

**BNA BANCSHARES, INC.
AND SUBSIDIARY**

New Albany, Mississippi

December 31, 2019

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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, 2019 and 2018, 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, 2019 and 2018, 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 12, 2020

Consolidated Balance Sheets

BNA BANCSHARES, INC. AND SUBSIDIARIES

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and due from banks (Note 13)	\$ 10,430,800	\$ 9,907,910
Federal funds sold	<u>2,891,000</u>	<u>15,475,000</u>
Cash and cash equivalents	13,321,800	25,382,910
Interest-bearing time deposits in bank	3,741,985	2,492,005
Securities available for sale (Note 2)	89,260,314	74,389,563
Securities held to maturity (Note 2)	71,759,294	72,523,047
Federal Home Loan Bank stock, at cost	1,524,000	1,485,200
First National Banker's Bankshares stock, at cost	359,000	359,000
Loans, net of allowance for loan losses (Note 4)	308,240,276	303,282,526
Accrued interest receivable	2,312,211	2,187,241
Premises and equipment, net (Note 5)	9,199,218	7,863,304
Deferred tax assets (Note 8)	2,262,987	3,221,674
Cash surrender value of life insurance	13,456,334	13,226,868
Foreclosed property	870,979	1,500,860
Prepaid expenses	398,289	348,531
Other assets	<u>204,242</u>	<u>202,526</u>
Total assets	<u>\$ 516,910,929</u>	<u>\$ 508,465,255</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits		
Demand deposits	\$ 58,519,823	\$ 58,057,233
NOW accounts	80,026,093	71,485,072
Savings	187,970,875	177,073,224
Time, \$ 100,000 and over (Note 6)	68,539,363	78,050,348
Other time (Note 6)	<u>47,189,002</u>	<u>46,829,760</u>
Total deposits	442,245,156	431,495,637
Accrued interest payable	255,303	240,171
Escrow payable	469,849	402,063
Income taxes payable	2,043	171,626
Other liabilities	3,677,698	3,128,330
Long-term debt (Note 7)	<u>5,255,314</u>	<u>13,386,285</u>
Total liabilities	<u>451,905,363</u>	<u>448,824,112</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	55,799,794	52,699,794
Undivided profits	1,082,746	1,210,074
Treasury stock, 39,701 shares at cost at December 31, 2019 and December 31, 2018	(1,901,361)	(1,901,361)
Accumulated other comprehensive income (Note 16)	<u>1,024,387</u>	<u>(1,367,364)</u>
Total stockholders' equity	<u>65,005,566</u>	<u>59,641,143</u>
Total liabilities and stockholders' equity	<u>\$ 516,910,929</u>	<u>\$ 508,465,255</u>

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

Consolidated Statements of Income
BNA BANCSHARES, INC. AND SUBSIDIARIES

Years ended December 31, 2019 and 2018

	<i>2019</i>	<i>2018</i>
Interest and dividend income:		
Loans	\$ 16,754,263	\$ 15,305,991
Investment securities:		
U.S. government agencies	99,561	138,375
Obligations of state and political subdivisions	2,348,614	2,162,956
Mortgage backed	1,091,109	1,591,922
Other securities	58,454	92,149
Federal funds sold	397,177	16,307
Dividends	41,800	46,000
Total interest and dividend income	20,790,978	19,353,700
Interest expense:		
Deposits	4,713,457	3,243,869
Fed Funds Purchased	61	3,089
Long-term debt	215,689	411,774
Total interest expense	4,929,207	3,658,732
Net interest income	15,861,771	15,694,968
Provision for loan losses (Note 4)	360,000	350,000
Net interest income after provision for loan losses	15,501,771	15,344,968
Noninterest income:		
Service fees	2,447,576	2,480,991
Other	1,523,269	1,175,263
Net gain on available-for-sale securities	2,212	(2,499)
Net gain on held-to-maturity securities	127,923	52,551
Total noninterest income	4,100,980	3,706,306
Noninterest expenses:		
Salaries and employee benefits	7,174,205	7,058,220
Occupancy expense, net of rental income	567,555	545,298
Equipment expense	841,821	886,917
Other general and administrative	2,054,867	2,565,727
Total noninterest expenses	10,638,448	11,056,162
Income before provision for income taxes	8,964,303	7,995,112
Provision for income taxes (Note 8)	1,567,853	1,119,626
Net income	\$ 7,396,450	\$ 6,875,486
Earnings per share	\$ 4.20	\$ 3.91

