

Board of Governors of the Federal Reserve System



# Annual Report of Holding Companies—FR Y-6

## Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Richy C. Womack

Name of the Holding Company Director and Official

Director and Secretary

Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

*With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.*

*Richy C. Womack*  
 4/11/19

Signature of Holding Company Director and Official

Date of Signature

For holding companies *not* registered with the SEC—  
 Indicate status of Annual Report to Shareholders:

- is included with the FR Y-6 report
- will be sent under separate cover
- is not prepared

**For Federal Reserve Bank Use Only**

RSSD ID \_\_\_\_\_

C.I. \_\_\_\_\_

Date of Report (top-tier holding company's fiscal year-end):

**December 31, 2018**

Month / Day / Year

N/A

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

City National Bancshares, Inc.

Legal Title of Holding Company

P.O. Box 1031

(Mailing Address of the Holding Company) Street / P.O. Box

Colorado City

TX

79512

City

State

Zip Code

228 Elm Street

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Richy C. Womack

Director and Secretary

Name

Title

325-728-5221 112

Area Code / Phone Number / Extension

325-728-8333

Area Code / FAX Number

richy.womack@cnbccity.com

E-mail Address

www.cnbccity.com

Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? 0=No  
1=Yes  0

In accordance with the General Instructions for this report (check only one),

- 1. a letter justifying this request is being provided along with the report
- 2. a letter justifying this request has been provided separately ...

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

## For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

TM&S Bancshares, Inc.

Legal Title of Subsidiary Holding Company

3500 South DuPont Highway

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

Dover

DE

19901

City

State

Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City

State

Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City

State

Zip Code

Physical Location (if different from mailing address)

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City

State

Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City

State

Zip Code

Physical Location (if different from mailing address)

CITY NATIONAL BANCSHARES, INC.  
Supporting Schedule  
December 31, 2018

Report Item 1  
Annual Report to Shareholders

Enclosed is a copy of the annual report to shareholders of City National Bancshares, Inc.

Report Item 2a  
Organization Chart

City National Bancshares, Inc.  
Colorado City, Texas USA  
Incorporated in Texas

Ownership: (100%) of  
the outstanding common stock of

TM&S Bancshares, Inc.  
Dover, Delaware USA  
Incorporated in Delaware

Ownership: (100%) of  
the outstanding common stock of

The City National Bank of Colorado City  
Colorado City, Texas USA  
Incorporated in Texas

No entity has a LEI.

Report Item 2b  
Domestic Branch Listing

Submitted via e-mail on April 1, 2019.

Report Item 3 (1)  
Current Shareholders with ownership, control or holdings of 5% or more  
with power to vote during the fiscal year ending 12/31/18

Thomas L. Rees, Sr.  
Colorado City, TX 79512  
United States Citizen  
Owns 21,000 shares of common stock which represents 12.11% of the voting securities.

Barbara Lynne Morgan  
Dallas, TX 75219  
United States Citizen  
Owns and/or controls 12,950 shares of common stock which represents 7.47% of the voting securities.

George Ronald Witten  
Dallas, TX 75225  
United States Citizen  
Owns and/or controls 12,950 shares of common stock which represents 7.47% of the voting securities.

Report Item 3 (2)  
Shareholders not listed in 3 (1) that had ownership, control or holdings of 5% or more  
with power to vote during the fiscal year ending 12/31/18

Mary D. Brownfield  
Fort Worth, TX 76132  
United States Citizens  
Owned and/or controlled 15,000 shares of common stock which represented 8.65% of the voting securities.

Joe H. Morren  
Colorado City, TX 79512  
United States Citizen

Owned 10,000 shares of common stock which represented 5.77% of the voting securities.

