

**BNA BANCSHARES, INC.  
AND SUBSIDIARY**

**New Albany, Mississippi**

**December 31, 2018**

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**Independent Auditors' Report**

To the Stockholders and Directors  
BNA Bancshares, Inc. and Subsidiary  
New Albany, Mississippi

We have audited the accompanying consolidated financial statements of BNA Bancshares, Inc. and subsidiary (a Mississippi Corporation), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BNA Bancshares, Inc. and subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*Nail McKinney P.A.*

Tupelo, Mississippi  
February 7, 2019

**Consolidated Balance Sheets**

**BNA BANCSHARES, INC. AND SUBSIDIARY**

**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and due from banks (Note 13)	\$ 9,907,910	\$ 23,982,819
Federal funds sold	15,475,000	-
Cash and cash equivalents	25,382,910	23,982,819
Interest-bearing time deposits in bank	2,492,005	3,244,005
Securities available for sale (Note 2)	74,389,563	87,594,434
Securities held to maturity (Note 2)	72,523,047	75,138,997
Federal Home Loan Bank stock, at cost	1,485,200	1,442,200
First National Banker's Bankshares stock, at cost	359,000	359,000
Loans, net of allowance for loan losses (Note 4)	303,282,526	285,708,422
Accrued interest receivable	2,187,241	2,120,062
Premises and equipment, net (Note 5)	7,863,304	8,179,298
Deferred tax assets (Note 8)	3,221,674	2,768,657
Cash surrender value of life insurance	13,226,868	12,991,857
Foreclosed property	1,500,860	3,643,599
Prepaid expenses	348,531	376,156
Other assets	202,526	302,591
Total assets	<u>\$ 508,465,255</u>	<u>\$ 507,852,097</u>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Deposits		
Demand deposits	\$ 58,057,233	\$ 55,425,908
NOW accounts	71,485,072	99,136,918
Savings	177,073,224	150,080,535
Time, \$ 100,000 and over (Note 6)	78,050,348	69,600,768
Other time (Note 6)	46,829,760	46,419,886
Total deposits	431,495,637	420,664,015
Accrued interest payable	240,171	166,466
Escrow payable	402,063	252,444
Income taxes payable	171,626	23,292
Other liabilities	3,128,330	2,888,067
Long-term debt (Note 7)	13,386,285	25,782,482
Total liabilities	<u>448,824,112</u>	<u>449,776,766</u>
Stockholders' equity:		
Common stock - Class A, \$ 5 par value; 1,707,880.5 shares authorized and issued (Note 19)	8,539,402	8,539,402
Common stock - Class B, \$ 5 par value; 92,119.5 shares authorized and issued (Note 19)	460,598	460,598
Surplus	52,699,794	49,698,210
Undivided profits	1,210,074	1,493,400
Treasury stock, 39,701 shares at cost at December 31, 2018 and 39,901 shares at December 31, 2017	(1,901,361)	(1,910,939)
Accumulated other comprehensive loss (Note 16)	<u>(1,367,364)</u>	<u>(205,340)</u>
Total stockholders' equity	<u>59,641,143</u>	<u>58,075,331</u>
Total liabilities and stockholders' equity	<u>\$ 508,465,255</u>	<u>\$ 507,852,097</u>

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

**Consolidated Statements of Income**  
**BNA BANCSHARES, INC. AND SUBSIDIARY**

Years ended December 31, 2018 and 2017

	<i>2018</i>	<i>2017</i>
Interest and dividend income:		
Loans	\$ 15,305,991	\$ 13,680,131
Investment securities:		
U.S. government agencies	138,375	93,042
Obligations of state and political subdivisions	2,162,956	2,087,035
Mortgage backed	1,591,922	1,645,079
Other securities	92,149	32,075
Federal funds sold	16,307	-
Dividends	46,000	10,600
Total interest and dividend income	19,353,700	17,547,962
Interest expense:		
Deposits	3,243,869	2,140,630
Fed Funds Purchased	3,089	4,460
Long-term debt	411,774	337,680
Total interest expense	3,658,732	2,482,770
Net interest income	15,694,968	15,065,192
Provision for loan losses (Note 4)	350,000	300,001
Net interest income after provision for loan losses	15,344,968	14,765,191
Noninterest income:		
Service fees	2,480,991	2,368,376
Other	1,175,263	1,507,748
Net gain (loss) on available-for-sale securities	(2,499)	45,935
Net gain (loss) on held-to-maturity securities	52,551	(52,727)
Total noninterest income	3,706,306	3,869,332
Noninterest expenses:		
Salaries and employee benefits	7,058,220	6,263,971
Occupancy expense, net of rental income	545,298	523,992
Equipment expense	886,917	914,812
Other general and administrative	2,565,727	2,327,132
Total noninterest expenses	11,056,162	10,029,907
Income before provision for income taxes	7,995,112	8,604,616
Provision for income taxes (Note 8)	1,119,626	3,479,720
Net income	\$ 6,875,486	\$ 5,124,896
Earnings per share	\$ 3.91	\$ 2.91

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

**Consolidated Statements of Comprehensive Income**  
**BNA BANCSHARES, INC. AND SUBSIDIARY**

**Years ended December 31, 2018 and 2017**

	<i>2018</i>	<i>2017</i>
Net income	\$ 6,875,486	\$ 5,124,896
Other comprehensive income:		
Unrealized holding gains (losses) on available-for-sale securities	(1,498,790)	147,886
Amortization of unrealized gain (loss) on securities transferred from available-for-sale to held-to maturity	(52,042)	(96,265)
Reclassification adjustment for (gains) losses realized in net income	2,499	(45,935)
Other comprehensive income (loss) before tax	(1,548,333)	5,686
Tax effect	386,309	(35,912)
Other comprehensive loss	(1,162,024)	(30,226)
Comprehensive income	\$ 5,713,462	\$ 5,094,670

