

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ►
THE MERGER WILL BE TREATED AS A REORGANIZATION QUALIFYING UNDER THE PROVISIONS OF SECTION 368(a) OF THE CODE. IN GENERAL, THE FEDERAL INCOME TAX CONSEQUENCES TO THE BANCO HARLAN, INC. SHAREHOLDERS ARE DETERMINED UNDER CODE SECTION 302, 354, 356, 358, 1001, 1221, and 1223(1) AND THE TREASURY REGULATIONS THEREUNDER.

18 Can any resulting loss be recognized? ►
SEE ATTACHED STATEMENT.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ►
THE REPORTABLE EVENT OCCURRED ON NOVEMBER 23, 2016 AND IS REPORTABLE IN THE SHAREHOLDER TAX YEAR THAT INCLUDES THAT DATE. THIS INFORMATION DOES NOT CONSTITUTE TAX ADVICE AND PROVIDES A DESCRIPTION OF COMMON TAX CONSEQUENCES, BUT DOES NOT PURPORT TO DESCRIBE ALL TAX CONSEQUENCES THAT MAY APPLY TO ALL TYPES OF SHAREHOLDERS. EACH SHAREHOLDER SHOULD CONSULT THEIR OWN TAX ADVISOR AS TO THE DETERMINATION OF GAIN OR LOSS AND ALLOCATION OF BASIS TO ANY MONTICELLO COMMON STOCK RECEIVED.

Sign Here
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.
Signature ► Kenny Ramsey, Pres. Date ► 1-06-17
Print your name ► Kenny Ramsey Title ► Pres.

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	<u>KATHARINA HERBIG</u>	<u>Kath M Herbig</u>	<u>2017.01.06 11:47:26 -05'00'</u>		<u>P01071409</u>
	Firm's name ► <u>CROWE HORWATH LLP</u>	Firm's EIN ► <u>35-0921680</u>		Phone no. <u>502-326-3996</u>	

Form 8937, Part II, Question 14

On November 23, 2016, Banco Harlan, Inc. ("Harlan") was merged with and into MBC Acquisition, Inc., a wholly owned subsidiary of Monticello Bankshares, Inc. ("Monticello"), pursuant to an agreement and plan of merger. The merger qualified as a tax-free reorganization under section 368(a) of the Internal Revenue Code. Pursuant to the terms of the merger agreement, each share of Harlan common stock outstanding immediately prior to the merger was converted into the right to receive either: (1) \$379.09 in cash; or (2) a combination of cash and shares of Monticello common stock. Shareholders who would have otherwise been entitled to receive a fractional Monticello share of less than 0.5 of a share received cash (without interest) in lieu of a fractional share, determined by multiplying the fractional Monticello share by a \$20.12 / share valuation. Shareholders who would have otherwise been entitled to receive a fractional Monticello share of 0.5 or more received one whole Monticello share in lieu of such fractional share, offset by a reduction in the amount of cash consideration that such shareholder would otherwise be entitled to receive, determined by multiplying the additional fraction Monticello share received (i.e. the result of subtracting the Monticello share fraction to which the shareholder was otherwise entitled to from the number 1) by a \$20.12 / share valuation.

Form 8937, Part II, Question 15

Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis:

Each shareholder that received Monticello common stock in the Transaction will need to allocate its tax basis in the Harlan common stock immediately before the Transaction to the shares of Monticello common stock received in the Transaction. The aggregate tax basis of Monticello common stock received by each shareholder (including any fractional shares deemed received and exchanged for cash) will equal the aggregate tax basis of such shareholder's Harlan common stock surrendered, (a) decreased by the amount of cash received by such shareholder in the Transaction (excluding cash received in lieu of a fractional share of Monticello common stock) and (b) increased by the amount of gain (including any gain treated as a dividend), if any, recognized by the shareholder on the receipt of such other consideration (excluding gain recognized as a result of received cash in lieu of a fractional share of Monticello common stock).

A shareholder that received cash in lieu of a fractional share of Monticello common stock generally will be treated as having received such fractional share in the Transaction and then as having received cash in exchange for such fractional share in a redemption by Monticello. For most shareholders, this deemed redemption will be treated as a sale or exchange, and gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the tax basis allocated to such fractional share of Monticello common stock.

Because the tax basis of all Monticello shares received in the merger is determined in whole or in part by reference to the Harlan shareholders' basis in surrendered Harlan shares, the holding period for all Monticello common stock received in the merger will generally include the holding period for the shares of Harlan common stock exchanged therefor, in accordance with IRC §1223(1).

Form 8937, Part II, Question 16

See response #15 above. The stock consideration is based on a value of \$20.12 per Monticello Shares. Fair Market Value is generally a facts and circumstances determination and other reasonable methods may apply for determining fair market value. Shareholders are urged to consult their own tax advisor regarding the calculation of gain in the transaction.

The aggregate basis of Monticello shares received, once computed, must be allocated to the individual Monticello shares received in accordance with Treasury Regulation (Treas. Reg.) §1.358-2(a). Because more than one share of Monticello common stock was received in exchange for each share of Harlan common stock, the basis of each Harlan share surrendered shall generally be allocated to the shares of Monticello received in the merger in proportion to the fair market value of the Monticello shares received. To the extent it is not possible to allocate basis in this manner, the basis of the Harlan shares surrendered must be allocated to the Monticello shares received in a manner that minimizes the disparity in the holding periods of the surrendered shares whose basis is allocated to any particular share of stock received. To calculate the basis of the Monticello shares received, former Harlan shareholders should divide the aggregate basis computed for the Monticello shares by the total number of Monticello shares received in the merger. If all surrendered Harlan shares were acquired by the shareholder on the same date at the same price, then the shareholder may generally divide the aggregate basis in all Monticello shares by the total number of shares received in the merger to determine the per share tax basis for each Monticello share received. However, if the surrendered Harlan shares were acquired on different dates at different prices, then the shareholder will be required to perform multiple tax basis calculations in order to determine the correct per-share basis for the Monticello shares received.

Form 8937, Part II, Question 18

A holder of Harlan Common Shares receiving solely cash in exchange for such holder's Harlan Common Shares will recognize gain or loss as if such shareholder had received such cash as a distribution in redemption of such holder's Harlan Common Shares, subject to the provisions and limitations of Section 302 of the Code.

A holder of Harlan Common Shares receiving both cash and Monticello Shares in exchange for such holder's Harlan Common Shares (not including any cash received in lieu of a fraction Monticello Share) will recognize gain, but not loss, in an amount not to exceed the amount of cash received (excluding cash received in lieu of a fractional Monticello Share). Unless the redemption is treated as a dividend under the Code, the gain will be capital gain if the Harlan Common Shares are held by such shareholder as a capital asset at the time of the Merger.

A holder of Harlan Common Shares receiving cash in lieu of a fractional Monticello Share will recognize gain or loss, as if the holder received the fractional share and it was then redeemed for cash in an amount equal to the amount paid by Monticello in respect of the fractional share provided the receipt of such cash is "not essentially equivalent to a dividend" under the Code, the Treasury Department regulations promulgated thereunder, case law, or rulings of the Service.