Report Item 4  
Directors and Officers

1. T.L. Rees, Sr.  
Colorado City, TX 79512
  2. Attorney
  3.
    - a. Director - City National Bancshares, Inc.
    - b. N/A
    - c. Partner - Rees & Rees, L.L.P. & Director - First National Bank of Sweetwater, Texas
  4.
    - a. Owns 12.11% of the outstanding common stock of City National Bancshares, Inc.
    - b. None - 100% of the outstanding common stock of The City National Bank of Colorado City is owned by TM&S Bancshares, Inc. and 100% of its common stock is owned by City National Bancshares, Inc.
    - c. Owns and/or controls 50% of the outstanding voting securities of Rees & Rees, L.L.P.
- 
1. Harold E. Morren  
Colorado City, TX 79512
  2. Farmer
  3.
    - a. Director - City National Bancshares, Inc.
    - b. N/A
    - c. N/A
  4.
    - a. Owns 0.58% of the outstanding common stock of City National Bancshares, Inc.
    - b. None
    - c. None
- 
1. Dee A. Roach  
Colorado City, TX 79512
  2. Physician
  3.
    - a. Director - City National Bancshares, Inc.
    - b. N/A
    - c. N/A
  4.
    - a. Owns 2.43% of the outstanding common stock of City National Bancshares, Inc.
    - b. None
    - c. None
- 
1. Gayle Houston  
Colorado City, TX 79512

2. N/A
3. a. Director - City National Bancshares, Inc.  
b. N/A  
c. N/A
4. a. Owns 3.03% of the outstanding common stock of City National Bancshares, Inc.  
b. None  
c. None

1. Thomas P. Lovell  
Colorado City, TX 79512
2. Insurance Agent
3. a. Director - City National Bancshares, Inc.  
b. N/A  
c. N/A
4. a. Owns 4.04% of the outstanding common stock of City National Bancshares, Inc.  
b. None  
c. None

1. Albert Thomas Morris  
Colorado City, TX 79512
2. Farmer
3. a. Director - City National Bancshares, Inc.  
b. N/A  
c. Partner - Morris Farms
4. a. Owns 0.81% of the outstanding common stock of City National Bancshares, Inc.  
b. None  
c. Owns and/or controls 50% interest in Morris Farms partnership

1. Bobby Lemons  
Colorado City, TX 79512
2. N/A
3. a. Director - City National Bancshares, Inc.  
b. N/A  
c. N/A
4. a. Owns 0.71% of the outstanding common stock of City National Bancshares, Inc.  
b. None  
c. None

1. Royce D. Clay  
Colorado City, TX 79512
2. Banker
3. a. Director & President - City National Bancshares, Inc.

- b. Director & President - TM&S Bancshares, Inc.
  - c. N/A
- 4.
  - a. Owns 0.58% of the outstanding common stock of City National Bancshares, Inc.
  - b. None
  - c. None
  
- 1. Richy C. Womack  
Colorado City, TX 79512
- 2. Banker
- 3.
  - a. Director and Secretary - City National Bancshares, Inc.
  - b. N/A
  - c. N/A
- 4.
  - a. Owns 2.89% of the outstanding common stock of City National Bancshares, Inc.
  - b. None
  - c. None

TM&S BANCSHARES, INC.  
Supporting Schedule  
December 31, 2018

Report Item 3 (1)

Current Shareholders with ownership, control or holdings of 5% or more  
with power to vote during the fiscal year ending 12/31/18

City National Bancshares, Inc.  
USA  
Colorado City, Texas  
Ownership: 1,000 shares (100%) of  
the outstanding common stock of TM&S Bancshares, Inc.

Report Item 3 (2)

Shareholders not listed in 3 (1) that had ownership, control or holdings of 5% or more  
with power to vote during the fiscal year ending 12/31/18

None

Report Item 4

Directors and Officers

1. Royce D. Clay  
Colorado City, TX 79512
  2. Banker - The City National Bank of Colorado City
  3.
    - a. Director & President - TM&S Bancshares, Inc.
    - b. Director & President - The City National Bank of Colorado City
    - c. N/A
  4.
    - a. None - 100% of the outstanding common stock of The City National Bank of Colorado City is owned by TM&S Bancshares, Inc. and 100% of its common stock is owned by City National Bancshares, Inc.
    - b. None
    - c. None
- 
1. City National Bancshares, Inc.  
Colorado City, TX 79512
  2. N/A
  3.
    - a. N/A
    - b. N/A
    - c. N/A
  4.
    - a. Owns 100% of the outstanding common stock of TM&S Bancshares, Inc.

- b. None
- c. None

## Richy Womack

---

**To:** structure.verification@dal.frb.org  
**Subject:** City National Bancshares, Inc., Colorado City, Texas Branch Verification  
**Attachments:** Richy C Womack.vcf; BranchesForID799854.pdf; BranchesForID799854#2.pdf

**Richy C. Womack**  
The City National Bank of Colorado City  
Senior Vice President & Cashier

(325) 728-5221 Work  
(325) 728-8333 Fax  
richy.womack@cnbccity.com

228 Elm Street, PO Box 1031  
Colorado City, TX 79512



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Banking**  
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Today!