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

**Consolidated Statements of Changes in Stockholders' Equity**

**BNA BANCSHARES, INC. AND SUBSIDIARY**

Years ended December 31, 2018 and 2017

	<i>Common Stock- Class A</i>	<i>Common Stock- Class B</i>	<i>Surplus</i>	<i>Undivided Profits</i>	<i>Treasury Stock</i>	<i>Accumulated Other Comprehensive Income (Loss)</i>	<i>Total Stockholders' Equity</i>
Balance, January 1, 2017	\$ 8,539,402	\$ 460,598	\$ 49,098,210	\$ 1,037,919	\$ (1,910,939)	\$ (175,114)	\$ 57,050,076
Comprehensive income:							
Net income	-	-	-	5,124,896	-	-	5,124,896
Comprehensive loss	-	-	-	-	-	(30,226)	(30,226)
Cash dividends declared - Class A Common Stock (\$2.30 per share)	-	-	-	(3,836,353)	-	-	(3,836,353)
Cash dividends declared - Class B Common Stock (\$2.53 per share)	-	-	-	(233,062)	-	-	(233,062)
Transfer to surplus	-	-	600,000	(600,000)	-	-	-
Balance, December 31, 2017	8,539,402	460,598	49,698,210	1,493,400	(1,910,939)	(205,340)	58,075,331
Comprehensive income:							
Net income	-	-	-	6,875,486	-	-	6,875,486
Comprehensive loss	-	-	-	-	-	(1,162,024)	(1,162,024)
Cash dividends declared - Class A Common Stock (\$2.35 per share)	-	-	-	(3,920,222)	-	-	(3,920,222)
Cash dividends declared - Class B Common Stock (\$2.59 per share)	-	-	-	(238,590)	-	-	(238,590)
Treasury stock sold	-	-	1,584	-	9,578	-	11,162
Transfer to surplus	-	-	3,000,000	(3,000,000)	-	-	-
Balance, December 31, 2018	<u>\$ 8,539,402</u>	<u>\$ 460,598</u>	<u>\$ 52,699,794</u>	<u>\$ 1,210,074</u>	<u>\$ (1,901,361)</u>	<u>\$ (1,367,364)</u>	<u>\$ 59,641,143</u>

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

**Consolidated Statements of Cash Flows**  
**BNA BANCSHARES, INC. AND SUBSIDIARY**

Years ended December 31, 2018 and 2017

	<i>2018</i>	<i>2017</i>
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,875,486	\$ 5,124,896
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	350,000	300,001
Provision for foreclosed asset losses	363,637	36,500
Net amortization of securities	1,272,922	1,010,659
Depreciation and amortization of premises and equipment	401,634	459,385
Deferred income tax expense (benefit)	(66,707)	817,474
Net securities (gains) losses	(50,052)	6,792
OTTI impairment charges	-	127,538
(Gain) loss from sales of foreclosed assets	414,307	(169,566)
Stock dividend received	(43,000)	(6,100)
Net change in:		
Accrued interest receivable	(67,179)	(249,809)
Prepaid expenses	27,625	6,217
Income taxes refundable	-	169,754
Other assets	(234,481)	(242,265)
Accrued interest payable	73,705	18,723
Other accrued liabilities	538,216	581,102
Net cash provided by (used in) operating activities	9,856,113	7,991,301
<b>Cash flows from investing activities:</b>		
Activity in available-for-sale securities:		
Proceeds from sales	13,837,180	2,141,902
Proceeds from maturities, prepayments, and calls	9,641,010	10,742,924
Purchases	(12,712,561)	(23,411,246)
Activity in held-to-maturity securities:		
Proceeds from sales	1,122,160	1,046,856
Proceeds from maturities, prepayments, and calls	5,542,248	5,377,241
Purchases	(4,280,420)	(6,680,000)
Maturities (purchase) of interest-bearing time deposits in bank	752,000	(1,250,005)
Purchase of FHLB stock	-	(708,900)
Loan principal originations, net	(18,037,730)	(22,485,802)
Additions to premises and equipment	(85,640)	(55,163)
Proceeds from sales of foreclosed assets	1,477,956	442,316
Net cash used in investing activities	(2,743,797)	(34,839,877)

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



**Consolidated Statements of Cash Flows - (Continued)**  
**BNA BANCSHARES, INC. AND SUBSIDIARY**  
**Years ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	\$ 10,831,622	\$ 25,205,162
Principal payments on long-term debt	(12,396,197)	(67,828)
Proceeds from long-term debt	-	15,350,310
Proceeds from the sale of treasury stock	11,162	-
Cash dividends paid on common stock	<u>(4,158,812)</u>	<u>(4,069,415)</u>
Net cash provided by financing activities	<u>(5,712,225)</u>	<u>36,418,229</u>
Change in cash and cash equivalents	1,400,091	9,569,653
Cash and cash equivalents at beginning of year	<u>23,982,819</u>	<u>14,413,166</u>
Cash and cash equivalents at end of year	<u>\$ 25,382,910</u>	<u>\$ 23,982,819</u>
<b>Supplementary cash flow information:</b>		
Interest paid on deposits and borrowed funds	<u>\$ 3,602,259</u>	<u>\$ 2,440,825</u>
Income taxes paid	<u>\$ 958,600</u>	<u>\$ 2,515,161</u>

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

## Notes to Consolidated Financial Statements

### BNA BANCSHARES, INC. AND SUBSIDIARY

December 31, 2018

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Principles of Consolidation*

The consolidated financial statements include the accounts of BNA Bancshares, Inc., and its wholly owned subsidiary, BNA Bank which includes the Bank's subsidiary, BNA Insurance and Investment Services, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

##### *Nature of Operations*

The Company, through its wholly owned subsidiary, BNA Bank (the Bank) provides financial services to individuals and corporate customers located primarily in Northeast Mississippi. Although the Bank has a diversified loan portfolio, the majority of its loan customers are located in Union and Lee Counties, Mississippi. The Company is also subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The Company also offers various investment and insurance products through the Bank's wholly owned subsidiary, BNA Insurance and Investment Services, Inc.

##### *Use of Estimates*

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of foreclosed assets.

##### *Significant Group Concentrations of Credit Risk*

Most of the Bank's activities are with customers located within Union and Lee Counties, Mississippi. Note 2 and 3 discusses the types of securities that the Bank invests in. Note 4 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations to any one industry or customer.

##### *Reclassifications*

Certain prior year amounts have been reclassified to conform to current year's presentation.

##### *Cash and Cash Equivalents*

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold.

##### *Securities*

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

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Loans***

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout Union and Lee Counties, Mississippi. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

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

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

***Allowance for Loan Losses***

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or watch. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Allowance for Loan Losses*** (continued)

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

Pursuant to the regulatory examination process, regulatory authorities can require the Bank to adjust the balance of the allowances for loan losses account to amounts deemed by those authorities to represent an adequate allowance for safety and soundness purposes. Accordingly, the allowance for loan losses represents a material estimate that is susceptible to significant change in the near term.

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

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

***Foreclosed Assets***

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

***Premises and Equipment***

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Premises and equipment also includes long-lived intangible assets (naming rights) amortized over the term of the underlying contract.

***Transfers of Financial Assets***

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

***Advertising***

The Bank expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2018 and 2017 were \$ 399,371 and \$ 426,636 respectively.

***Income Taxes***

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

***Earnings Per Share***

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Common shares held in treasury are not considered outstanding for earnings per share calculation purposes. The weighted-average number of common shares outstanding utilized in the earnings per share calculations was 1,760,249 shares at December 31, 2018 and 1,760,099 at December 31, 2017.

