shares to raise capital to fund its business operations.

Management's plans with regard to this matter are as follows:

- \* Obtain the necessary approvals and permits to complete exploration and begin test production on our properties as warranted. Applications have been prepared and are being reviewed for submission to Federal, State and local authorities.
- \* Augment our mining exploration team with quality and results-oriented people as needed. Upon adequate funding management intends to hire qualified and experienced personnel, including additional officers and directors, and mining specialists, professionals and consulting firms to advise management as needed to handle mining operations, acquisitions and development of additional mineral resource properties.
- \* Put together a strategic alliance of consultants, engineers, contractors as well as joint venture partners when appropriate, and set up an information and communication network that allows the alliance to function effectively under USCorp's management.
- \* Continue exploration and ramp up permitting process to meet ongoing and anticipated demand for gold, silver, uranium and polymetallic ores resulting from our planned commercial scale production activities.
- \* Launch an investor awareness and public relations campaign including coordinated and periodic release of information to the public via press releases, company newsletter and updates to the company's web sites
- \* Attend and exhibit at industry and investment trade shows
- \* USCorp plans to begin commercial scale operations on one or more of its properties as soon as the required permits and approvals have been granted. Due to the nature of the ore bodies of the company's current properties Management believes it will begin commercial scale operations on our Picacho Salton Decorative Rock followed by the Picacho Salton Gold Properties (the Chocolate Mountain Region claims) first and then the Twin Peaks Mine.
- \* Acquire additional properties and/or corporations with properties as subsidiaries to advance the company's growth plans.

**3.**

**Net Loss per Share**

The Company applies SFAS No. 128, "*Earnings per Share*" to calculate loss per share. In accordance with SFAS No. 128, basic net loss per share has been computed based on the weighted average of common shares outstanding during the years, adjusted for the financial instruments outstanding that are convertible into common stock during the years. The effects of the preferred warrants convertible into shares of common stock, however, have been excluded from the calculation of loss per share because their inclusion would be anti-dilutive.

12

---

Loss per share has been calculated as follows:

	<b>30-Jun-07</b>	<b>30-Jun-06</b>
Net loss before cumulative preferred dividend	\$ (364,509)	\$ (601,858)
Cumulative dividend preferred	(19,025)	(11,275)
Net loss	\$ (383,534)	\$ (613,133)
Weighted average	38,840,102	38,813,281
Basic & fully diluted net loss per common share	\$ (0.01)	\$ (0.02)

#### 4. Gold Bullion Promissory Note

In September 2005, the Company issued a promissory note to a shareholder and received proceeds of \$635,663. The note requires the Company to pay the shareholder 1,634 ounces of Gold Bullion (.999 pure) in September 2007. The loss on the underlying derivative gold contract has been calculated as follows.

	<b>30-Jun-07</b>	<b>30-Jun-06</b>
Carrying value of loan	\$ 736,133	\$ 678,923
Fair value of loan	1,062,917	846,794
Life to date loss on unhedged underlying derivative	\$ (326,784)	\$ (167,871)

#### 5. Equipment

A summary of equipment is as follows:

	<b>30-Jun-07</b>	<b>30-Sep-06</b>
Office equipment	\$ 15,914	\$ 14,249
Accumulated depreciation	(9,503)	(6,009)
Net equipment	\$ 6,411	\$ 8,240

**6. Issuances of Common stock**

During the nine months ended June 30, 2007, the Company issued 50,000 shares of stock to legal consultants for services rendered.

**7. Preferred Stock Warrants Outstanding**

The following is a summary of preferred stock warrants outstanding:

	Amount	Wgtd Avg Exercise Price	Wgtd Years to Maturity
Outstanding at September 30, 2004	0		
Issued	155,000		
Outstanding at September 30, 2005	155,000	\$ 0.50	2.29
Issued	0		
Outstanding at September 30, 2006	155,000	\$ 0.50	1.55
Issued	0		
Outstanding at June 30, 2007	155,000	\$ 0.25	.55

**8. Convertible Debenture**

During the nine months ended June 30, 2007, the Company issued convertible debentures with a face value of \$600,000. The debentures are convertible into common stock at \$0.125 per share. The debentures have an interest rate of 5% and mature in November 2009. As a result of the issuance of the debentures, the Company allocated \$72,066 to stockholders' equity as a beneficial conversion feature.

The balance of the convertible debt is as follows:

Convertible debt payable	\$ 600,000
Unallocated beneficial conversion feature	(56,309)
Net convertible debt payable	\$ 543,691

**9. Income Tax Provision**

Provision for income taxes is comprised of the following:

	<b>30-Jun-07</b>	<b>30-Jun-06</b>
Net loss before provision for income taxes	\$ (364,509)	\$ (601,858)
<b>Current tax expense:</b>		
Federal	\$ 0	\$ 0
State	0	0
Total	\$ 0	\$ 0
<b>Less deferred tax benefit:</b>		
Timing differences	(380,595)	(150,198)
Allowance for recoverability	380,595	105,213
Provision for income taxes	\$ 0	\$ 0

A reconciliation of provision for income taxes at the statutory rate to provision for income taxes at the Company's effective tax rate is as follows:

Statutory U.S. federal rate	34%	34%
Statutory state and local income tax	10%	10%
Less allowance for tax recoverability	-44%	-44%
Effective rate	0%	0%

Deferred income taxes are comprised of the following:

Timing differences	\$ 380,595	\$ 105,213
Allowance for recoverability	(380,595)	(105,213)
Deferred tax benefit	\$ 0	\$ 0

Note: The deferred tax benefits arising from the timing differences begin to expire in fiscal year 2010 and may not be recoverable upon the purchase of the Company under current IRS statutes.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

You should read the following discussion and analysis in conjunction with the Consolidated Financial Statements and Notes thereto, and the other financial data appearing elsewhere in this Form 10-QSB Quarterly Report.

The information set forth in Management's Discussion and Analysis of or Plan of Operations ("MD&A") contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, including, among others (i) expected changes in the Company's revenues and profitability, (ii) prospective business opportunities and (iii) the Company's strategy for financing its business. Forward-looking statements are statements other than historical information or statements of current condition. Some forward-looking statements may be identified by use of terms such as "believes", "anticipates", "intends" or "expects". These forward-looking statements relate to the plans, objectives and expectations of the Company for future operations. Although the Company believes that its expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of its knowledge of its business and operations, in light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements in this report should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

The Company's results of operations could differ materially from those projected in the forward-looking statements as a result of numerous factors, including, but not limited to, the following: (i) changes in external competitive market factors, (ii) termination of operating agreements or inability to enter into additional operating agreements, (iii) inability to satisfy anticipated working capital or other cash requirements, (iv) changes in or developments under domestic or foreign laws, regulations, governmental requirements or in the mining industry, (v) changes in the Company's business strategy or an inability to execute its strategy due to unanticipated changes in the market, (vi) various competitive factors that may prevent the Company from competing successfully in the marketplace, and (ix) the Company's lack of liquidity and its ability to raise additional capital. In light of these risks and uncertainties, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. The foregoing review of important factors should not be construed as exhaustive. The Company undertakes no obligation to release publicly the results of any future revisions it may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### Significant Accounting Policies and Estimates

Management's Discussion and Analysis or Plan of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to reserves and intangible assets. Management bases its estimates and judgments on historical experiences and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of the Company's consolidated financial statements include estimates as to the appropriate carrying value of certain assets which are not readily apparent from other sources, primarily allowance for the cost of the Mineral Properties based on the successful efforts method of accounting. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the consolidated financial statements included in our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2006.