The City National Bank  
of Colorado City

<http://cnbccity.com/index.cfm/banking>

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CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

**CITY NATIONAL BANCSHARES, INC.  
AND SUBSIDIARIES**

December 31, 2018 and 2017

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**

December 31, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
City National Bancshares, Inc.  
Colorado City, Texas

We have audited the accompanying consolidated financial statements of City National Bancshares, Inc. and Subsidiaries which are comprised of 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 consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

### Opinion

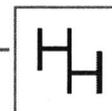
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of City National Bancshares, Inc. and Subsidiaries as of December 31, 2018 and 2017 and the results of their operations and their cash flows for the years then ended,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

*Hamby & Hengeli LLC*

San Angelo, Texas  
February 15, 2019

Certified Public Accountants

2909 Sherwood Way, Suite 204, San Angelo, TX 76901  
325.949.2567 | [www.HambyHengeli.com](http://www.HambyHengeli.com)



**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,594,619	\$ 5,830,770
Securities available for sale	64,195,719	63,682,236
Nonmarketable equity securities	157,500	157,500
Loans, net	47,223,880	51,007,292
Premises and equipment, net	890,085	912,422
Foreclosed real estate	80,971	65,003
Accrued interest receivable	969,931	983,336
Other assets	197,533	161,178
	\$ 125,310,238	\$ 122,799,737
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 23,514,076	\$ 20,427,490
Interest-bearing	90,025,397	90,339,322
Total deposits	113,539,473	110,766,812
Note payable	75,000	75,000
Accrued interest payable	45,773	38,194
Dividends payable	346,894	346,894
Other liabilities	58,498	8,847
Total liabilities	114,065,638	111,235,747
Commitments (Note H)		
<b>Stockholders' equity</b>		
Common stock - 250,000 shares, \$1 par value stock authorized;		
250,000 shares issued	250,000	250,000
Surplus	8,046,997	8,046,997
Treasury stock, at cost (76,553 shares)	(2,848,192)	(2,848,192)
Retained earnings	7,543,162	6,898,302
Accumulated other comprehensive loss	(1,747,367)	(783,117)
Total stockholders' equity	11,244,600	11,563,990
	\$ 125,310,238	\$ 122,799,737

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

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Years ended December 31,	
	2018	2017
Interest income		
Loans, including fees	\$ 3,392,328	\$ 3,407,087
Debt securities:		
Taxable	1,251,739	884,332
Tax-exempt	163,335	147,822
Other interest and dividends	115,621	71,506
Total interest income	4,923,023	4,510,747
Interest expense		
Deposits	714,949	585,955
Borrowed funds	4,285	5,614
Total interest expense	719,234	591,569
Provision for loan losses	276,609	140,000
Net interest income after provision for loan losses	3,927,180	3,779,178
Noninterest income		
Service charges on deposit accounts	498,420	578,188
Trust department income	272,350	299,225
Net (loss) on sale of securities <sup>1</sup>	-	(15,600)
Net loss on sale of assets and writedowns	(38,875)	(44,562)
Other income	339,519	342,401
Total noninterest income	1,071,414	1,159,652
Noninterest expense		
Salaries and employee benefits	1,585,730	1,502,842
Occupancy and equipment	229,244	230,807
Data processing	222,567	240,712
Regulatory fees and assessments	103,627	86,560
Other general and administrative	833,364	861,411
Total noninterest expense	2,974,532	2,922,332
NET INCOME	\$ 2,024,062	\$ 2,016,498

<sup>1</sup> Net (loss) on sale of securities includes accumulated other comprehensive income (loss) reclassifications for unrealized net gains (losses) on available for sale securities in the amount of \$0 and (\$15,600) for 2018 and 2017, respectively.