***Undivided Profits and Surplus***

In the aggregate, surplus and undivided profits represent the retained earnings of the Corporation. Transfers from undivided profits to surplus are recorded annually by the Corporation and are determined by management. Such transfers are appropriations of retained earnings to a more permanent form of equity since, in general, the Bank would need to obtain prior regulatory approval for dividends in excess of the unappropriated amounts included in undivided profits as required by 12 USC 56.

Notes to Consolidated Financial Statements – (continued)

**NOTE 2. SECURITIES**

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	<i>December 31, 2018</i>			
	<i>Amortized</i>	<i>Gross Unrealized</i>		<i>Fair</i>
	<i>Cost</i>	<i>Gains</i>	<i>Losses</i>	<i>Value</i>
<u>Securities Available-for-Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 3,492,283	\$ 492	\$ (45,365)	\$ 3,447,410
State and municipal	21,448,990	53,205	(639,936)	20,862,259
Mortgage-backed	<u>51,319,760</u>	<u>52,576</u>	<u>(1,292,442)</u>	<u>50,079,894</u>
Total debt securities	76,261,033	106,273	(1,977,743)	74,389,563
Marketable equity securities	-	-	-	-
Total securities available-for-sale	<u>\$ 76,261,033</u>	<u>\$ 106,273</u>	<u>\$ (1,977,743)</u>	<u>\$ 74,389,563</u>
<u>Securities Held-to-Maturity</u>				
Debt securities:				
U.S. Government and federal agency	\$ 2,499,411	\$ -	\$ (58,446)	\$ 2,440,965
State and municipal	66,875,016	101,328	(727,658)	66,248,686
Mortgage-backed	<u>3,148,620</u>	<u>-</u>	<u>(27,612)</u>	<u>3,121,008</u>
Total securities held-to-maturity	<u>\$ 72,523,047</u>	<u>\$ 101,328</u>	<u>\$ (813,716)</u>	<u>\$ 71,810,659</u>
<i>December 31, 2017</i>				
	<i>Amortized</i>	<i>Gross Unrealized</i>		<i>Fair</i>
	<i>Cost</i>	<i>Gains</i>	<i>Losses</i>	<i>Value</i>
	<i>Cost</i>	<i>Gains</i>	<i>Losses</i>	<i>Value</i>
<u>Securities Available-for-Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 2,499,150	\$ -	\$ (56,060)	\$ 2,443,090
State and municipal	16,927,348	4,403	(396,243)	16,535,508
Mortgage-backed	<u>68,539,783</u>	<u>787,769</u>	<u>(720,216)</u>	<u>68,607,336</u>
Total debt securities	87,966,281	792,172	(1,172,519)	87,585,934
Marketable equity securities	<u>8,500</u>	<u>-</u>	<u>-</u>	<u>8,500</u>
Total securities available-for-sale	<u>\$ 87,974,781</u>	<u>\$ 792,172</u>	<u>\$ (1,172,519)</u>	<u>\$ 87,594,434</u>
<u>Securities Held-to-Maturity</u>				
Debt securities:				
U.S. Government and federal agency	\$ 2,499,214	\$ -	\$ (45,914)	\$ 2,453,300
State and municipal	71,431,183	316,630	(368,235)	71,379,578
Mortgage-backed	<u>1,208,600</u>	<u>104,048</u>	<u>-</u>	<u>1,312,648</u>
Total securities held-to-maturity	<u>\$ 75,138,997</u>	<u>\$ 420,678</u>	<u>\$ (414,149)</u>	<u>\$ 75,145,526</u>

At December 31, 2018 and 2017, securities with a carrying value of \$61,911,275 and \$62,582,545 respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Notes to Consolidated Financial Statements – (continued)

**NOTE 2. SECURITIES** (continued)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2018 follows:

	<i>Available-for-Sale</i>		<i>Held-to-Maturity</i>	
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Amortized Cost</i>	<i>Fair Value</i>
Within 1 year	\$ -	\$ -	\$ 3,679,448	\$ 3,664,922
Over 1 year through 5 years	2,398,891	2,347,738	21,121,377	20,900,442
After 5 years through 10 years	8,388,243	8,213,939	29,839,460	29,554,212
Over 10 years	14,154,139	13,747,993	14,734,142	14,570,075
	24,941,273	24,309,670	69,374,427	68,689,651
Mortgage backed securities	51,319,760	50,079,893	3,148,620	3,121,008
	<u>\$ 76,261,033</u>	<u>\$ 74,389,563</u>	<u>\$ 72,523,047</u>	<u>\$ 71,810,659</u>

Proceeds and related gross realized gains and losses from the sale (excluding maturities and calls) of securities follows:

	<i>Available-for-Sale</i>		<i>Held-to-Maturity</i>	
	<i>Year ended December 31, 2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
Proceeds from sale	<u>\$ 13,837,180</u>	<u>\$ 2,141,902</u>	<u>\$ 1,122,160</u>	<u>\$ 1,046,856</u>
Gross gains	\$ 241,383	\$ 68,157	\$ 52,551	\$ -
Gross losses	(243,882)	(22,222)	-	(46,112)
	<u>\$ (2,499)</u>	<u>\$ 45,935</u>	<u>\$ 52,551</u>	<u>\$ (46,112)</u>

Substantially all sales of held-to-maturity securities met the conditions outlined in FASB ASC 320-10-25.

Information pertaining to securities with gross unrealized losses at December 31, 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	<i>December 31, 2018</i>			
	<i>Less than Twelve Months</i>		<i>Over Twelve Months</i>	
	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
<u>Securities Available-for-Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 2,183	\$ 991,000	\$ 43,182	\$ 1,456,370
State and municipal	68,279	4,137,123	571,657	13,026,892
Mortgage-backed	104,533	11,858,448	1,187,909	31,696,680
Total securities available-for-sale	<u>\$ 174,995</u>	<u>\$ 16,986,571</u>	<u>\$ 1,802,748</u>	<u>\$ 46,179,942</u>
<u>Securities Held-to-Maturity</u>				
Debt securities:				
U.S. Government and federal agency	\$ -	\$ -	\$ 58,446	\$ 2,440,965
State and municipal	155,712	17,005,963	571,945	21,475,225
Mortgage-backed	27,613	3,121,008	-	-
Total securities held-to-maturity	<u>\$ 183,325</u>	<u>\$ 20,126,971</u>	<u>\$ 630,391</u>	<u>\$ 23,916,190</u>



Notes to Consolidated Financial Statements – (continued)