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

Consolidated Statements of Comprehensive Income
BNA BANCSHARES, INC. AND SUBSIDIARIES

Years ended December 31, 2019 and 2018

	<i>2019</i>	<i>2018</i>
Net income	\$ 7,396,450	\$ 6,875,486
Other comprehensive income:		
Unrealized holding gain (loss) on available-for-sale securities	3,238,511	(1,498,790)
Amortization of unrealized gain (loss) on securities transferred from available-for-sale to held-to maturity	(53,621)	(52,042)
Reclassification adjustment for gains (losses) realized in net income	1,986	2,499
Other comprehensive income (loss) before tax	3,186,876	(1,548,333)
Tax effect	(795,125)	386,309
Other comprehensive income (loss)	2,391,751	(1,162,024)
Comprehensive income	\$ 9,788,201	\$ 5,713,462

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

Consolidated Statements of Changes in Stockholders' Equity

BNA BANCSHARES, INC. AND SUBSIDIARIES

Years ended December 31, 2019 and 2018

	<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</i>	<i>Total Stockholders' Equity</i>
Balance, January 1, 2018	\$ 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	8,539,402	460,598	52,699,794	1,210,074	(1,901,361)	(1,367,364)	59,641,143
Comprehensive income:							
Net income	-	-	-	7,396,450	-	-	7,396,450
Comprehensive income	-	-	-	-	-	2,391,751	2,391,751
Cash dividends declared - Class A Common Stock (\$2.50 per share)	-	-	-	(4,170,449)	-	-	(4,170,449)
Cash dividends declared - Class B Common Stock (\$2.75 per share)	-	-	-	(253,329)	-	-	(253,329)
Transfer to surplus	-	-	3,100,000	(3,100,000)	-	-	-
Balance, December 31, 2019	<u>\$ 8,539,402</u>	<u>\$ 460,598</u>	<u>\$ 55,799,794</u>	<u>\$ 1,082,746</u>	<u>\$ (1,901,361)</u>	<u>\$ 1,024,387</u>	<u>\$ 65,005,566</u>

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

Consolidated Statements of Cash Flows

BNA BANCSHARES, INC. AND SUBSIDIARIES

Years ended December 31, 2019 and 2018

	<i>2019</i>	<i>2018</i>
Cash flows from operating activities:		
Net income	\$ 7,396,450	\$ 6,875,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	360,000	350,000
Provision for foreclosed asset losses	162,849	363,637
Net amortization of securities	1,459,428	1,272,922
Depreciation and amortization of premises and equipment	379,638	401,634
Deferred income tax expense (benefit)	163,561	(66,707)
Net securities (gains) losses	(130,135)	(50,052)
(Gain) loss from sales of foreclosed assets	231,111	414,307
Stock dividend received	(38,800)	(43,000)
Net change in:		
Accrued interest receivable	(124,970)	(67,179)
Prepaid expenses	(49,758)	27,625
Other assets	(231,182)	(234,481)
Accrued interest payable	15,132	73,705
Other accrued liabilities	447,571	538,216
	<u>10,040,895</u>	<u>9,856,113</u>
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Proceeds from sales	13,410,739	13,837,180
Proceeds from maturities, prepayments, and calls	10,788,952	9,641,010
Purchases	(36,751,660)	(12,712,561)
Activity in held-to-maturity securities:		
Proceeds from sales	-	1,122,160
Proceeds from maturities, prepayments, and calls	14,398,662	5,542,248
Purchases	(14,096,107)	(4,280,420)
Maturities (purchase) of interest-bearing time deposits in bank	(1,249,980)	752,000
Loan principal originations, net	(5,323,350)	(18,037,730)
Additions to premises and equipment	(1,715,552)	(85,640)
Proceeds from sales of foreclosed assets	241,521	1,477,956
	<u>(20,296,775)</u>	<u>(2,743,797)</u>