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

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years ended December 31,	
	2018	2017
Net income	\$ 2,024,062	\$ 2,016,498
Other comprehensive income (loss)		
Gross unrealized gains (losses) on securities available for sale	(964,250)	674,766
Reclassification adjustment for losses realized in net income	-	15,600
Total other comprehensive income (loss)	(964,250)	690,366
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 1,059,812</b>	<b>\$ 2,706,864</b>

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

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
Years Ended December 31, 2018 and 2017

	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2016	\$250,000	\$ 8,046,997	\$ (2,848,192)	\$ 6,275,146	\$ (1,473,483)	\$ 10,250,468
Net income	-	-	-	2,016,498	-	2,016,498
Other comprehensive income	-	-	-	-	690,366	690,366
QSCB tax credit distributions	-	-	-	(135,850)	-	(135,850)
Dividends declared	-	-	-	(1,257,492)	-	(1,257,492)
Balance at December 31, 2017	250,000	8,046,997	(2,848,192)	6,898,302	(783,117)	11,563,990
Net income	-	-	-	2,024,062	-	2,024,062
Other comprehensive loss	-	-	-	-	(964,250)	(964,250)
QSCB tax credit distributions	-	-	-	(121,711)	-	(121,711)
Dividends declared	-	-	-	(1,257,491)	-	(1,257,491)
Balance at December 31, 2018	<u>\$250,000</u>	<u>\$ 8,046,997</u>	<u>\$ (2,848,192)</u>	<u>\$ 7,543,162</u>	<u>\$ (1,747,367)</u>	<u>\$ 11,244,600</u>

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

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years ended December 31,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 2,024,062	\$ 2,016,498
Adjustments to reconcile net income to cash provided by operating activities		
Net amortization of premium on investment securities	803,530	987,212
Loss on sale of investment securities	-	15,600
Provision for loan losses	276,609	140,000
Depreciation and amortization expense	75,250	77,412
Loss on sale of assets	38,875	39,562
Writedown on repossessed assets	-	5,000
Tax credit recorded as investment income	(121,711)	(135,850)
Net change in:		
Accrued interest receivable and other assets	(179,160)	(414,282)
Accrued interest payable and other liabilities	57,230	(7,403)
Cash provided by operating activities	2,974,685	2,723,749
Cash flows from investing activities		
Proceeds from maturities, calls and paydowns of securities available for sale	38,584,178	18,859,255
Proceeds from sales of securities available for sale	-	22,266,678
Purchases of securities available for sale	(40,865,441)	(42,332,186)
Loans originated, net of principal collections	3,424,886	(1,213,671)
Additions to premises and equipment	(52,913)	(36,928)
Proceeds from sales of assets	183,284	577,380
Cash provided by (used for) investing activities	1,273,994	(1,879,472)
Cash flows from financing activities		
Net change in deposits	2,772,661	224,683
Principal payments on long term debt	-	(75,000)
Cash dividends paid on common stock	(1,257,491)	(1,257,492)
Cash provided by (used for) financing activities	1,515,170	(1,107,809)
Net change in cash and cash equivalents	5,763,849	(263,532)
Cash and cash equivalents, beginning of year	5,830,770	6,094,302
Cash and cash equivalents, end of year	\$11,594,619	\$ 5,830,770
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest on deposits and borrowed funds	\$ 711,655	\$ 590,649
Supplemental disclosure of non-cash transactions		
Loan balances transferred to foreclosed real estate	\$ 81,917	\$ 35,000

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

## CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of City National Bancshares, Inc. and Subsidiaries conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

##### Nature of Operations and Principles of Consolidation

City National Bancshares, Inc. is a bank holding company which owns 100% of the common stock of TM&S Bancshares, Inc. which in turn owns 100% of the common stock of The City National Bank of Colorado City ("the Bank"). The entities are collectively referred to as "the Company".

The accompanying consolidated financial statements include the consolidated totals of the accounts of the Company. Significant intercompany accounts and transactions have been eliminated in consolidation.

The Company provides a variety of banking services to individuals and businesses through their location in Colorado City, Texas. Their primary deposit products are checking, savings and term deposit accounts. Their primary lending products are agricultural, commercial, real estate and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customer's ability to repay their loans is dependent on the real estate and general economic conditions in the area. The Bank is subject to competition from other financial institutions and to regulation by certain federal agencies. The Bank undergoes periodic examinations by these regulatory authorities.

##### Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statement and the disclosures provided and actual results could differ.

##### Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased.