**NOTE 2. SECURITIES** (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	<i>December 31, 2017</i>			
	<i>Less than Twelve Months</i>		<i>Over Twelve Months</i>	
	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
<u>Securities Available-for-Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 5,271	\$ 494,520	\$ 50,789	\$ 1,948,570
State and municipal	117,593	5,701,748	278,650	9,745,544
Mortgage-backed	329,907	24,896,113	390,309	16,751,702
Total securities available-for-sale	<u>\$ 452,771</u>	<u>\$ 31,092,381</u>	<u>\$ 719,748</u>	<u>\$ 28,445,816</u>
<u>Securities Held-to-Maturity</u>				
Debt securities:				
U.S. Government and federal agency	\$ 4,220	\$ 495,780	\$ 41,694	\$ 1,957,520
State and municipal	252,035	19,656,791	116,200	5,489,924
Total securities held-to-maturity	<u>\$ 256,255</u>	<u>\$ 20,152,571</u>	<u>\$ 157,894</u>	<u>\$ 7,447,444</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

During the year ended December 31, 2017, management's ongoing analysis of potential impairment in investment securities, supplemented by discussion with the Bank's bond advisor and the related bond underwriter, indicated other-than-temporary impairment of \$127,538 existed in the Bank's investments in certain municipal bonds, comprised entirely of a Mississippi Development Bank Special Obligation bond for the benefit of Diamond Lakes Utility District located in Tunica County, Mississippi. Accordingly, an earnings charge was taken for this investment, establishing a new cost basis for the underlying security.

	<i>Years Ended December 31,</i>	
	<i>2018</i>	<i>2017</i>
Cumulative credit-related impairment losses at beginning of period	\$ 127,538	\$ -
Disposals	-	-
Credit-related impairment losses recognized during the year	-	127,538
Cumulative credit-related impairment losses at end of period	<u>\$ 127,538</u>	<u>\$ 127,538</u>

The unrealized losses on the Bank's other investments were caused by interest rate fluctuations. Either the contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment, or, in the case of mortgage-backed securities, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment. Because the Bank has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired.

### NOTE 3. FAIR VALUE

“Fair value” is defined by FASB Accounting Standards Codification (“ASC”) 820, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

- Level 1      Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2      Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3      Significant unobservable inputs for the asset or liability that reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

#### *Determination of fair value*

The Company uses the valuation methodologies listed below to measure different financial instruments at fair value. An indication of the level in the fair value hierarchy in which each instrument is generally classified is included. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

#### *Available-for-sale securities and held-to-maturity securities*

Available-for-sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities. The Company’s available-for-sale securities that are traded on an active exchange, such as the New York Stock Exchange, are classified as Level 1. Available-for-sale securities valued using matrix pricing are classified as Level 2. Held-to-maturity securities are only subject to recorded market value adjustment in the event such securities are deemed to be impaired. Such adjustments are based on estimated liquidation value of the underlying instruments and are classified as Level 3.

#### *Impaired loans*

Loans considered impaired under FASB ASC 310, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value. All of the Company’s impaired loans are classified as Level 3.

#### *Foreclosed assets*

Foreclosed assets are carried at the lower of cost or estimated fair value, less estimated selling costs and is subjected to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of independent appraisals, risk-adjusted discounted cash flow analyses, and other relevant factors. All of the Company’s foreclosed assets are classified as Level 3.

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

The following tables present the balances of assets measured at fair value on a recurring basis:



Notes to Consolidated Financial Statements – (continued)

NOTE 3. FAIR VALUE (continued)

	<i>December 31, 2018</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Available-for-sale securities	\$ -	\$ 74,389,563	\$ -	\$ 74,389,563
Total	\$ -	\$ 74,389,563	\$ -	\$ 74,389,563
	<i>December 31, 2017</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Available-for-sale securities	\$ -	\$ 87,585,934	\$ 8,500	\$ 87,594,434
Total	\$ -	\$ 87,585,934	\$ 8,500	\$ 87,594,434

The Bank has no liabilities recorded at fair value on a recurring basis.

The following table sets forth a summary of changes in the fair value of the Bank's level 3 assets for the year ended December 31, 2018.

	<i>Available for Sale Securities</i>
Balance, beginning of year	\$ 8,500
Purchases	-
Sales, maturities and calls	(8,500)
Balance, end of year	\$ -

**Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis**

The following tables present the balances of assets measured at fair value on a nonrecurring basis:

	<i>December 31, 2018</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	<i>Total Gains (Losses)</i>
Foreclosed assets	\$ -	\$ -	\$ 1,500,860	\$ 1,500,860	\$ (2,161,831)
Impaired securities	-	-	191,300	191,300	(127,538)
Impaired loans	-	-	5,881,670	5,881,670	(478,197)
	\$ -	\$ -	\$ 7,573,830	\$ 7,573,830	\$ (2,767,566)
	<i>December 31, 2017</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	<i>Total Gains (Losses)</i>
Foreclosed assets	\$ -	\$ -	\$ 3,643,599	\$ 3,643,599	\$ (1,940,831)
Impaired securities	-	-	191,300	191,300	(127,538)
Impaired loans	-	-	9,764,951	9,764,951	(367,853)
	\$ -	\$ -	\$ 13,599,850	\$ 13,599,850	\$ (2,436,222)

The Bank has no liabilities recorded at fair value on a nonrecurring basis.

Notes to Consolidated Financial Statements – (continued)

**NOTE 4. LOANS**

The Bank's loan and lease portfolio is disaggregated into the following segments: real estate; commercial and industrial; and consumer. A summary of loans and leases, by segment follows:

	<i>December 31,</i>	
	<u>2018</u>	<u>2017</u>
Real estate loans	\$ 257,486,328	\$ 243,533,302
Commercial loans	26,802,276	27,779,481
Consumer loans	<u>24,044,653</u>	<u>20,100,082</u>
Total loans	308,333,257	291,412,865
Less: Allowance for loan losses	<u>(5,050,731)</u>	<u>(5,704,443)</u>
Loans, net	<u>\$ 303,282,526</u>	<u>\$ 285,708,422</u>

The following tables provide details regarding the aging of the Bank's loan and lease portfolio, net of unearned income, by segment for the periods indicated:

	<i>Year ended December 31, 2018</i>			
	<i>30-89 Days Past Due</i>	<i>90+ Days Past due</i>		<i>Total</i>
		<i>Still Accruing</i>	<i>Nonaccrual</i>	
	<i>(in thousands)</i>			
Real estate loans	\$ 1,300	\$ 82	\$ 4,131	\$ 5,513
Commercial loans	-	-	-	-
Consumer loans	<u>213</u>	<u>9</u>	<u>48</u>	<u>270</u>
Total	<u>\$ 1,513</u>	<u>\$ 91</u>	<u>\$ 4,179</u>	<u>\$ 5,783</u>