## Results of Operations

### Comparison of operating results for the three months ended June 30, 2007 and June 30, 2006:

The Company has no revenues through the date of this quarterly report.

General and administrative expenses were \$124,212 compared to \$110,799 for the same period a year ago. Consulting costs changed from \$6,241 to \$50,148 in the three months ended June 30, 2007 which is mainly due to reclassification by the Company's bookkeeper and accountant for the quarter.

As a result of the change in the price of gold and a increase in consulting expenses, the Company experienced an increase in net loss from operations which was \$124,212 for the three months ended June 30, 2007, compared to loss from operations of \$110,799 for the same period last year.

The loss on the unhedged Bullion Loan decreased from \$45,018 to \$9,920 during the third three months of fiscal 2007 compared to the third three months of fiscal year 2006, as a result of the decrease in the price of gold compared to the same quarter last year. The loan is payable in gold bullion at the prevailing rate price and is not hedged.

Net loss for the third three months of fiscal year 2007 was \$154,155 or \$0.00 per share compared to a loss of \$1741,532 third three months, or \$0.01 per share for the same period last year.

### Discussion of Financial Condition: Liquidity and Capital Resources

At June 30, 2007 cash on hand was \$412,558 as compared with \$83,573 at September 30, 2006. During the third three months of fiscal year 2007, the Company used \$154,155 for its operations. The increase in cash on hand is due to the proceeds from convertible debentures. The convertible debentures are not payable until 2009 and 2010 respectively.

Total assets at June 30, 2007 were \$418,969 as compared to \$91,813 at September 30, 2006. The increase is due to the proceeds from convertible debentures and money from a shareholder.

The Company's total stockholders' equity decreased to a deficit of \$1,323,287 at June 30, 2007. The decrease in stockholders' equity was the result of operating losses of \$154,155 for the three months ended June 30, 2007.

### Convertible Debenture

During the period ended June 30, 2007 the Company received the proceeds from a Convertible Debenture Note in the amount of \$300,000. The Convertible Debenture Note is due April 30, 2010. This note is convertible to common stock at \$0.125 per share anytime within the three year term. The interest rate is 5% of the unpaid principal, payable annually in arrears. The first interest payment of \$15,000 is due in April 30, 2008.

The Company has received a written commitment for a total of \$1,200,000, at the rate of \$300,000 per quarter, the final installment due on or about October 1, 2007 under the same terms and conditions as the above Convertible Debenture Note. The Company received the second installment of \$300,000 as announced in our press release of May 2, 2007 and the third installment of \$300,000 was received on July 17, 2007. However, management can make no assurance that it will in fact receive additional financing as a result of this commitment.



### ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

There have been no material developments in the Company's legal proceedings during the period covered by this report.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In November 2006, the Company issued a Convertible Debenture Note in the principal face amount of \$300,000. The Convertible Debenture Note is due November 30, 2009 and is convertible into common stock at the rate of \$0.125 per share anytime within the three year term. The interest rate is 5% of the unpaid principal, payable annually in arrears. The first interest payment of \$15,000 is due in November 30, 2007. In May 2007, the Company issued another Convertible Debenture Note as the second installment and received an additional \$300,000 in proceeds from the sale. In July 2007, the Company issued another Convertible Debenture Note as the third installment and received an additional \$300,000 in proceeds from the sale. The two additional Convertible Debenture Notes are due May 2010 and July 2010 respectively.

The Company claimed an exemption from the registration requirements of the Securities Act of 1933, as amended (the "Act") for the private placement of these securities pursuant to Section 4(2) of the Act and/or Rule 506 of Regulation D promulgated thereunder since, among other things, the transaction did not involve a public offering, the Investor was an "accredited investor" and/or qualified institutional buyers, the Investor had access to information about the Company and its investment, the Investor took the securities for investment and not resale, and we took appropriate measures to restrict the transfer of the securities.

#### Item 3. Defaults Upon Senior Securities.

None.

#### Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters requiring a vote of security holders during the period covered by this report.

#### Item 5. Other Information.

There were no matters required to be disclosed in a Current Report on Form 8K during the period covered by this quarterly report that were not so disclosed.

There were no changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors since the Company last disclosed these procedures.

18

---

ITEM 6. EXHIBITS

(a) Exhibits:

- 31.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

19

---

SIGNATURES

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

USCORP

By: /s/ ROBERT DULTZ

---

Robert Dultz  
Chairman, Chief Executive Officer and Acting  
Chief Financial Officer  
Dated: August 10, 2007

20

---

one #D9D9D9 ;border-left:1pt none #D9D9D9 ;border-bottom:1pt none #D9D9D9 ;border-right:1pt none #D9D9D9 ;background-color: #CCEEFF;height:12.75pt;color:#000000;font-family:Times New Roman;font-size:10pt;text-align:right;" nowrap="nowrap">42

3.6

Legal and professional

1,813

1,508

305

20.2

Data processing

2,229

2,093

136

6.5

Pennsylvania bank shares tax

971

902

69

7.6

FDIC insurance

372

580

(208)

(35.9)

ATM/debit card processing

959

855

104

12.2

Foreclosed real estate

151

1,333

(1,182)

(88.7)

Telecommunications

418

429

(11)

(2.6)

Legal reserve

10,000

—

10,000

—

Other

3,181

3,509

(328)

(9.3)

Total

\$

43,172

\$

33,175

\$



9,997

30.1

2017 versus 2016

The most significant changes in noninterest expense are discussed below:

**Salaries and benefits:** This category is the largest noninterest expense category and these expenses increased by \$1.0 million compared to the prior year. During the year, salaries, 401(k) contributions and incentive compensation accounted for the largest increases. See Note 14 of the accompanying consolidated financial statements for additional information on benefit plans.

**Net Occupancy:** This category includes all of the expense associated with the properties and facilities used for bank operations such as depreciation, leases, maintenance, utilities and real estate taxes. Building maintenance costs increased during 2017, but were partially offset by a decrease in depreciation expense.