Balances in transaction accounts at other financial institutions may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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Investment Securities

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

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment charge to earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized as an impairment charge to earnings, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Nonmarketable Equity Securities

The Company, as a member of the Federal Reserve Bank of Dallas is required to maintain an investment in their capital stock. Also, the Company maintains an investment in the capital stock of TIB – The Independent BankersBank. No ready market exists for these stocks, and they have no readily determinable fair value. For financial reporting purposes, such stock is considered restricted and is carried at cost, minus impairment, if any under the caption “nonmarketable equity securities.”

Periodically, management evaluates nonmarketable equity securities for other-than-temporary impairment. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. Both cash and stock dividends are reported as income.

Loans

The Company grants real estate, commercial, agricultural and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans principally in the Mitchell and Nolan counties. The ability of the Company's borrowers 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 and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. 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.

The accrual of interest on any loan is discontinued at the time the loan is specifically determined to be impaired unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the principal balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectibility is no longer doubtful.

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company's nonaccrual criteria.

Generally, loans are charged off in whole or in part on a loan-by-loan basis after they become significantly past due and based upon management's review of the collectibility of all or a portion of the loan unless the loan is in the process of restructuring. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgement, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired when, based on current information and events, it is probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and are classified as impaired.

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower's financial condition and overall loan quality as determined by an internal loan grading system. Included in impaired loans are all nonaccrual loans and all accruing troubled debt restructurings. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. For impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan's original effective interest rate. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of economic factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. Economic factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies and impaired loans; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; portfolio concentrations.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated quarterly by management. The ratings on the Company's internal credit scale are broadly grouped into the categories "pass", "special mention", "substandard" and "doubtful." Loans with a pass rating are those loans with minimal identified credit risk. Special mention loans include those with potential credit weaknesses which deserve management's attention but for which full collection of contractual principal and interest is not significantly at risk. Substandard loans are those loans that have well-defined weakness that put full collection of contractual principal or interest at risk. Loans rated doubtful are those in which it is probable that the Company will not collect all contractual principal or interest. Loans rated doubtful are generally also placed on nonaccrual and considered impaired. The credit quality ratings are an important part of the Company's overall credit risk management process and are considered in the determination of the allowance for loan losses.

Determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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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. Maintenance and repairs, which do not extend the useful lives of buildings and equipment, are charged to expense as incurred.

Foreclosed Real Estate

Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Income Taxes

The Company is taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company neither pays corporate income taxes on its taxable income nor is allowed a net operating loss carryover or carryback as a deduction. Instead, the shareholders of the Company include their respective shares of the Company's net operating income or loss in their individual income tax returns. Accordingly, no income taxes are reflected in the consolidated financial statements.

Because the Company's stockholders will be obligated to pay income taxes on the earnings of the Company, the Company expects to declare cash dividends sufficient to fund the stockholders' tax payments as they come due.

The Company is no longer subject to examination by taxing authorities for years before 2015.

Retirement Plans

Employee 401(k) and profit sharing plan expense is the amount of matching contributions.

Loan Commitments and Related Financial Instruments

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

Loss Contingencies

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

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restrictions

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value Measurements

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

Comprehensive Income

Components of comprehensive income are net income and other comprehensive income. The only component of other comprehensive income consists of net unrealized holding gains and losses on available-for-sale securities.

Adoption of New Accounting Standards and Newly Issued Not Yet Effective Accounting Standards

*ASU 2014-09 "Revenue from Contracts with Customers" (Topic 606)*. In May 2014, FASB issued ASU 2014-09 which implements a common revenue standard that clarifies the principles for recognizing revenue. It will supersede most current revenue recognition requirements when it becomes effective. The core principle of the guidance is 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 or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies the performance obligation. This guidance becomes effective for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the effect that the guidance will have on its consolidated financial statements and disclosures, if any. The Company will adopt Topic 606 in 2019, as required for non-public business entities. The Company is finalizing its assessment and has identified the revenue line items within the scope of this new guidance. The adoption of this standard is not expected to result in a material change for revenue because the majority of the Company's financial instruments are not within the scope of Topic 606. Revenue streams within Other Noninterest Income the Company is evaluating include Service Charges on Deposit Accounts and Income from Fiduciary Activities.

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

*ASU 2016-01 "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities"*. In January 2016, the FASB issued ASU 2016-01 which amends a number of accounting standards, including: (1) Requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in income; (2) Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (3) Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables); (4) Simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (5) Clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets; (6) Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost; and (7) Eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The Company will adopt this new guidance in 2019. The adoption of this standard is not expected to have a material effect on the consolidated financial statements, however, it may impact the fair value disclosures included in footnote L.