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

Consolidated Statements of Cash Flows - (Continued)

BNA BANCSHARES, INC. AND SUBSIDIARIES

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from financing activities:		
Net increase in deposits	\$ 10,749,519	\$ 10,831,622
Principal payments on long-term debt	(8,130,971)	(12,396,197)
Proceeds from sale of treasury stock	-	11,162
Cash dividends paid on common stock	<u>(4,423,778)</u>	<u>(4,158,812)</u>
Net cash used in financing activities	<u>(1,805,230)</u>	<u>(5,712,225)</u>
Change in cash and cash equivalents	(12,061,110)	1,400,091
Cash and cash equivalents at beginning of year	<u>25,382,910</u>	<u>23,982,819</u>
Cash and cash equivalents at end of year	<u>\$ 13,321,800</u>	<u>\$ 25,382,910</u>
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	<u>\$ 4,849,560</u>	<u>\$ 3,602,259</u>
Income taxes paid	<u>\$ 1,400,400</u>	<u>\$ 958,600</u>

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

Notes to Consolidated Financial Statements

BNA BANCSHARES, INC. AND SUBSIDIARY

December 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of BNA Bancshares, Inc. (the Company), and its wholly owned subsidiary, BNA Bank (the 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 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 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. Debt securities not classified as held to maturity 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. Equity securities with readily determinable fair values are recorded at fair value, with changes in fair value reported in earnings.

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 collectability 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, 2019 and 2018 were \$357,528 and \$399,371 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 1,760,299 shares at December 31, 2019 and 1,760,249 at December 31, 2018.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact of Recently-Issued Accounting Standards and Pronouncements:

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09 – *Revenue from Contracts with Customers* (“ASU 2014-09”), which created FASB Accounting Standards Codification (“ASC”) 606, (“ASC 606”). ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For a majority of the Company’s income streams, including interest income earned on loans and leases, the recognition of revenue is governed by other accounting standards and is specifically excluded from the coverage of ASC 606. In addition, the Company’s revenue that is covered by ASC 606, the most significant of which is service fees, is generally based on day-to-day contracts with Company customers and, as a result, is not impacted by the new guidance. The Company adopted ASU 2014-09 effective January 1, 2019, and there was no impact to the financial statements at the time of adoption. The Company has included newly applicable revenue disclosures below in Note 18, “Revenue Recognition”.

In January 2016, FASB issued ASU 2016-01, “*Recognition and Measurement of Financial Assets and Financial Liabilities*” (“ASU 2016-01”). ASU 2016-01 revises the accounting for the classification and measurement of investments in equity securities and revises the presentation of certain fair value changes for financial liabilities measured at fair value. For equity securities, the guidance in ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income. The Company adopted ASU 2016-01 effective January 1, 2019, and there was no impact to the financial statements at the time of adoption.