**Legal and professional fees:** This category consists of fees paid to outside legal counsel, consultants, and audit fees. The increase was primarily from legal fees associated with a lawsuit brought against the Corporation that is described in Item 3, Legal Proceedings. It is expected that the Corporation will incur additional legal expenses until this lawsuit is fully resolved. Internal and external audit fees increased by \$10 thousand.

**Data processing:** The largest cost in this category is the expense associated with the Bank's core processing system and related services, and accounted for \$1.2 million of the total data processing costs, unchanged from the prior year. An increase in software expense contributed \$80 thousand to the total increase in this category.

**FDIC insurance:** This category consists of the total fees paid to the Federal Deposit Insurance Corporation. The expense for 2017 decreased compared to prior year as an improvement in the Bank's credit quality reduced the assessment factor. Also, in the third quarter of 2016, the FDIC lowered the assessment rate on banks with less than \$10 billion in assets, as the surplus accumulated in its deposit insurance fund reached the required level and the Bank benefited from this change for the full year of 2017.

Foreclosed real estate: This category consists of expenses related to collecting loans and expenses to carry other real estate owned. The decrease in 2017 was due primarily to a write down the value of one property by \$1.2 million in 2016.

Legal Reserve: This expense represents the accrual for a legal settlement described in Item 3 Legal Proceedings.

#### Provision for Income Taxes

The Corporation recorded a Federal income tax benefit of \$165 thousand compared to an expense of \$3.6 million in 2017 and \$1.3 million in 2016. The effective tax rate for 2018, 2017, and 2016 was (2.8%), 62.1%, and 13.9% respectively. In most years, the Corporation's effective tax rate is lower than its statutory rate due to the effect of tax-exempt income from certain investment securities, loans, and bank owned life insurance. In 2018, the effect on pre-tax income from the charges related to the Participation, coupled with tax-free income, resulted in an income tax benefit. In 2017, income tax expense and the effective tax rate increased due to the write-down of net deferred tax assets as a result of the passage of the Tax Cuts and Jobs Act of 2017 (the Act) . The Act reduced the federal corporate income tax rate to 21%, effective January 1, 2018 from the Corporation's statutory rate of 34% in prior periods.

## Table of Contents

With the passage of the Act, net deferred tax assets were required to be revalued using the new rate of 21%. The Corporation recorded additional income tax expense of \$2.3 million in 2017 as a result of the revaluation of net deferred tax assets. Excluding the effect of the write-down of net deferred tax assets, the effective tax rate for 2017 would have been 22.1%.

The income tax provision and effective tax rate were lower in 2016, due to lower pre-tax income as a result of an increase in the provision for loan loss expense, a \$1.2 million write-down on an other-real-estate-owned property and more tax-free income in 2016. For a more comprehensive analysis of Federal income tax expense refer to Note 12 of the accompanying consolidated financial statements.

## Financial Condition

One method of evaluating the Corporation's condition is in terms of its sources and uses of funds. Assets represent uses of funds while liabilities represent sources of funds. At December 31, 2018, total assets increased 2.5% over the prior year to \$1.21 billion from \$1.18 billion at the end of 2017.

### Interest Bearing Deposits in Other Banks:

This asset decreased slightly year-over-year to \$36.0 million at December 31, 2018 compared to \$37.2 million at December 31, 2017. The average balance for 2018 decreased \$5.6 million to \$25.2 million compared to \$30.8 million in 2017. At year-end, approximately \$6.0 million was in the form of short-term certificates of deposit and \$29.1 million was held in an interest-bearing account at the Federal Reserve.

### Investment Securities:

#### AFS Securities

The investment portfolio serves as a mechanism to invest funds if funding sources out pace lending activity, to provide liquidity for lending and operations, and provide collateral for deposits and borrowings. The mix of securities and investing decisions are made as a component of balance sheet management. Debt securities include U.S. Government Agencies, U.S. Government Agency mortgage-backed securities, non-agency mortgage-backed securities, state and municipal government bonds, and trust preferred securities. The average life of the portfolio is 3.9 years and \$84.6 million (fair value) is pledged as collateral for deposits. The Bank has no investments in a single issuer that exceeds 10% of shareholders equity. All securities are classified as available for sale and all investment balances refer to fair value, unless noted otherwise. The following table presents the amortized cost and estimated fair

value of investment securities by type at December 31 for the past three years:

Table 6. Investment Securities at Amortized Cost and Estimated Fair Value

(Dollars in thousands)	2018		2017		2016	
	Amortized Cost	Fair value	Amortized Cost	Fair value	Amortized Cost	Fair value
U.S. Government and Agency securities	\$ 9,120	\$ 9,076	\$ 11,451	\$ 11,472	\$ 12,598	\$ 12,720
Municipal securities	67,811	67,647	57,374	57,772	62,763	62,985
Trust preferred securities	4,074	3,758	6,000	5,817	5,979	5,461
Agency mortgage-backed securities	45,241	44,658	51,307	50,937	61,305	61,284
Private-label mortgage-backed securities	457	488	858	946	1,053	1,104
Asset-backed securities	5,869	5,845	28	27	33	31
Total	\$ 132,572	\$ 131,472	\$ 127,018	\$ 126,971	\$ 143,731	\$ 143,585

Table of Contents

The following table presents investment securities at December 31, 2018 by maturity, and the weighted average yield for each maturity presented. The yields presented in this table are calculated using tax-equivalent interest and the amortized cost.

Table 7. Maturity Distribution of Investment Portfolio

(Dollars in thousands)	One year or less		After one year through five years		After five years through ten years		After ten years		Total	
	Fair Value	Yield	Fair Value	Yield	Fair Value	Yield	Fair Value	Yield	Fair Value	Yield
Available for Sale										
U.S. Government and Agency securities	\$ 14	4.40%	\$ 9,062	2.53%	\$ —	—	\$ —	—	\$ 9,076	2.53%
Municipal securities	16,698	3.59%	22,636	3.38%	27,887	3.91%	426	3.97%	67,647	3.65%
Trust preferred securities	—	—	—	—	3,758	3.82%	—	—	3,758	3.82%
Agency mortgage-backed securities	7,637	1.79%	30,863	2.46%	5,365	2.82%	793	1.77%	44,658	2.38%
Private-label mortgage-backed securities	—	—	134	12.74%	153	8.73%	201	6.07%	488	8.73%
Asset-backed securities	—	—	993	4.41%	4,852	3.10%	—	—	5,845	3.32%
Total	\$ 24,349	3.03%	\$ 63,688	2.85%	\$ 42,015	3.69%	\$ 1,420	3.04%	\$ 131,472	3.15%

Table 3 shows the three-year trend of average balances and yields on the investment portfolio. The average balances and year-over-year ending balances declined (Table 6), due primarily to cash-flow from called municipal and mortgage-backed securities not being reinvested into the portfolio. The yield on the portfolio declined slightly from 2.78% in 2017 to 2.75% in 2018. U.S. Agency mortgage-backed securities and municipal bonds continue to comprise the largest sectors by fair value of the portfolio, approximately 85% in total. The Bank expects that the portfolio will continue to remain concentrated in these investment sectors. The portfolio produced \$22.8 million in cash flows in 2018 while \$30.2 million was invested into the portfolio during the year.