*ASU 2016-13 "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments"*. (Topic 326). In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the guidance amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Company will adopt Topic 326 in the first quarter of 2022, as required for non-public business entities. The Company is assessing data and system needs in order to evaluate the impact of adopting the new guidance. The Bank may recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. The cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. At this time, the impact to the allowance for loan losses balance is being evaluated.

*ASU 2017-08 "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities"*. In March, 2017, the FASB amended existing guidance to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, the discount continues to be amortized to maturity. This guidance becomes effective for annual reporting periods beginning after December 15, 2019 and interim reporting periods beginning after December 15, 2020. Early adoption is permitted. The Company has elected to early adopt this guidance effective January 1, 2017, the impact of the adoption was not material to the consolidated financial statements or disclosures.

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2018 and 2017

*ASU 2018-13 “Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* In August 2018, the FASB issued ASU 2018-13 to remove from, modify, and add to existing fair value measurement disclosures requirements. The disclosure requirements that are removed include the following: (1) transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for determining when transfers between any of the three levels have occurred; (3) the valuation processes used for Level 3 measurements; (4) for nonpublic entities, the changes in unrealized gains or losses presented in earnings for Level 3 instruments held at the balance sheet date. The following disclosure requirements are modified (1) the Level 3 roll forward is eliminated for nonpublic entities, but disclosure of transfers in and out of Level 3 as well as purchases and issuances are required; (2) the Level 3 measurement uncertainty disclosure should communicate information about the uncertainty at the balance sheet date. Additionally, nonpublic entities will be required to disclose some form of quantitative information about significant unobservable inputs used in Level 3 fair value measurement. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. In addition, an entity may early adopt any of the removed or modified disclosures immediately and delay adoption of the new disclosures until the effective date. The Company is evaluating the effect that the guidance will have on its consolidated financial statements and disclosures if any.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through February 15, 2019, which is the date the financial statements were available to be issued.

**NOTE B – INVESTMENT SECURITIES**

The following information is related to the Company’s portfolio of debt securities:

	December 31, 2018			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<u>Securities available for sale</u>				
U.S. Treasuries	\$ 1,996,826	\$ -	\$ -	\$ 1,996,826
Corporate	11,322,617	-	(445,056)	10,877,561
State and municipal	9,291,075	-	(255,615)	9,035,460
Mortgage-backed	43,201,647	-	(1,041,410)	42,160,237
SBA Pools	130,921	-	(5,286)	125,635
	<u>\$ 65,943,086</u>	<u>\$ -</u>	<u>\$ (1,747,367)</u>	<u>\$ 64,195,719</u>

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2018 and 2017

	December 31, 2017			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<u>Securities available for sale</u>				
Corporate	\$ 8,846,152	\$ -	\$ (262,841)	\$ 8,583,311
State and municipal	9,539,113	1,429	(145,349)	9,395,193
Mortgage-backed	45,850,089	21,125	(393,273)	45,477,941
SBA Pools	229,999	-	(4,208)	225,791
	<u>\$ 64,465,353</u>	<u>\$ 22,554</u>	<u>\$ (805,671)</u>	<u>\$ 63,682,236</u>

The amortized cost and estimated market value of debt securities at December 31, 2018, by contractual maturity are as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 1,996,826	\$ 1,996,826
Due after one year through five years	8,872,754	8,646,814
Due after five years through ten years	8,744,682	8,349,049
Due after ten years	2,996,256	2,917,158
	<u>22,610,518</u>	<u>21,909,847</u>
Securities without fixed maturities	43,332,568	42,285,872
	<u>\$ 65,943,086</u>	<u>\$ 64,195,719</u>

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

At December 31, 2018 and 2017, investment securities with carrying values of \$20,153,007 and \$17,771,805, respectively, were pledged to secure public deposits and for other purposes.

During 2018, there were no sales of investment securities. During 2017, there were gross realized gains of \$41,158 and gross realized losses of \$56,758 on the sale of investment securities.