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, 2019</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	\$ 1,000,001	\$ 90	\$ -	\$ 1,000,091
State and municipal	34,451,464	1,063,954	(34,093)	35,481,325
Mortgage-backed	52,439,823	483,390	(144,315)	52,778,898
Total securities available-for-sale	<u>\$ 87,891,288</u>	<u>\$ 1,547,434</u>	<u>\$ (178,408)</u>	<u>\$ 89,260,314</u>
<u>Securities Held-to-Maturity</u>				
Debt securities:				
U.S. Government and federal agency	\$ 999,612	\$ -	\$ (6,612)	\$ 993,000
State and municipal	64,804,699	738,909	(52,778)	65,490,830
Mortgage-backed	5,954,983	112,144	-	6,067,127
Total securities held-to-maturity	<u>\$ 71,759,294</u>	<u>\$ 851,053</u>	<u>\$ (59,390)</u>	<u>\$ 72,550,957</u>
<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	51,319,760	52,576	(1,292,442)	50,079,894
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	3,148,620	-	(27,612)	3,121,008
Total securities held-to-maturity	<u>\$ 72,523,047</u>	<u>\$ 101,328</u>	<u>\$ (813,716)</u>	<u>\$ 71,810,659</u>

At December 31, 2019 and 2018, securities with a carrying value of \$60,495,014 and \$61,911,275 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, 2019 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	\$ -	\$ -	\$ 2,253,394	\$ 2,256,622
Over 1 year through 5 years	3,600,348	3,657,283	27,661,642	27,867,978
After 5 years through 10 years	5,241,526	5,381,229	21,059,163	21,251,026
Over 10 years	26,609,591	27,442,904	14,830,112	15,108,204
	35,451,465	36,481,416	65,804,311	66,483,830
Mortgage backed securities	52,439,823	52,778,898	5,954,983	6,067,127
	<u>\$ 87,891,288</u>	<u>\$ 89,260,314</u>	<u>\$ 71,759,294</u>	<u>\$ 72,550,957</u>

Proceeds and related gross realized gains and losses from the disposition of securities follows:

	<i>Available-for-Sale</i>		<i>Held-to-Maturity</i>	
	<i>Year ended December 31, 2019</i>	<i>2018</i>	<i>Year ended December 31, 2019</i>	<i>2018</i>
Proceeds from sale	<u>\$ 24,199,691</u>	<u>\$ 23,478,190</u>	<u>\$ 14,398,662</u>	<u>\$ 6,664,408</u>
Gross gains	\$ 59,704	\$ 241,383	\$ 127,923	\$ 52,551
Gross losses	(57,492)	(243,882)	-	-
	<u>\$ 2,212</u>	<u>\$ (2,499)</u>	<u>\$ 127,923</u>	<u>\$ 52,551</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, 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	<i>December 31, 2019</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	\$ -	\$ -	\$ -	\$ -
State and municipal	30,311	3,733,769	3,782	1,247,284
Mortgage-backed	128,814	17,283,299	15,501	1,330,998
Total securities available-for-sale	<u>\$ 159,125</u>	<u>\$ 21,017,068</u>	<u>\$ 19,283</u>	<u>\$ 2,578,282</u>
<u>Securities Held-to-Maturity</u>				
Debt securities:				
U.S. Government and federal agency	\$ 6,612	\$ 993,000	\$ -	\$ -
State and municipal	3,265	7,361,791	49,513	8,950,943
Mortgage-backed	-	-	-	-
Total securities held-to-maturity	<u>\$ 9,877</u>	<u>\$ 8,354,791</u>	<u>\$ 49,513</u>	<u>\$ 8,950,943</u>

Notes to Consolidated Financial Statements – (continued)

NOTE 2. SECURITIES (continued)

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>

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. During 2019, the Bond was called and the Bank received payment in full, resulting in a recognized gain on the bond of \$127,538.

	<i>Years Ended December 31,</i>	
	<i>2019</i>	<i>2018</i>
Cumulative credit-related impairment losses at beginning of period	\$ 127,538	\$ 127,538
Disposals	(127,538)	-
Credit-related impairment losses recognized during the year	-	-
Cumulative credit-related impairment losses at end of period	<u>\$ -</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, 2019</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Available-for-sale securities	\$ -	\$ 89,260,314	\$ -	\$ 89,260,314
Total	\$ -	\$ 89,260,314	\$ -	\$ 89,260,314

	<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

There were no changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2019.