**Municipal Bonds:** The Bank's municipal bond portfolio is well diversified geographically and is comprised of both tax-exempt (76% of the portfolio) and taxable (24% of the portfolio) municipal bonds. Sixty-eight percent of the portfolio are general obligation bonds and thirty-two percent are revenue bonds. The portfolio holds 108 issues within 28 states. The largest dollar exposure is to issuers in the state of Texas (fair value of \$9.9 million / 18 issuers) and Washington (fair value of \$7.4 million / 9 issuers). Thirty-six percent of the portfolio has either private bond insurance or some other type of credit enhancement. When purchasing municipal bonds, the Bank looks primarily to the underlying credit of the issuer as a sign of credit quality and then to any credit enhancement. Approximately \$65.5 million of the portfolio is rated "A" or higher by a nationally recognized rating agency and the weighted average rating of the portfolio is "Aa2".

**Trust Preferred Bonds:** Two bonds were called in 2018; however, the unrealized loss has increased from \$183 thousand to \$316 thousand year-over-year. The credit ratings for each remaining bonds are similar to the ratings one year prior. Trust preferred securities are typically issued by a subsidiary grantor trust of a bank holding company, which uses the proceeds of the equity issuance to purchase deeply subordinated debt issued by the bank holding company. All of the Bank's trust preferred securities are single issuer bonds.

**Mortgage-backed Securities (MBS):** This sector holds \$45.1 million or 34% of the total portfolio. The majority of this sector (\$44.7 million) is comprised of U.S. Government Agency MBS. The Government MBS sector is comprised of mortgage backed securities and collateralized mortgage obligations, both fixed and variable rate. In addition, the Bank holds four private-label mortgage-backed securities (PLMBS) with a fair value of \$488 thousand and an amortized cost of \$457 thousand. The Bank's private-label mortgage-backed securities (PLMBS) portfolio is comprised primarily of Alt-A loans. Alt-A loans are first-lien residential mortgages that generally conform to traditional "prime" credit guidelines; however, loan factors such as the loan-to-value ratio, loan documentation, occupancy status or property type cause these loans not to qualify for standard underwriting programs. See Note 4 of the accompanying financial statements for more information on the mortgage-backed securities.

**Impairment:** Table 8 reflects the temporary impairment in the investment portfolio, aggregated by investment category, length of time that individual securities have been in a continuous unrealized loss position and the number of securities in each category as of December 31, 2018 and 2017.

The condition of the portfolio at year-end 2018, as measured by the dollar amount of temporarily impaired securities, is worse than year-end 2017. The Agency Mortgage-backed sector recorded the largest unrealized loss and the greatest number of securities with an unrealized loss.

Table of Contents

For securities with an unrealized loss, Management applies a systematic methodology in order to perform an assessment of the potential for other-than-temporary impairment. In the case of debt securities, investments considered for other-than-temporary impairment: (1) had a specified maturity or repricing date; (2) were generally expected to be redeemed at par, and (3) were expected to achieve a recovery in market value within a reasonable period of time. In addition, the Bank considers whether it intends to sell these securities or whether it will be forced to sell these securities before the earlier of amortized cost recovery or maturity. Equity securities are assessed for other-than-temporary impairment based on the length of time of impairment, dollar amount of the impairment and general market and financial conditions relating to specific issues. The impairment identified on debt and equity securities and subject to assessment at December 31, 2018, was deemed to be temporary and required no further adjustments to the financial statements, unless otherwise noted. The following table presents the temporary impairment in the security portfolio for the years presented:

Table 8. Temporary Impairment

	December 31, 2018								
	Less than 12 months			12 months or more			Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count
U.S. Government and Agency securities	\$ 2,071	\$ (6)	2	\$ 5,175	\$ (59)	14	\$ 7,246	\$ (65)	16
Municipal securities	5,832	(12)	10	25,091	(472)	42	30,923	(484)	52
Trust preferred securities	2,008	(159)	3	1,750	(157)	2	3,758	(316)	5
Agency mortgage-backed securities	7,687	(46)	16	30,511	(602)	74	38,198	(648)	90
Asset-backed securities	5,826	(22)	6	19	(2)	2	5,845	(24)	8
Total temporarily impaired securities	\$ 23,424	\$ (245)	37	\$ 62,546	\$ (1,292)	134	\$ 85,970	\$ (1,537)	171

(Dollars in thousands)	December 31, 2017								
	Less than 12 months			12 months or more			Total		
	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count
U.S. Government and Agency securities	\$ 2,315	\$ (11)	5	\$ 3,528	\$ (32)	10	\$ 5,843	\$ (43)	15
Municipal securities	13,767	(89)	22	7,507	(163)	14	21,274	(252)	36
Trust preferred securities	1,216	(12)	2	4,601	(171)	5	5,817	(183)	7
Agency mortgage-backed securities	16,287	(129)	29	20,563	(438)	39	36,850	(567)	68
Asset-backed securities	—	—	—	4	(1)	1	4	(1)	1
Total temporarily impaired securities	\$ 33,585	\$ (241)	58	\$ 36,203	\$ (805)	69	\$ 69,788	\$ (1,046)	127

The unrealized loss in the trust preferred sector increased by \$133 thousand compared to the prior year-end. All of the Bank's trust preferred securities are variable rate notes with long maturities (2027-2028). The credit ratings on this portfolio are similar to the prior year and no bonds have missed or suspended any payments. At December 31, 2018, the Bank believes it will be able to collect all interest and principal due on these bonds and that it will not be forced to sell these bonds prior to maturity. Therefore, no other-than-temporary-impairment charges were recorded.

The municipal securities portfolio had a \$232 thousand increase in unrealized losses since the end of 2017. The change in value in this sector is driven by market interest rates since these bonds have very low credit risk.

#### Equity securities at Fair Value

The Corporation owns one equity investment with a readily determinable fair value. At December 31, 2018, this investment was reported at fair value (\$374 thousand) with changes in value reported through income in 2018. At December 31, 2017, this investment was reported at fair value with changes in value recorded through other comprehensive income.

#### Restricted Stock at Cost

The Bank held \$452 thousand of restricted stock at the end of 2018 of which \$422 thousand is stock in the Federal Home Loan Bank of Pittsburgh (FHLB). FHLB stock is carried at a cost of \$100 per share. FHLB stock is evaluated for impairment primarily based on an assessment of the ultimate recoverability of its cost. As a government sponsored



entity, FHLB has the ability to raise funding through the U.S. Treasury that can be used to support its operations. There is not a public market for FHLB stock and the benefits of FHLB membership (e.g., liquidity and low cost funding) add value to the stock beyond purely financial measures. If FHLB

Table of Contents

stock were deemed to be impaired, the write-down for the Bank could be significant. Management intends to remain a member of the FHLB and believes that it will be able to fully recover the cost basis of this investment.