  

	<i>Year ended December 31, 2017</i>			
	<i>30-89 Days Past Due</i>	<i>90+ Days Past due</i>		<i>Total</i>
		<i>Still Accruing</i>	<i>Nonaccrual</i>	
	<i>(in thousands)</i>			
Real estate loans	\$ 1,357	\$ 65	\$ 5,602	\$ 7,024
Commercial loans	-	-	-	-
Consumer loans	<u>147</u>	<u>-</u>	<u>54</u>	<u>201</u>
Total	<u>\$ 1,504</u>	<u>\$ 65</u>	<u>\$ 5,656</u>	<u>\$ 7,225</u>

The Bank utilizes an internal loan classification system to grade loans according to certain quality indicators. Those quality indicators include, but are not limited to, recent credit performance, delinquency, liquidity, cash flows, debt coverage ratios, collateral type and loan-to-value ratios. The Bank's internal loan classification system is compatible with classifications used by the Federal Deposit Insurance Corporation as well as other regulatory agencies. Loans may be classified as follows:

Pass: Loans which are performing as agreed with few or no signs of weakness. These loan show sufficient cash flow, capital and collateral to repay the loan as agreed.

Watch: Loans where potential weaknesses have developed which could cause a more serious problem if not corrected.

Substandard: Loans where well-defined weaknesses exist that require corrective action to prevent further deterioration.

Notes to Consolidated Financial Statements – (continued)

NOTE 4. LOANS (continued)

Doubtful: Loans having all the characteristics of Substandard and which have deteriorated to a point where collection and liquidation in full is highly questionable.

Loss: Loans that are considered uncollectible or with limited possible recovery.

Impaired: Loans for which it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement and for which a specific impairment reserve has been considered.

The following tables provide details of the Bank's loan and lease portfolio, net of unearned income, by segment and internally assigned grade:

<i>December 31, 2018</i>							
	<i>Pass</i>	<i>Watch</i>	<i>Sub- standard</i>	<i>Doubtful</i>	<i>Loss</i>	<i>Impaired</i>	<i>Total</i>
	<i>(in thousands)</i>						
Real estate loans	\$ 237,336	\$ 13,032	\$ 1,046	\$ -	\$ 3	\$ 6,069	\$ 257,486
Commercial loans	26,147	434	-	-	-	221	26,802
Consumer loans	23,683	239	52	1	-	70	24,045
Total	<u>\$ 287,166</u>	<u>\$ 13,705</u>	<u>\$ 1,098</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 6,360</u>	<u>\$ 308,333</u>

  

<i>December 31, 2017</i>							
	<i>Pass</i>	<i>Watch</i>	<i>Sub- standard</i>	<i>Doubtful</i>	<i>Loss</i>	<i>Impaired</i>	<i>Total</i>
	<i>(in thousands)</i>						
Real estate loans	\$ 221,568	\$ 11,025	\$ 1,150	\$ -	\$ 3	\$ 9,787	\$ 243,533
Commercial loans	27,055	491	-	-	-	233	27,779
Consumer loans	19,690	240	57	-	-	113	20,100
Total	<u>\$ 268,313</u>	<u>\$ 11,756</u>	<u>\$ 1,207</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 10,133</u>	<u>\$ 291,412</u>

The Bank evaluates relationships graded internally as substandard, doubtful, and loss for impairment when the individual relationship exceeds \$100,000 in the aggregate. Generally, impairment is measured as the Bank's recorded investment in the underlying loans in excess of the loan collateral, less estimated costs to sell. The following tables provide details of the Bank's impaired loans and leases, net of unearned income, by segment:

<i>December 31, 2018</i>					
	<i>Unpaid Principal Balance</i>	<i>Recorded Investment</i>	<i>Investment with no Allowance</i>	<i>Investment with Allowance</i>	<i>Related Allowance for Losses</i>
	<i>(in thousands)</i>				
Real estate loans	\$ 6,546	\$ 6,069	\$ 3,690	\$ 2,379	\$ 477
Commercial loans	221	221	-	221	1
Consumer loans	70	70	70	-	-
Total	<u>\$ 6,837</u>	<u>\$ 6,360</u>	<u>\$ 3,760</u>	<u>\$ 2,600</u>	<u>\$ 478</u>

Notes to Consolidated Financial Statements – (continued)

NOTE 4. LOANS (continued)

	<i>December 31, 2017</i>				
	<i>Unpaid Principal Balance</i>	<i>Recorded Investment</i>	<i>Investment with no Allowance</i>	<i>Investment with Allowance</i>	<i>Related Allowance for Losses</i>
	<i>(in thousands)</i>				
Real estate loans	\$ 9,787	\$ 9,787	\$ 7,525	\$ 2,263	\$ 368
Commercial loans	1,069	233	233	-	-
Consumer loans	113	113	113	-	-
Total	<u>\$ 10,969</u>	<u>\$ 10,133</u>	<u>\$ 7,871</u>	<u>\$ 2,263</u>	<u>\$ 368</u>

The Bank's average recorded investment in impaired loans was approximately \$8,247,000 during the year ended December 31, 2018 and approximately \$10,640,000 during the year ended December 31, 2017. Interest income recognized on impaired loans during the years ended December 31, 2018 and 2017 was immaterial. No additional funds are committed to be advanced in connection with impaired loans.

The following tables present the balance in the allowance for credit losses and the recorded investment in loans based on portfolio segment and impairment method:

	<i>December 31, 2018</i>				
	<i>Real Estate Loans</i>	<i>Commercial Loans</i>	<i>Consumer Loans</i>	<i>Unallocated</i>	<i>Total</i>
	<i>(in thousands)</i>				
Loans evaluated for impairment:					
Individually	\$ 6,069	\$ 221	\$ 70	\$ -	\$ 6,360
Collectively	251,417	26,581	23,975	-	301,973
Total	<u>\$ 257,486</u>	<u>\$ 26,802</u>	<u>\$ 24,045</u>	<u>\$ -</u>	<u>\$ 308,333</u>
Allowance for losses evaluated for impairment:					
Individually	\$ 477	\$ 1	\$ -	\$ -	\$ 478
Collectively	3,534	311	342	386	4,573
	<u>\$ 4,011</u>	<u>\$ 312</u>	<u>\$ 342</u>	<u>\$ 386</u>	<u>\$ 5,051</u>

Notes to Consolidated Financial Statements – (continued)

NOTE 4. LOANS (continued)