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

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, 2019</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	<i>Total Gains (Losses)</i>
Foreclosed assets	\$ -	\$ -	\$ 870,979	\$ 870,979	\$ (1,769,501)
Impaired securities	-	-	-	-	-
Impaired loans	-	-	5,492,882	5,492,882	(431,662)
	\$ -	\$ -	\$ 6,363,861	\$ 6,363,861	\$ (2,201,163)

	<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)

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:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Real estate loans	\$ 258,073,857	\$ 257,486,328
Commercial loans	29,452,647	26,802,276
Consumer loans	<u>26,157,457</u>	<u>24,044,653</u>
Total loans	313,683,961	308,333,257
Less: Allowance for loan losses	<u>(5,443,685)</u>	<u>(5,050,731)</u>
Loans, net	<u>\$ 308,240,276</u>	<u>\$ 303,282,526</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:

	<u>Year ended December 31, 2019</u>			
	<u>30-89 Days Past Due</u>	<u>90+ Days Past due Still Accruing</u>	<u>Nonaccrual</u>	<u>Total</u>
	<i>(in thousands)</i>			
Real estate loans	\$ 1,336	\$ 138	\$ 2,712	\$ 4,186
Commercial loans	-	-	-	-
Consumer loans	<u>290</u>	<u>3</u>	<u>21</u>	<u>314</u>
Total	<u>\$ 1,626</u>	<u>\$ 141</u>	<u>\$ 2,733</u>	<u>\$ 4,500</u>

	<u>Year ended December 31, 2018</u>			
	<u>30-89 Days Past Due</u>	<u>90+ Days Past due Still Accruing</u>	<u>Nonaccrual</u>	<u>Total</u>
	<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>

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, 2019</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	\$ 240,666	\$ 11,335	\$ 425	\$ -	\$ 1	\$ 5,647	\$ 258,074
Commercial loans	28,864	368	-	-	-	221	29,453
Consumer loans	25,915	137	49	-	-	56	26,157
Total	<u>\$ 295,445</u>	<u>\$ 11,840</u>	<u>\$ 474</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 5,924</u>	<u>\$ 313,684</u>
<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>

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, 2019</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	\$ 5,660	\$ 5,647	\$ 3,427	\$ 2,220	\$ 431
Commercial loans	221	221	-	221	1
Consumer loans	56	56	56	-	-
Total	<u>\$ 5,937</u>	<u>\$ 5,924</u>	<u>\$ 3,483</u>	<u>\$ 2,441</u>	<u>\$ 432</u>

Notes to Consolidated Financial Statements – (continued)

NOTE 4. LOANS (continued)

	<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>

The Bank's average recorded investment in impaired loans was approximately \$6,142,000 during the year ended December 31, 2019 and approximately \$8,247,000 during the year ended December 31, 2018. Interest income recognized on impaired loans during the years ended December 31, 2019 and 2018 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, 2019</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	\$ 5,647	\$ 221	\$ 56	\$ -	\$ 5,924
Collectively	<u>252,427</u>	<u>29,232</u>	<u>26,101</u>	<u>-</u>	<u>307,760</u>
Total	<u>\$ 258,074</u>	<u>\$ 29,453</u>	<u>\$ 26,157</u>	<u>\$ -</u>	<u>\$ 313,684</u>
Allowance for losses evaluated for impairment:					
Individually	\$ 431	\$ 1	\$ -	\$ -	\$ 432
Collectively	<u>3,376</u>	<u>281</u>	<u>338</u>	<u>1,017</u>	<u>5,012</u>
	<u>\$ 3,807</u>	<u>\$ 282</u>	<u>\$ 338</u>	<u>\$ 1,017</u>	<u>\$ 5,444</u>

Notes to Consolidated Financial Statements – (continued)

NOTE 4. LOANS (continued)