## Loans:

The loan portfolio grew by 3.1% (\$29.7 million) in 2018, net of \$9.3 million loan charge-off and a strategic decision to decrease the Bank's exposure to participated loans. Average gross loans for 2018 increased by \$50.0 million to \$959.5 million compared to \$909.5 million in 2017. Commercial loans showed an increase in average balances during the year, which was partially offset by a decline in residential mortgage loans and home equity loans and lines of credit during the year. The yield on the portfolio increased in 2018 increased to 4.41% from 4.22% in 2017. Table 3 presents detail on the average balances and yields earned on loans for the past three years. The following table shows loans outstanding, by primary collateral, as of December 31 for the past 5 years.

Table 9. Loan Portfolio

(Dollars in thousands)	2018		2017		2016		2015		2014
	Balance	% Change	Balance	% Change	Balance	% Change	Balance	% Change	Balance
Residential real estate 1-4 family									
Consumer first lien	\$ 89,673	(7.7)	\$ 97,159	(5.8)	\$ 103,125	(0.6)	\$ 103,698	(1.3)	\$ 105,014
Commercial first lien	59,227	(3.3)	61,275	(6.4)	65,445	13.3	57,780	2.6	56,300
Total first liens	148,900	(6.0)	158,434	(6.0)	168,570	4.4	161,478	0.1	161,314
Consumer junior lien and lines of credit	42,504	(5.6)	45,043	0.5	44,817	(0.4)	44,996	18.0	38,132
Commercial junior liens and lines of credit	4,716	(11.5)	5,328	(1.3)	5,396	(8.8)	5,917	4.5	5,663
Total junior liens and lines of credit	47,220	(6.3)	50,371	0.3	50,213	(1.4)	50,913	16.3	43,795
Total residential real estate 1-4	196,120	(6.1)	208,805	(4.6)	218,783	3.0	212,391	3.6	205,109

family

Residential real estate construction									
Consumer purpose	1,667	(8.1)	1,813	34.3	1,350	147.7	545	(66.5)	1,627
Commercial purpose	8,558	5.8	8,088	6.1	7,625	3.8	7,343	(9.2)	8,088
Total residential real estate construction	10,225	3.3	9,901	10.3	8,975	13.8	7,888	(18.8)	9,715
Commercial real estate	487,980	13.9	428,428	9.7	390,584	14.6	340,695	4.4	326,482
Commercial	274,054	(6.0)	291,519	7.6	270,826	25.4	215,942	20.6	179,071
Total commercial	762,034	5.8	719,947	8.9	661,410	18.8	556,637	10.1	505,553
Consumer	4,996	(1.0)	5,047	7.3	4,705	(7.7)	5,100	(17.1)	6,154
Total loans	973,375	3.1	943,700	5.6	893,873	14.3	782,016	7.6	726,531
Less: Allowance for loan losses	(12,415)	5.3	(11,792)	6.5	(11,075)	9.8	(10,086)	10.7	(9,111)
Net loans	\$ 960,960	3.1	\$ 931,908	5.6	\$ 882,798	14.4	\$ 771,930	7.6	\$ 717,420

Residential real estate: This category is comprised of first lien loans and, to a lesser extent, junior liens and lines of credit secured by residential real estate. Total residential real estate loans decreased \$9.5 million in 2018 from 2017, primarily in consumer first lien loans. The Bank's residential mortgage portfolio decreased during 2018 as paydowns were greater than originations booked to the portfolio. In 2018, the Bank originated \$21.6 million in mortgages, including approximately \$14.9 million for a fee through third party brokerage agreements. The Bank does not originate or hold any loans that would be considered sub-prime or Alt-A, and does not generally originate mortgages outside of its primary market area.

Commercial purpose loans in this category represent loans made for various business needs, but are secured with residential real estate. In addition to the real estate collateral, it is possible that additional security is provided by personal guarantees or UCC filings. These loans are underwritten as commercial loans and are not originated to be sold.

Residential real estate construction: The largest component of this category represents loans to residential real estate developers of \$8.6 million, while loans for individuals to construct personal residences totaled \$1.7 million at December 31, 2018. The Bank's exposure to residential construction loans is concentrated primarily in south central Pennsylvania. Real estate construction loans, including residential real estate and land development loans, occasionally provide an interest reserve in order to assist the developer during the development stage when minimal cash flow is generated. All real estate construction loans are underwritten in the same manner, regardless of the use of an interest reserve.

At December 31, 2018, the Bank had \$11.6 million in real estate construction loans funded with an interest reserve and capitalized \$677 thousand of interest from these reserves on active projects during 2018. These loans are comprised of \$2.5 million in residential construction and \$9.1 million in commercial construction (reported in the commercial real estate category). Real estate construction loans are monitored on a regular basis by either an independent third party inspector or the assigned loan officer depending on loan amount or complexity of the project. This monitoring process includes, at a minimum, the submission of invoices or AIA documents (depending on the complexity of the project) detailing costs incurred by the borrower, on-site inspections, and a signature by the assigned loan officer for disbursement of funds.

Table of Contents

Commercial loans: Commercial loans continue to be the largest loan category on the balance sheet and increased 5.8% compared to the end of 2017. In 2018, the Bank approved approximately \$173.5 million in commercial loans and commitments with approximately \$114 million in new money advances. The competition for good quality loans continues to be strong with the best customers able to attract multiple offers.

Commercial real estate (CRE): This category includes commercial, industrial, farm and agricultural loans, where real estate serves as the primary collateral for the loan. This loan category increased by \$59.6 million over the prior year. The increases in 2018 were primarily in hotel and motel loans. The largest sectors (by collateral) in CRE are: hotel & motel (\$70.2 million), office buildings (\$60.9 million), land development (\$54.3 million) and manufacturing facilities (\$41.9 million).

Commercial (C&I): This category includes commercial, industrial, farm, agricultural, and tax free loans. Collateral for these loans may include business assets or equipment, personal guarantees, or other non-real estate collateral. C&I loans decreased \$17.5 million over the 2017 ending balance, primarily in tax free municipal loans and the \$9.3 million Participation charge-off discussed in more detail in the loan quality section below. At December 31, 2018, the Bank had approximately \$168 million of tax free loans in its portfolio. The largest sectors (by industry) are: public administration (\$84.9 million), utilities (\$34.9 million), educational services (\$26.8 million) and finance and insurance (\$15.2 million). The Bank does not have any loan exposure to the oil and gas industry.