December 31, 2017

	<i>Real Estate Loans</i>	<i>Commercial Loans</i>	<i>Consumer Loans</i>	<i>Unallocated</i>	<i>Total</i>
	<i>(in thousands)</i>				
Loans evaluated for impairment:					
Individually	\$ 9,787	\$ 233	\$ 113	\$ -	\$ 10,133
Collectively	233,746	27,546	19,987	-	281,279
Total	<u>\$ 243,533</u>	<u>\$ 27,779</u>	<u>\$ 20,100</u>	<u>\$ -</u>	<u>\$ 291,412</u>
Allowance for losses evaluated for impairment:					
Individually	\$ 368	\$ -	\$ -	\$ -	\$ 368
Collectively	3,400	312	287	1,337	5,336
	<u>\$ 3,768</u>	<u>\$ 312</u>	<u>\$ 287</u>	<u>\$ 1,337</u>	<u>\$ 5,704</u>

The following tables summarize the changes in the allowance for credit losses by segment for the periods indicated:

Year ended December 31, 2018

	<i>Balance at Beginning of Period</i>	<i>Charge- Offs</i>	<i>Recoveries</i>	<i>Provision</i>	<i>Balance at End of Period</i>
	<i>(in thousands)</i>				
Real estate loans	\$ 3,768	\$ (810)	\$ 11	\$ 1,042	\$ 4,011
Commercial loans	312	-	6	(6)	312
Consumer loans	287	(281)	71	265	342
Unallocated	1,337	-	-	(951)	386
Total	<u>\$ 5,704</u>	<u>\$ (1,091)</u>	<u>\$ 88</u>	<u>\$ 350</u>	<u>\$ 5,051</u>

Year ended December 31, 2017

	<i>Balance at Beginning of Period</i>	<i>Charge- Offs</i>	<i>Recoveries</i>	<i>Provision</i>	<i>Balance at End of Period</i>
	<i>(in thousands)</i>				
Real estate loans	\$ 3,566	\$ (127)	\$ 30	\$ 299	\$ 3,768
Commercial loans	432	-	6	(126)	312
Consumer loans	314	(93)	43	23	287
Unallocated	1,233	-	-	104	1,337
Total	<u>\$ 5,545</u>	<u>\$ (220)</u>	<u>\$ 79</u>	<u>\$ 300</u>	<u>\$ 5,704</u>

In the normal course of business, management will sometimes grant concessions, which normally would not otherwise be considered, to borrowers that are experiencing financial difficulty. Loans identified as meeting the criteria set out in FASB ASC 310 are identified as troubled-debt-restructures (TDRs). The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and interest for a specified period, the rescheduling of payments in accordance with a bankruptcy plan, the charge-off of a portion of the loan, or a reduction in the rate of interest charged. In most cases, the conditions of the credit also warrant nonaccrual status, even after the restructure occurs. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection and the borrower's ability to perform under the modified terms in determining the

**Notes to Consolidated Financial Statements – (continued)**

**NOTE 4. LOANS (continued)**

appropriate accrual status at the time of restructure. TDR loans initially placed on nonaccrual status may be returned to accrual status if there has been at least a six-month period of sustained repayment performance by the borrower.

During the year ended December 31, 2018, the most common concessions that were granted involved rescheduling payments of principal and interest over a longer amortization period and/or reducing the rate of interest charged.

The following table summarizes the financial effect of TDRs for the year ended December 31, 2018:

	<i>Number of Contracts</i>	<i>Pre- Modification Outstanding Recorded Investment</i>	<i>Post- Modification Outstanding Recorded Investment</i>
		<i>(dollars in thousands)</i>	
Real estate loans	2	\$ 178	\$ 178
Commercial loans	-	-	-
Consumer loans	-	-	-
Total	<u>2</u>	<u>\$ 178</u>	<u>\$ 178</u>

During the year ended December 31, 2017, the Bank did not grant any concessions required to be accounted for as troubled-debt-restructures.

**NOTE 5. BANK PREMISES AND EQUIPMENT**

A summary of the cost and accumulated depreciation of premises and equipment follows:

	<i>December 31,</i>	
	<i>2018</i>	<i>2017</i>
Land, buildings, and improvements	\$ 1,650,430	\$ 1,650,430
Bank premises	8,768,414	8,768,414
Intangible assets	537,518	537,518
Furniture, fixtures, and equipment	<u>5,902,393</u>	<u>5,816,753</u>
	16,858,755	16,773,115
Less: accumulated depreciation and amortization	<u>(8,995,451)</u>	<u>(8,593,817)</u>
	<u>\$ 7,863,304</u>	<u>\$ 8,179,298</u>

The Bank entered into a contract with the City of New Albany to purchase the naming rights, for a twenty year term, to the local Sportsplex facility for \$ 500,000 and have entered into other sponsorship arrangements, all of which are amortized over the related contract term. These intangible assets are included in bank premises and equipment in the balance sheet. Amortization expenses for these intangibles are included in other general administrative expenses.

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 amounted to \$401,634 and \$459,385 respectively.

The Bank leases land for certain of its branches under the terms of operating leases. Total rental expenses for the years ended December 31, 2018 and 2017 were \$11,550 and \$6,570 respectively.

**Notes to Consolidated Financial Statements – (continued)**

**NOTE 6. DEPOSITS**

At December 31, 2018, the scheduled maturities of time deposits are as follows:

	\$
2019	68,936,578
2020	25,385,979
2021	7,659,953
2022	20,665,307
2023	2,232,291
Thereafter	-
	\$ 124,880,108

The aggregate amount of time deposits in denominations exceeding FDIC insurance limits at December 31, 2018 and 2017 was approximately \$ 38,087,000 and \$ 30,859,000, respectively.

**NOTE 7. LONG-TERM DEBT**

The Bank has entered into a blanket floating lien security agreement with the Federal Home Loan Bank (FHLB) of Dallas. Under the terms of this agreement, the Bank is required to maintain sufficient collateral to secure borrowings in an aggregate amount of the lesser of 75% of the book value (unpaid principal balance) of the Bank's one to four family residential first mortgages, small business, and small farm loans or 35% of the Bank's assets.

The Bank also maintained stock in the Federal Home Loan Bank carried at \$1,485,200 and \$1,442,000 at December 31, 2018 and 2017, respectively, which is required to be held by the Bank in order to secure future advances. Dividends received by the Bank relating to this stock during 2018 and 2017 were approximately \$43,000 and \$6,100, respectively.

The Bank's fixed-rate, long-term debt of \$12,000,000 at December 31, 2018 represents advances under that blanket floating lien security agreement with the Federal Home Loan Bank and matures through 2020. At December 31, 2018, the interest rates on fixed-rate, long-term debt ranged from 1.74 percent to 2.36 percent. At December 31, 2018, the weighted average interest rate on fixed-rate, long term debt was 1.95 percent.