December 31, 2018

	<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>

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

Year ended December 31, 2019

	<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	\$ 4,011	\$ (44)	\$ 20	\$ (180)	\$ 3,807
Commercial loans	312	-	98	(128)	282
Consumer loans	342	(105)	64	37	338
Unallocated	386	-	-	631	1,017
Total	<u>\$ 5,051</u>	<u>\$ (149)</u>	<u>\$ 182</u>	<u>\$ 360</u>	<u>\$ 5,444</u>

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>

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, 2019, 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 periods indicated:

	<i>Year ended December 31, 2019</i>		
	<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	1	\$ 79	\$ 79
Commercial loans	-	-	-
Consumer loans	-	-	-
Total	1	\$ 79	\$ 79

	<i>Year ended December 31, 2018</i>		
	<i>Number of Contracts</i>	<i>Modification Outstanding Recorded Investment</i>	<i>Modification Outstanding Recorded Investment</i>
	<i>(dollars in thousands)</i>		
Real estate loans	2	\$ 178	\$ 178
Commercial loans	-	-	-
Consumer loans	-	-	-
Total	2	\$ 178	\$ 178

NOTE 5. BANK PREMISES AND EQUIPMENT

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

	<i>December 31,</i>	
	<i>2019</i>	<i>2018</i>
Land, buildings, and improvements	\$ 3,177,966	\$ 1,650,430
Bank premises	8,768,414	8,768,414
Intangible assets	537,518	537,518
Furniture, fixtures, and equipment	6,090,409	5,902,393
	18,574,307	16,858,755
Less: accumulated depreciation and amortization	(9,375,089)	(8,995,451)
	\$ 9,199,218	\$ 7,863,304

NOTE 5. BANK PREMISES AND EQUIPMENT (continued)

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, 2019 and 2018 amounted to \$379,638 and \$401,634 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, 2019 and 2018 were \$11,484 and \$11,550 respectively.

NOTE 6. DEPOSITS

At December 31, 2019, the scheduled maturities of time deposits are as follows:

2020	\$ 64,609,658
2021	15,502,659
2022	23,606,936
2023	10,911,781
2024	1,097,331
Thereafter	-
	<u>\$ 115,728,365</u>

The aggregate amount of time deposits in denominations exceeding FDIC insurance limits at December 31, 2019 and 2018 was approximately \$ 27,150,000 and \$ 38,087,000, 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 \$1,524,000 and \$1,485,200 at December 31, 2019 and 2018, 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 2019 and 2018 were approximately \$38,800 and \$43,000, respectively.

The Bank's fixed-rate, long-term debt of \$4,000,000 at December 31, 2019 represents advances under that blanket floating lien security agreement with the Federal Home Loan Bank and matures in 2020. At December 31, 2019, the interest rates on fixed-rate, long-term debt ranged from 1.93 percent to 1.94 percent. At December 31, 2019, the weighted average interest rate on fixed-rate, long term debt was 1.94 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 \$1,255,314 at December 31, 2019 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.

Notes to Consolidated Financial Statements – (continued)

NOTE 7. LONG-TERM DEBT (continued)

The contractual maturities of long-term debt at December 31, 2019 are as follows:

2020	\$ 4,047,411
2021	44,151
2022	46,358
2023	48,676
2024	50,963
Thereafter	<u>1,017,755</u>
	<u>\$ 5,255,314</u>

In addition to the aforementioned long-term financing arrangements, at December 31, 2019, the Bank had established informal federal funds borrowings lines of credit aggregating \$35,500,000.