Participations: The Bank continues to reduce its portfolio of purchased participation commercial loans. At December 31, 2018, the outstanding commercial participations accounted for 11.2%, or \$93.4 million, of commercial purpose loans compared to 14.5%, or \$115.3 million, at the prior year-end. The Bank's total exposure (including unfunded commitments) to purchased participations is 14.4% compared to 19.1% at December 31, 2017. During the year, loan participations decreased \$21.9 million, due in part to the \$9.3 million Participation charge-off, and a strategic decision to decrease the Bank's exposure to participations as existing participations paid-off or were not renewed. The commercial loan participations are comprised of \$25.0 million of C&I loans and \$68.4 million of CRE loans, reported in the respective loan segment. The Bank expects that commercial lending will continue to be the primary area of loan growth in the future via in-market lending.

Consumer loans: This category is mainly comprised of unsecured personal lines of credit and showed a slight decrease of \$51 thousand in 2018 over 2017 ending balances.

Table 10. Maturities and Interest Rate Terms of Selected Loans

Edgar Filing: USCORP - Form 10QSB

The following table presents the stated maturities (or earlier call dates) of selected loans as of December 31, 2018. Consumer purpose residential mortgages and consumer loans are excluded from the presentation.

(Dollars in thousands)	Less than 1 year	1-5 years	Over 5 years	Total
Loans:				
Residential real estate construction	\$ 5,451	\$ 3,107	\$ —	\$ 8,558
Commercial real estate	42,734	47,058	398,188	487,980
Commercial	40,617	56,740	176,697	274,054
Total	\$ 88,802	\$ 106,905	\$ 574,885	\$ 770,592

Loans with fixed and variable interest rates at December 31, 2018 are shown below:

(Dollars in thousands)	Less than 1 year	1-5 years	Over 5 years	Total
Loans with fixed rates	\$ 7,803	\$ 74,615	\$ 70,600	\$ 153,018
Loans with variable rates	80,999	32,290	504,285	617,574
Total	\$ 88,802	\$ 106,905	\$ 574,885	\$ 770,592

Loan Quality:

Management utilizes a risk rating scale ranging from 1-Prime to 9-Loss to evaluate loan quality. This risk rating scale is used primarily for commercial purpose loans. Consumer purpose loans are identified as either a pass or substandard rating based on the performance status of the loans. Substandard consumer loans are loans that are 90 days or more past due and still accruing. Loans rated 1 – 4 are considered pass credits. Loans that are rated 5 are pass credits, but have been identified as credits that are likely to warrant additional attention and monitoring. Loans rated 6-Special Mention or worse begin to receive enhanced monitoring and reporting by the Bank. Loans rated 7-Substandard or 8-Doubtful exhibit the greatest financial weakness and present the greatest possible risk of loss to the Bank. Nonaccrual loans are rated no better than 7-Substandard. The following factors represent some of the factors used in determining the risk rating of a borrower: cash flow, debt coverage, liquidity, management, and collateral. Risk



Table of Contents

ratings, for pass credits, are generally reviewed annually for term debt and at renewal for revolving or renewing debt. The Bank monitors loan quality by reviewing three primary measurements: (1) loans rated 6-Special Mention or worse (collectively “watch list”), (2) delinquent loans, and (3) net-charge-offs.

During the second quarter the Bank recorded a material impairment charge on a \$14.4 million commercial loan participation (the Participation). The impairment charge was initially reported on the Corporation’s current report on Form 8-K filed on May 31, 2018. The Participation represented the Bank’s portion of loans and off-balance sheet commitments (letters-of-credit) to a single, large commercial lending relationship with the lead bank. During the second quarter, the Bank was notified by the lead lender, another Pennsylvania bank, that the loan relationship had become impaired due to fraudulent activities believed to be perpetrated by one or more of the executives and personnel employed by the borrower. The Bank is one of four Pennsylvania banks affected by the loan impairment. The impairment resulted in the Bank charging-off loans totaling \$8.7 million. This total included a complete charge-off on a \$1.3 million loan and a partial charge-off of \$7.4 million on a \$10.3 million loan.

During September 2018, the Bank charged off an additional \$208 thousand after being notified it would receive a payment of \$1.3 million in October 2018 on the Participation. After receiving the October payment, the Participation loan balance was \$1.6 million. In December 2018, the Bank received another payment of approximately \$1.2 million, resulting in another charge-off of \$438 thousand. At December 31, 2018 the Bank had no outstanding loan balance related to the Participation. The Bank also has \$2.4 million in off-balance sheet exposure through three letters-of-credit it issued for the benefit of the borrower. A \$2.4 million reserve (reported in other liabilities and other expense) was established for these commitments during the second quarter of 2018. As of December 31, 2018, proof of claim for one letter-of-credit has been submitted to the Bankruptcy Court for payment.

The credit is in bankruptcy and is being administered by a bankruptcy court appointed trustee and by the court. The impairment charges had a significant effect on various loan quality measures including: impaired loans, nonaccrual loans, provision for loan loss expense, and net-charge offs during the third and fourth quarters of 2018.

Watch list loans exhibit financial weaknesses that increase the potential risk of default or loss to the Bank. However, inclusion on the watch list, does not by itself, mean a loss is certain. The watch list includes both performing and nonperforming loans. Watch list loans totaled \$10.3 million at year-end compared to \$12.8 million one year earlier. Included in the watch list are \$2.3 million of nonaccrual loans. The composition of the watch list (loans rated 6, 7 or 8), by primary collateral, is shown in Note 6 of the accompanying financial statements.

Delinquent loans are a result of borrowers’ cash flow and/or alternative sources of cash being insufficient to repay loans. The Bank’s likelihood of collateral liquidation to repay the loans becomes more probable the further behind a borrower falls, particularly when loans reach 90 days or more past due. Management monitors the performance status of loans by the use of an aging report. The aging report can provide an early indicator of loans that may become



severely delinquent and possibly result in a loss to the Bank. See Note 6 in the accompanying financial statements for information on the aging of payments in the loan portfolio.

Nonaccruing loans generally represent Management's determination that the borrower will be unable to repay the loan in accordance with its contractual terms and that collateral liquidation may or may not fully repay both interest and principal. It is the Bank's policy to evaluate the probable collectability of principal and interest due under terms of loan contracts for all loans 90-days or more, nonaccrual loans, or impaired loans. Further, it is the Bank's policy to discontinue accruing interest on loans that are not adequately secured and in the process of collection. Upon determination of nonaccrual status, the Bank subtracts any current year accrued and unpaid interest from its income, and any prior year accrued and unpaid interest from the allowance for loan losses. Management continually monitors the status of nonperforming loans, the value of any collateral and potential of risk of loss. Nonaccrual loans are rated no better than 7-Substandard.