There are no conversion or call features or specific restrictive covenants associated with the Federal Home Loan Bank borrowings.

The Company also has fixed-rate long term debt of \$1,386,285 at December 31, 2018 consisting of a note payable to a financial institution secured by real estate bearing interest at the prime rate minus 0.50%, maturing in December 2036, payable in annual installments of \$104,546.

The contractual maturities of long-term debt at December 31, 2018 are as follows:

	\$
2019	8,045,629
2020	4,047,412
2021	49,583
2022	51,690
2023	53,887
Thereafter	1,138,084
	\$ 13,386,285

In addition to the aforementioned long-term financing arrangements, at December 31, 2017, the Bank had established informal federal funds borrowings lines of credit aggregating \$33,500,000.

**NOTE 8. INCOME TAXES**

On a continuing basis, management analyzes the Company’s tax positions, and, when a tax position meets the measurement and recognition principles outlined in FASB ASC 740, the Company accrues a liability for unrecognized tax benefits. Any related interest and penalties associated with unrecognized tax benefits are included as a component of other non-interest expense.

The Company is subject to taxation in the United States and the state of Mississippi. The Company’s federal and state income tax returns are subject to examination by the taxing authorities generally for three years after they are filed. Management has evaluated the tax positions taken, and has not identified any positions that are unlikely to be sustained upon examination.

The provision for income taxes consists of the following:

	<i>Years Ended December 31,</i>	
	<u>2018</u>	<u>2017</u>
Current		
Federal	\$ 978,685	\$ 2,409,388
State	<u>207,648</u>	<u>252,858</u>
	1,186,333	2,662,246
Effect of change in enacted rates	-	1,320,692
Deferred	<u>(66,707)</u>	<u>(503,218)</u>
	<u>\$ 1,119,626</u>	<u>\$ 3,479,720</u>

The reasons for differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	<u>2018</u>		<u>2017</u>	
Federal	21.0	%	34.0	%
Increase (decrease) resulting from:				
State taxes, net of federal tax benefit	4.0		3.3	
Effect of change in enacted tax rates	-		15.5	
Effect of tax exempt income	(6.5)		(8.8)	
Other, net	<u>(4.5)</u>		<u>(3.6)</u>	
	<u>14.0</u>	%	<u>40.4</u>	%

The significant components of deferred income tax assets and liabilities at December 31 consist of the following:



**NOTE 8. INCOME TAXES** (continued)

	<i>Years Ended December 31,</i>	
	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,260,158	\$ 1,288,364
Deferred compensation liabilities	664,619	560,944
Foreclosed assets	543,120	486,109
Late charge accruals	94,141	89,749
Nonaccrual loan interest	109,277	111,650
Net unrealized losses on securities	466,932	94,897
Other	283,029	366,594
	<u>3,421,276</u>	<u>2,998,307</u>
Deferred tax liabilities:		
Investments, principally due to income recognition	16,283	14,521
Premises and equipment	170,960	188,497
Transfer of securities from available-for-sale to held-to-maturity	12,359	26,632
	<u>199,602</u>	<u>229,650</u>
Net deferred tax asset	<u>\$ 3,221,674</u>	<u>\$ 2,768,657</u>

**NOTE 9. RELATED PARTY TRANSACTIONS**

The Bank makes loans to its officers and directors as well as other related parties. Loans to related parties amounted to approximately \$7,068,128 and \$7,410,564 at December 31, 2018 and 2017, respectively. During 2018, new loans to officers and directors amounted to \$1,068,509 and repayments amounted to \$1,410,945.

Deposits from related parties held by the Bank at December 31, 2018 amounted to approximately \$3,661,354.

In the normal course of operations, the Bank uses a law firm which is principally owned by a director of the Bank for general counsel. Fees paid to the firm for legal services were approximately \$3,454 and \$4,919 in 2018 and 2017, respectively.

**NOTE 10. DEFINED CONTRIBUTION PLAN AND ESOP**

The Bank has an Employee Stock Ownership Plan (ESOP) covering substantially all employees. At December 31, 2018 and 2017, the plan held 103,488.5 and 103,547.5 shares of common stock, respectively. Contributions to the ESOP totaled approximately \$136,000 and \$106,000 during the years ended December 31, 2018 and 2017, respectively.

The Bank has a 401(k) plan covering substantially all employees. Eligible employees may contribute a percentage of their earnings to the plan. The Bank's contribution to the plan is discretionary. Expenses related to this plan amounted to approximately \$210,000 and \$173,000 for the years ended December 31, 2018 and 2017, respectively.

**NOTE 11. DEFERRED COMPENSATION ARRANGEMENTS**

The Bank has entered into defined benefit deferred compensation arrangements in order to provide supplemental retirement benefits for certain executives of the Bank. The defined benefit plans provide a fixed benefit to certain executives after retirement. The plans have vesting schedules, and the Bank has purchased life insurance policies on the executives that are designed by the seller to offset the annual expenses associated with the plans. The Bank is the sole owner of all policies.

The liability reserve account related to these deferred compensation agreements is included on the balance sheet in other liabilities and amounted to \$2,663,804 and \$2,248,273 at December 31, 2018 and 2017, respectively.

**NOTE 12. OFF-BALANCE SHEET ACTIVITIES**

***Credit-Related Financial Instruments***

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial statements include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank’s exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2018 and 2017, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>Contract Amount</u>	
	<u>2018</u>	<u>2017</u>
	<i>(in thousands)</i>	
Unfunded commitments under lines of credit	\$ 23,929	\$ 29,174
Standby letters of credit	\$ 1,755	\$ 1,666

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are generally collateralized and usually contain a specified maturity date, but may not be drawn upon to the total extent to which the Bank is committed.

Standby letters-of-credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, the value of which is deemed by management to be sufficient to limit the Bank’s exposure to credit risk associated with issuing the guaranty. Premiums charged in issuing the guarantees are not material to the financial statements taken as a whole.

**NOTE 13. DUE FROM BANKS**

The Company had funds on deposit with other banks at December 31, 2018 in excess of insurance coverage provided by the Federal Deposit Insurance Corporation of approximately \$4,712,000.

**NOTE 14. LEGAL CONTINGENCIES**

Various legal claims arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Bank’s consolidated financial statements.