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>2019</u>	<u>2018</u>
Current		
Federal	\$ 1,056,843	\$ 978,685
State	<u>347,449</u>	<u>207,648</u>
	1,404,292	1,186,333
Deferred	<u>163,561</u>	<u>(66,707)</u>
	<u>\$ 1,567,853</u>	<u>\$ 1,119,626</u>

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

	<u>2019</u>		<u>2018</u>	
Federal	21.0	%	21.0	%
Increase (decrease) resulting from:				
State taxes, net of federal tax benefit	4.0		4.0	
Effect of tax exempt income	(6.1)		(6.5)	
Other, net	<u>(1.4)</u>		<u>(4.5)</u>	
	<u>17.5</u>	%	<u>14.0</u>	%

NOTE 8. INCOME TAXES (continued)

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

	<i>Years Ended December 31,</i>	
	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,358,199	\$ 1,260,158
Deferred compensation liabilities	730,826	664,619
Foreclosed assets	443,362	543,120
Late charge accruals	87,293	94,141
Nonaccrual loan interest	20,876	109,277
Net unrealized losses on securities	-	466,932
Transfer of securities from available-for-sale to held-to-maturity	1,020	-
Other	164,434	283,029
	<u>2,806,010</u>	<u>3,421,276</u>
Deferred tax liabilities:		
Investments, principally due to income recognition	17,773	16,283
Premises and equipment	183,678	170,960
Net unrealized gains on securities	341,572	-
Transfer of securities from available-for-sale to held-to-maturity	-	12,359
	<u>543,023</u>	<u>199,602</u>
Net deferred tax asset	<u>\$ 2,262,987</u>	<u>\$ 3,221,674</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 \$6,680,231 and \$7,167,236 at December 31, 2019 and 2018, respectively. During 2019, new loans to officers and directors amounted to \$1,859,267 and repayments amounted to \$2,166,272.

Deposits from related parties held by the Bank at December 31, 2019 amounted to approximately \$3,939,382.

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 \$5,430 and \$3,454 in 2019 and 2018, respectively.

NOTE 10. DEFINED CONTRIBUTION PLAN AND ESOP

The Bank has an Employee Stock Ownership Plan (ESOP) covering substantially all employees. At December 31, 2019 and 2018, the plan held 103,562.5 and 103,488.5 shares of common stock, respectively. Contributions to the ESOP totaled approximately \$140,000 and \$136,000 during the years ended December 31, 2019 and 2018, 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 \$257,000 and \$210,000 for the years ended December 31, 2019 and 2018, 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.

NOTE 11. DEFERRED COMPENSATION ARRANGEMENTS (continued)

The liability reserve account related to these deferred compensation agreements is included on the balance sheet in other liabilities and amounted to \$2,929,161 and \$2,663,804 at December 31, 2019 and 2018, 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, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>Contract Amount</u>	
	<u>2019</u>	<u>2018</u>
	<i>(in thousands)</i>	
Unfunded commitments under lines of credit	\$ 33,885	\$ 23,929
Standby letters of credit	\$ 1,581	\$ 1,755

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, 2019 in excess of insurance coverage provided by the Federal Deposit Insurance Corporation of approximately \$2,787,000.

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

NOTE 15. MINIMUM REGULATORY CAPITAL REQUIREMENTS (continued)

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.

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, 2019 and 2018, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2019, 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, 2019 and 2018 are also presented in the table.

	2019		2018	
	Amount	Ratio	Amount	Ratio
	<i>(dollar amounts in thousands)</i>			
Common Equity Tier 1 capital (to risk-weighted assets)				
BNA Bancshares, Inc.	\$ 63,982	18.0%	\$ 61,009	17.5%
BNA Bank	63,157	17.8%	59,952	17.3%
Tier 1 capital (to risk-weighted assets)				
BNA Bancshares, Inc.	63,982	18.0%	61,009	17.5%
BNA Bank	63,157	17.8%	59,952	17.3%
Total capital (to risk-weighted assets)				
BNA Bancshares, Inc.	68,424	19.2%	65,359	18.7%
BNA Bank	67,599	19.1%	64,302	18.4%
Tier 1 leverage capital (to average assets)				
BNA Bancshares, Inc.	63,982	12.3%	61,009	12.0%
BNA Bank	63,157	12.1%	59,952	11.8%