The Bank's Loan Management Committee reviews these loans and risk ratings on a quarterly basis in order to proactively identify and manage problem loans. In addition, a committee meets monthly to discuss possible workout strategies for OREO and all credits rated 7-Substandard or worse. Management also tracks other commercial loan risk measurements including high loan to value loans, concentrations, participations and policy exceptions and reports these to the Credit Risk Oversight Committee of the Board of Directors. The Bank also uses a third-party consultant to assist with internal loan review with a goal of reviewing 60% of commercial loans each year. The FDIC defines certain supervisory loan-to-value lending limits. The Bank's internal loan-to-value limits are all equal to or less than the supervisory loan-to-value limits. However, in certain circumstances, the Bank may make a loan that exceeds the supervisory loan-to-value. At December 31, 2018, the Bank had loans of \$18.5 million (1.9% of gross loans) that exceeded the supervisory loan-to value limit, compared to 3.2% at the prior year end.

Absent the Participation loss, loan quality was essentially unchanged as measured by the balance of nonperforming loans. Nonaccrual loans declined slightly (\$375 thousand), but this was partially offset by a \$357 thousand increase in loans past due 90 days or more. Potential problem loans, defined as watch list loans less loans on nonaccrual or past due more than 90 days, at December 31, 2018 totaled \$7.6 million compared to \$10.1 million at December 31, 2017.

Table of Contents

The following table presents a five year summary of nonperforming assets as of December 31 of each year:

Table 11. Nonperforming Assets

(Dollars in thousands)	2018	2017	2016	2015	2014
Nonaccrual loans					
Residential Real Estate 1-4 Family					
First liens	\$ 80	\$ 168	\$ 231	\$ 806	\$ 1,124
Junior liens and lines of credit	23	—	86	105	169
Total	103	168	317	911	1,293
Residential real estate - construction	455	466	480	502	931
Commercial real estate	1,427	1,854	3,956	3,681	8,430
Commercial	315	187	23	276	1,637
Total nonaccrual loans	2,300	2,675	4,776	5,370	12,291
Loans past due 90 days or more and not included above					
Residential Real Estate 1-4 Family					
First liens	113	—	—	214	165
Junior liens and lines of credit	26	—	—	—	—
Total	139	—	—	214	165
Commercial real estate	113	—	665	152	140
Commercial	100	—	—	2	—
Consumer	5	—	—	—	17
Total loans past due 90 days or more and still accruing	357	—	665	368	322
Total nonperforming loans	2,657	2,675	5,441	5,738	12,613
Other real estate owned	2,684	2,598	4,915	6,451	3,666
Total nonperforming assets	\$ 5,341	\$ 5,273	\$ 10,356	\$ 12,189	\$ 16,279
Nonperforming loans to total gross loans	0.27%	0.28%	0.61%	0.73%	1.74%
Nonperforming assets to total assets	0.44%	0.45%	0.92%	1.18%	1.63%
Allowance for loan losses to nonperforming loans	467.26%	440.82%	203.55%	175.78%	72.23%

The following table provides information on the most significant nonaccrual loans as of December 31, 2018.

Table 12. Significant Nonaccrual Loans

(Dollars in thousands)	Balance	ALL	Nonaccrual	TDR	Collateral 1st and 2nd liens on commercial real estate, residential real estate and business assets	Location	Collateral
		Reserve	Date	Status			Value
Credit 1	\$ 1,420	\$ —	Mar-12	Y		PA	\$ 3,267

In addition to monitoring nonaccrual loans, the Bank also closely monitors impaired loans and troubled debt restructurings (TDR). A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement. Nonaccrual loans (excluding consumer purpose loans) and TDR loans are considered impaired.

A loan is considered a troubled debt restructuring (TDR) if the creditor (the Bank), for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. These concessions may include lowering the interest rate, extending the maturity, reamortization of payment, or a combination of multiple concessions. The Bank reviews all loans rated 6-Special Mention or worse when it is providing a loan restructure, modification or new credit facility to determine if the action is a TDR. If a TDR loan is placed on nonaccrual status, it remains on nonaccrual status for at least six months to ensure performance.

In accordance with financial accounting standards, TDR loans are always considered impaired until they are paid-off. However, an impaired TDR loan can be a performing loan. Impaired loans totaled \$11.9 million at year-end compared to \$12.6 million at the prior year end. Included in the impaired loan totals are \$11.2 million of TDR loans.



Table of Contents

The following table shows the composition of the Bank's impaired loans as of December 31, 2018.

Table 13. Composition of Impaired Loans

(Dollars in thousands)	Nonaccrual		Accruing	Accruing	Total
	Non-TDR	TDR	TDR	Other (1)	Impaired
Residential Real Estate 1-4 Family					
First liens	\$ 80	\$ —	\$ 678	\$ 113	\$ 871
Junior liens and lines of credit	23	—	—	26	49
Total	103	—	678	139	920
Residential real estate - construction	—	455	—	—	455
Commercial real estate	137	1,290	8,809	—	10,236
Commercial	315	—	—	—	315
Total	\$ 555	\$ 1,745	\$ 9,487	\$ 139	\$ 11,926

(1) impaired consumer purpose loans not yet on nonaccrual

Note 6 of the accompanying financial statements provides additional information on the composition of the impaired loans, including the allowance for loan loss that has been established for impaired loans and new TDR loans during the year.

## Allowance for Loan Losses:

Management monitors loan performance on a monthly basis and performs a quarterly evaluation of the adequacy of the allowance for loan losses (ALL). The ALL is determined by segmenting the loan portfolio based on the loan's collateral. When calculating the ALL, consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, historical charge-offs, the adequacy of the underlying collateral (if collateral dependent) and other relevant factors. The Bank begins enhanced monitoring of all loans rated 6 - Special Mention or worse, and obtains a new appraisal or asset valuation for any placed on nonaccrual and rated 7 - Substandard or worse. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on factors, including, but not limited to: the economy, deferred maintenance, industry, type of property/equipment, age of the appraisal, etc. and the knowledge Management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated and deducted from the valuation in order to determine the net realizable value to the Bank. When determining the

allowance for loan losses, certain factors involved in the evaluation are inherently subjective and require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans. Management monitors the adequacy of the allowance for loan losses on an ongoing basis and reports its adequacy quarterly to the Credit Risk Oversight Committee of the Board of Directors. Management believes that the allowance for loan losses at December 31, 2018 is adequate.

The analysis for determining the ALL is consistent with guidance set forth in generally accepted accounting principles (GAAP) and the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The analysis has three components; specific, general and unallocated. The specific component addresses specific reserves established for impaired loans. A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement. Collateral values discounted for market conditions and selling costs are used to establish specific allocations for impaired loans. However, it is possible that as a result of the credit analysis, a specific reserve is not required for an impaired loan. For impaired loans with balances less than \$250 thousand and all consumer purpose loans, a specific reserve analysis is not performed and these loans are added to the general allocation pool. These loans totaled \$786 thousand at year-end 2018 and are comprised primarily of loans secured by residential real estate. Management does not believe that excluding these loans from the specific reserve analysis presents any additional risk. The balance of impaired loans declined slightly in 2018 and there was no specific reserve established for any of these loans. Note 6 of the accompanying financial statements provides additional information about the ALL established for impaired loans.