**NOTE 15. MINIMUM REGULATORY CAPITAL REQUIREMENTS**

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company’s financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

**NOTE 15. MINIMUM REGULATORY CAPITAL REQUIREMENTS** (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (risk-based capital ratios). All banking companies are required to have core capital (“Tier 1”) of at least 4% of risk-weighted assets, total capital of at least 8% of risk-weighted assets, Common Equity Tier 1 capital of at least 4.5% and a minimum Tier 1 leverage ratio of 4% of adjusted average assets. The regulations also define well capitalized levels of Common Equity Tier 1 capital, Tier 1 capital, total capital and Tier 1 leverage ratio as 6.5%, 8%, 10% and 5%, respectively. Management believes, as of December 31, 2018 and 2017, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the Company and the Bank had Common Equity Tier 1, Tier 1, total capital and Tier 1 leverage capital above the well capitalized levels. Management is not aware of any conditions or events that may have changed the bank’s category. The Bank’s actual capital amounts and ratios as of December 31, 2018 and 2017 are also presented in the table.

	<i>2018</i>		<i>2017</i>	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
	<i>(dollar amounts in thousands)</i>			
Common Equity Tier 1 capital (to risk-weighted assets)				
BNA Bancshares, Inc.	\$ 61,009	17.5%	\$ 58,280	18.8%
BNA Bank	59,952	17.3%	57,116	18.5%
Tier 1 capital (to risk-weighted assets)				
BNA Bancshares, Inc.	61,009	17.5%	58,280	18.8%
BNA Bank	59,952	17.3%	57,116	18.5%
Total capital (to risk-weighted assets)				
BNA Bancshares, Inc.	65,359	18.7%	62,155	20.0%
BNA Bank	64,302	18.5%	60,991	19.7%
Tier 1 leverage capital (to average assets)				
BNA Bancshares, Inc.	61,009	12.0%	58,280	11.7%
BNA Bank	59,952	11.8%	57,116	11.5%

**NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of accumulated other comprehensive income, included in stockholders’ equity, are as follows:

	<i>Years Ended December 31,</i>	
	<i>2018</i>	<i>2017</i>
Net unrealized loss on securities available-for-sale	\$ (1,871,471)	\$ (380,346)
Net unrealized gain on securities transferred from available-for-sale to held-to-maturity	49,534	106,742
Tax effect	454,573	68,264
Accumulated other comprehensive income	<u>\$ (1,367,364)</u>	<u>\$ (205,340)</u>

## NOTE 17. RESTRICTIONS ON DIVIDENDS

Federal and state banking regulations place certain restrictions on dividends paid. The total amount of dividends that may be paid at any date is generally limited to the retained earnings of the Bank.

In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements and are subject to increasingly stringent limitations with respect to capital distributions and discretionary bonus payments to executive officers as regulatory capital conservation buffers approach zero percent.

## NOTE 18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. FASB ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

### *Cash and cash equivalents and interest-bearing time deposits in bank*

The carrying amounts of cash, short-term instruments, and interest bearing time deposits in bank approximate fair values.

### *Trading Assets*

Fair values pricing models for trading assets are discussed in Note 4 and are classified as Level 2.

### *Securities*

Fair value pricing models for available-for-sale securities are discussed in Note 4. Held to maturity securities are valued using matrix pricing and are classified as Level 2.

### *Federal Home Loan Bank and First National Banker's Bankshares Stock*

The carrying value of Federal Home Loan Bank and First National Banker's Bankshares stock approximates fair value based on the redemption provisions of the issuers. This fair value measurement is classified as Level 3.

### *Loans*

The fair value of loans and leases is calculated by discounting scheduled cash flows through estimated maturity using rates the Company would currently offer customers based on the credit and interest rate risk inherent in the loan or lease. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market and borrower information. Estimated maturity represents the expected average cash flow period. This entrance price approach results in a calculated fair value that would be different than an exit or estimated sales price approach and such differences could be significant. All of the Company's loans and leases are classified as Level 3.

### *Deposit liabilities*

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The resulting fair value estimates for certificates of deposit are classified as Level 2.

**NOTE 18. FAIR VALUE OF FINANCIAL INSTRUMENTS** (continued)

***Long-term borrowings***

The fair values of the Corporation’s long-term borrowings are estimated using discounted cash flow analyses based on the Corporation’s current incremental borrowing rates for similar types of borrowing arrangements with similar maturities. The resulting fair value estimates are classified as Level 2.

***Accrued interest***

The carrying amounts of accrued interest approximate fair value.

The estimated fair values, and related carrying or notional amounts, of the Bank’s financial instruments are as follows:

	2018		2017	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Financial assets:				
Cash and cash equivalents	\$ 9,907,910	\$ 9,907,910	\$ 23,982,819	\$ 23,982,819
Federal funds sold	15,475,000	15,475,000	-	-
Interest bearing time deposits in bank	2,492,005	2,492,005	3,244,005	3,244,005
Securities available-for-sale	74,389,563	74,389,563	87,594,434	87,594,434
Securities held-to-maturity	72,523,047	71,810,659	75,138,997	75,145,526
Federal home loan bank stock	1,485,200	1,485,200	1,442,200	1,442,200
First National Banker's Bank stock	359,000	359,000	359,000	359,000
Loans, net	303,282,526	284,965,293	285,708,422	275,611,048
Accrued interest receivable	2,187,241	2,187,241	2,120,062	2,120,062
Financial liabilities:				
Deposits:				
Demand deposits	\$ 58,057,233	\$ 58,057,233	\$ 55,425,908	\$ 55,425,908
NOW accounts	71,485,072	71,485,072	99,136,918	99,136,918
Savings	177,073,224	177,073,224	150,080,535	150,080,535
Time	124,880,108	124,768,861	116,020,654	117,343,390
Long-term debt	13,386,285	13,201,885	25,782,482	25,646,608
Accrued interest and other liabilities	3,942,190	3,942,190	3,330,269	3,330,269

**NOTE 19. COMMON STOCK**

The holders of Class A Voting Common Shares of the Company are entitled to receive such dividends as may be declared, from time to time, by the Board of Directors out of funds legally available therefore. The holders of Class B Nonvoting Common Shares of the Company are entitled to receive a dividend per share equal to 110% of the amount of dividends paid per share to holders of voting common stock.

The holders of Class A Common Stock are entitled one vote for each share standing in their names on the books of the Company, except that in the election of directors shareholders have cumulative voting rights. Under cumulative voting, each shareholder is entitled to vote the number of votes of the shares owned by him on the record date multiplied by the number of directors to be elected. Each shareholder may cast all of his votes for a single nominee or may distribute his votes in any manner among as many candidates as the shareholder sees fit.

The holders of Class B Nonvoting Common Shares have no voting rights, except as required under the Mississippi Business Corporation Act in connection with any proposed sale of the Company. No change may be made to the terms of the Class B Nonvoting Common Shares without the affirmative vote of a majority of such shares.

**NOTE 20. EVALUATION OF SUBSEQUENT EVENTS**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.