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:

NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME (continued)

	<i>Years Ended December 31,</i>	
	<u>2019</u>	<u>2018</u>
Net unrealized gain (loss) on securities available-for-sale	\$ 1,369,026	\$ (1,871,471)
Net unrealized gain (loss) on securities transferred from available-for-sale to held-to-maturity	(4,087)	49,534
Tax effect	<u>(340,552)</u>	<u>454,573</u>
Accumulated other comprehensive income	<u>\$ 1,024,387</u>	<u>\$ (1,367,364)</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. REVENUE RECOGNITION

The majority of the Company’s revenue streams are governed by other authoritative guidance and, therefore, considered out-of-scope of FASB ASC 606. The Company’s revenue streams that are considered in-scope of ASC 606 are discussed below.

ASC 606 requires costs that are incremental to obtaining a contract to be capitalized. In the case of the Company, these costs include sales commissions for insurance and wealth management products. ASC 606 has established, and the Company has utilized, a practical expedient allowing costs that, if capitalized, would have an amortization period of one year or less to instead be expensed as incurred.

Service Fees

Service fees include service charges on deposit accounts such as maintenance fees on accounts, per item charges, account enhancement charges for additional packaged benefits and overdraft fees. The contracts with deposit account customers are day-to-day contracts and are considered to be terminable at will by either party. Therefore, the fees are all considered to be earned when charged and simultaneously collected.

Service fees also include fees related to deposit services, such as ATM fees and interchange fees on debit card transactions. These fees are earned at a point in time as the services are rendered, and therefore the related revenue is recognized as Company’s performance obligation is satisfied.

Other Noninterest Income

Included in other noninterest income is income is approximately \$43,000 and \$37,000 of income from Trust services and \$282,000 and \$273,000 of income from the sale of non-deposit investment products during the years ended December 31, 2019 and 2018, respectively. The Company’s Trust Department operates on a custodial basis which includes providing accounting and money management for trust accounts. The department manages a number of trust accounts inclusive of personal and corporate agency accounts, self-directed IRAs, and custodial accounts. Fees for managing these accounts are based on the value of assets under management in the account, with the amount of the fee depending on the type of account. Revenue is recognized on a monthly basis, and there is little to no risk of a material reversal of revenue. The contract balance (i.e. management fee receivable) recognized is considered inconsequential to the overall financial results of the Company.

The Company provides investment products and services to the Company’s customers through third party service providers, which include investment guidance relating to fixed and variable annuities, mutual funds, stocks and

NOTE 18. REVENUE RECOGNITION (continued)

other investments. Fees are recognized based on either trade activity, which are recognized at the time of the trade, or assets under management, which are recognized monthly.

Also included in other noninterest income are Bank Enterprise Awards under the Community Development Financial Institution programs awarded by the Department of Treasury. The income is recognized when the performance goals associated with such awards are satisfied. In general, Bank Enterprise Awards are recognized when the awards are released by Treasury and appropriated by Congress.

Sales of Foreclosed Assets

The Company continually markets the properties included in the foreclosed assets portfolio. The Company will at times, in the ordinary course of business, provide seller-financing on sales of foreclosed assets. In cases where a sale is seller-financed, the Company must ensure the commitment of both parties to perform their respective obligations and the collectability of the transaction price in order to properly recognize the revenue on the sale of foreclosed assets. This is accomplished through the Company's loan underwriting process. In this process the Company considers things such as the buyer's initial equity in the property, the credit quality of the buyer, the financing terms of the loan and the cash flow from the property, if applicable. If it is determined that the contract criteria in ASC 606 have been met, the revenue on the sale of foreclosed assets will be recognized on the closing date of the sale when the Company has transferred title to the buyer and obtained the right to receive payment for the property. In instances where sales are not seller-financed, the Company recognizes revenue on the closing date of the sale when the Company has obtained payment for the property and transferred title to the buyer.

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.