## Table of Contents

The general allocation component addresses the reserves established for pools of homogenous loans. The general component includes a quantitative and qualitative analysis. When calculating the general allocation, the Bank segregates its loan portfolio into the following segments based primarily on the type of supporting collateral: residential real estate, commercial, industrial or agricultural real estate; commercial and industrial (C&I non-real estate), and consumer. Each segment may be further segregated by type of collateral, lien position, or owner/nonowner occupied properties. The quantitative analysis uses the Bank's twenty quarter rolling historical loan loss experience as determined for each loan segment. For the calculation of the quantitative analysis at December 31, 2018, the Bank determined that certain factors (e.g.: economic conditions, delinquency, classified loans, loan volume, management, loan review process, credit concentrations, competition, and legal and regulatory issues) previously used to adjust the historical loss factor where more appropriately reflected as part of the qualitative analysis and were not included in the 2018 quantitative calculation as in the past years. The qualitative analysis utilizes a risk matrix that incorporates four primary risk factors: economic conditions, delinquency, classified loans, and level of risk, and assigns a risk level (as measured in basis points) to each factor. In determining the risk level for these primary factors, consideration is given to operational factors such as: loan volume, management, loan review process, credit concentrations, competition, and legal and regulatory issues. The level of risk (as measured in basis points) for each primary factor is set for five risk levels ranging from minimal risk to very high risk and is determined independently for commercial loans, residential mortgage loans and consumer loans. As a result of the change to the methodology of calculating the quantitative component, the quantitative component declined from prior periods and the qualitative component increased.

The unallocated component is maintained to cover uncertainties that could affect Management's estimate of probable loss. The unallocated component of the ALL reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Real estate appraisals and collateral valuations are an important part of the Bank's process for determining potential loss on collateral dependent loans and thereby have a direct effect on the determination of loan reserves, charge-offs and the calculation of the allowance for loan losses. As long as the loan remains a performing loan, no further updates to appraisals are required. If a loan or relationship migrates to nonaccrual and a risk rating of 7-Substandard or worse, an evaluation for impairment status is made based on the current information available at the time of downgrade and a new appraisal or collateral valuation is obtained. We believe this practice complies with the regulatory guidance.

In determining the allowance for loan losses, Management, at its discretion, may determine that additional adjustments to the fair value obtained from an appraisal or collateral valuation are required. Adjustments will be made as necessary based on factors, including, but not limited to the economy, deferred maintenance, industry, type of property or equipment etc., and the knowledge Management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated and deducted from the valuation in order to determine the net realizable value to the Bank. If an appraisal is not available, Management may make its best estimate of the real value of the collateral or use last known market value and apply appropriate discounts. If an adjustment is made to the collateral valuation, this will be documented with appropriate support and reported to the Loan Management Committee.





Table of Contents

The following table shows, by loan segment, the activity in the ALL, the amount of the allowance established in each category and the loans that were evaluated for the ALL under a specific reserve (individually) and those that were evaluated under a general reserve (collectively) as of December 31, 2018.

Table 14. Allowance for Loan Losses by Segment

(Dollars in thousands)	Residential Real Estate 1-4 Family							Total
	First Liens	Junior Liens & Lines of Credit	Construction	Commercial Real Estate	Commercial	Consumer	Unallocated	
Allowance at December 31, 2017	\$ 1,060	\$ 330	\$ 224	\$ 6,526	\$ 2,110	\$ 105	\$ 1,437	\$ 11,792
Charge-offs	—	—	—	—	(9,482)	(107)	—	(9,589)
Recoveries	2	8	—	60	157	31	—	258
Provision	(571)	(205)	0	(116)	(888)	41	(33)	9,954
Allowance at December 31, 2018	\$ 491	\$ 133	\$ 108	\$ 5,698	\$ 4,511	\$ 70	\$ 1,404	\$ 12,415
Allowance established for loans evaluated:								
Individually	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively	491	133	108	5,698	4,511	70	1,404	12,415
Allowance at December 31, 2018	\$ 491	\$ 133	\$ 108	\$ 5,698	\$ 4,511	\$ 70	\$ 1,404	\$ 12,415
Loans evaluated for allowance:								
Individually	\$ 405	\$ —	\$ 455	\$ 10,099	\$ 181	\$ —	\$ —	\$ 11,140
Collectively	148,495	47,220	9,770	477,881	273,873	4,996	—	962,235
Total	\$ 148,900	\$ 47,220	\$ 10,225	\$ 487,980	\$ 274,054	\$ 4,996	\$ —	\$ 973,375

The following table shows the allocation of the allowance for loan losses as of December 31 for each of the past five years:

Table 15. Allocation of the Allowance for Loan Losses

(Dollars in thousands)	2018		2017		2016		2015		2014	
	Balance	% of Allowance	Balance	% of Allowance	Balance	% of Allowance	Balance	% of Allowance	Balance	% of Allowance
Residential real estate										
1-4 family										
First liens	\$ 491	4	\$ 1,060	9	\$ 1,105	10	\$ 989	10	\$ 994	11
Junior liens and lines of credit	133	1	330	3	323	3	308	3	271	3
Total	624	5	1,390	12	1,428	13	1,297	13	1,265	14
Residential real estate construction	108	1	224	2	224	2	194	2	214	2
Commercial real estate	5,698	46	6,526	55	6,109	55	5,649	56	4,978	55
Commercial	4,511	36	2,110	18	1,893	17	1,519	15	1,515	17
Consumer	70	1	105	1	100	1	102	1	127	1
Unallocated	1,404	11	1,437	12	1,321	12	1,325	13	1,012	11
Total	\$ 12,415	100	\$ 11,792	100	\$ 11,075	100	\$ 10,086	100	\$ 9,111	100

The allocation of the allowance for loan losses is based on estimates and is not intended to imply limitations on the usage of the allowance. The entire allowance is available to absorb any losses without regard to the category in which the loan is classified.

Table of Contents

The following table shows the percentage of the loans to total gross loans as of December 31 for each of the past five years:

	2018	2017	2016	2015	2014
Residential real estate 1-4 family					
First liens	15%	17%	19%	21%	22%
Junior liens and lines of credit	5%	5%	5%	6%	6%
Total	20%	22%	24%	27%	28%
Residential real estate construction	1%	1%	1%	1%	1%
Commercial real estate	50%	45%	44%	43%	45%
Commercial	28%	31%	30%	28%	25%
Consumer	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%

The following table presents details on activity in the ALL as well as key ALL ratios at December 31:

Table 16. Historical Allowance for Loan Losses

(Dollars in thousands) 2018 2017 2016