Information pertaining to securities with gross unrealized losses, at December 31, 2018 and 2017 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2018 and 2017

	December 31, 2018			
	Less than 12 months		Over 12 months	
	Gross Unrealized		Gross Unrealized	
	Losses	Fair Value	Losses	Fair Value
<u>Securities available for sale</u>				
U.S. Treasuries	\$ -	\$ -	\$ -	\$ -
Corporate	52,703	3,466,332	392,353	7,411,229
State and municipal	-	-	255,615	9,035,459
Mortgage-backed	51,848	5,932,313	989,562	36,353,556
SBA Pools	-	-	5,286	125,631
	<u>\$ 104,551</u>	<u>\$ 9,398,645</u>	<u>\$ 1,642,816</u>	<u>\$ 52,925,875</u>

	December 31, 2017			
	Less than 12 months		Over 12 months	
	Gross Unrealized		Gross Unrealized	
	Losses	Fair Value	Losses	Fair Value
<u>Securities available for sale</u>				
Corporate	\$ 50,181	\$ 4,453,290	\$ 212,660	\$ 4,130,020
State and municipal	44,568	5,118,004	100,781	2,940,436
Mortgage-backed	216,406	26,894,023	176,867	12,941,653
SBA Pools	-	-	4,208	223,918
	<u>\$ 311,155</u>	<u>\$ 36,465,317</u>	<u>\$ 494,516</u>	<u>\$ 20,236,027</u>

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

**NOTE C – NONMARKETABLE EQUITY SECURITIES**

Nonmarketable equity securities carried at cost are as follows:

	December 31,	
	2018	2017
Federal Reserve Bank	\$ 82,500	\$ 82,500
TIB - The Independent BankersBank	75,000	75,000
	<u>\$ 157,500</u>	<u>\$ 157,500</u>

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

**NOTE D - LOANS**

Major classifications of loans are as follows:

	December 31,	
	2018	2017
Real Estate	\$17,508,376	\$19,418,286
Commercial	11,753,156	11,890,235
Agricultural	9,065,699	10,960,740
Consumer and Other	9,440,641	9,405,555
	47,767,872	51,674,816
Less: Allowance For Loan Losses	(543,992)	(667,524)
Total Loans	\$47,223,880	\$51,007,292

Transactions in the allowance for loan losses are as follows:

	Year Ended December 31, 2018				
	Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance at December 31, 2017	\$ 87,635	\$ 81,651	\$ 127,838	\$ 370,400	\$ 667,524
Provision for loan losses	252,065	(28,137)	(15,027)	67,708	276,609
Charge-offs	(263,242)	(27,450)	(5,664)	(145,346)	(441,702)
Recoveries	2,928	-	-	38,633	41,561
Net charge-offs	(260,314)	(27,450)	(5,664)	(106,713)	(400,141)
Balance at December 31, 2018	\$ 79,386	\$ 26,064	\$ 107,147	\$ 331,395	\$ 543,992

	Year Ended December 31, 2017				
	Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance at December 31, 2016	\$ 74,231	\$ 71,104	\$ 89,932	\$ 318,761	\$ 554,028
Provision for loan losses	10,477	(17,293)	37,906	108,910	140,000
Charge-offs	-	-	-	(143,802)	(143,802)
Recoveries	2,927	27,840	-	86,531	117,298
Net (charge-offs) recoveries	2,927	27,840	-	(57,271)	(26,504)
Balance at December 31, 2017	\$ 87,635	\$ 81,651	\$ 127,838	\$ 370,400	\$ 667,524

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

Components of the allowance for loan losses, and the related carrying amounts of loans for which the allowance is determined, are as follows:

	Year Ended December 31, 2018				
	Real Estate	Commercial	Agricultural	Consumer and Other	Total
<b><u>Allocation of Allowance To:</u></b>					
Impaired loans - evaluated individually	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	-	-	-	-	-
Unimpaired loans - evaluated collectively	79,386	26,064	107,147	331,395	543,992
	<u>\$ 79,386</u>	<u>\$ 26,064</u>	<u>\$ 107,147</u>	<u>\$ 331,395</u>	<u>\$ 543,992</u>
<b><u>Recorded Investment In:</u></b>					
Impaired loans - evaluated individually	\$ 282,552	\$ -	\$ -	\$ -	\$ 282,552
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	282,552	-	-	-	282,552
Unimpaired loans - evaluated collectively	17,225,824	11,753,156	9,065,699	9,440,641	47,485,320
	<u>\$ 17,508,376</u>	<u>\$ 11,753,156</u>	<u>\$ 9,065,699</u>	<u>\$ 9,440,641</u>	<u>\$ 47,767,872</u>
	Year Ended December 31, 2017				
	Real Estate	Commercial	Agricultural	Consumer and Other	Total
<b><u>Allocation of Allowance To:</u></b>					
Impaired loans - evaluated individually	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	-	-	-	-	-
Unimpaired loans - evaluated collectively	87,635	81,651	127,838	370,400	667,524
	<u>\$ 87,635</u>	<u>\$ 81,651</u>	<u>\$ 127,838</u>	<u>\$ 370,400</u>	<u>\$ 667,524</u>
<b><u>Recorded Investment In:</u></b>					
Impaired loans - evaluated individually	\$ 1,048,017	\$ -	\$ -	\$ -	\$ 1,048,017
Impaired loans - evaluated collectively	-	-	-	-	-
Total impaired loans	1,048,017	-	-	-	1,048,017
Unimpaired loans - evaluated collectively	18,370,269	11,890,235	10,960,740	9,405,555	50,626,799
	<u>\$ 19,418,286</u>	<u>\$ 11,890,235</u>	<u>\$ 10,960,740</u>	<u>\$ 9,405,555</u>	<u>\$ 51,674,816</u>

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

Information relative to impaired loans is as follows:

	December 31, 2018				Year Ended December 31, 2018
	Recorded Investment In Impaired Loans With No Valuation Allowance	Recorded Investment In Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Average Impaired Loans
Real Estate	\$ 282,552	\$ -	\$ 282,552	\$ -	\$ 869,541
Commercial	-	-	-	-	-
Agricultural	-	-	-	-	-
Consumer and Other	-	-	-	-	-
<b>Total Loans</b>	<b>\$ 282,552</b>	<b>\$ -</b>	<b>\$ 282,552</b>	<b>\$ -</b>	<b>\$ 869,541</b>

	December 31, 2017				Year Ended December 31, 2017
	Recorded Investment In Impaired Loans With No Valuation Allowance	Recorded Investment In Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Average Impaired Loans
Real Estate	\$ 1,048,017	\$ -	\$ 1,048,017	\$ -	\$ 213,324
Commercial	-	-	-	-	-
Agricultural	-	-	-	-	-
Consumer and Other	-	-	-	-	-
<b>Total Loans</b>	<b>\$ 1,048,017</b>	<b>\$ -</b>	<b>\$ 1,048,017</b>	<b>\$ -</b>	<b>\$ 213,324</b>

The Company did not have any commitments to extend credit on impaired loans at December 31, 2018 and interest income recognized on impaired loans was \$-0- and \$19,281 for the years ended December 31, 2018 and 2017.

Troubled debt restructurings are loans that are modified as a result of the borrower experiencing financial difficulty. The modification of the terms of such loans include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for a new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2018 and 2017

Troubled debt restructurings included in impaired loans, and the related valuation allowance thereon, are as follows:

	December 31, 2018	
	TDRs - included in impaired loans	Portion of Valuation Allowance on Impaired Loans Attributable to TDRs
Real Estate	\$ 238,652	\$ -
Commercial	-	-
Agricultural	-	-
Consumer and Other	-	-
Total Loans	\$ 238,652	\$ -

The Company did not have any troubled debt restructurings at December 31, 2017.

The carrying amount of loans by performance status are as follows:

	December 31, 2018				
	Accruing Loans				Total Loans
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	
Real Estate	\$ 16,056,067	\$ 1,064,186	\$ 105,571	\$ 282,552	\$ 17,508,376
Commercial	11,252,641	478,502	22,013	-	11,753,156
Agricultural	9,065,699	-	-	-	9,065,699
Consumer and Other	9,053,760	351,886	34,995	-	9,440,641
Total	\$ 45,428,167	\$ 1,894,574	\$ 162,579	\$ 282,552	\$ 47,767,872

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2018 and 2017

	December 31, 2017				
	Accruing Loans				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans
Real Estate	\$ 17,519,477	\$ 850,792	\$ -	\$ 1,048,017	\$ 19,418,286
Commercial	11,859,375	30,860	-	-	11,890,235
Agricultural	10,897,620	63,120	-	-	10,960,740
Consumer and Other	8,821,497	570,781	13,277	-	9,405,555
<b>Total</b>	<b>\$ 49,097,969</b>	<b>\$ 1,515,553</b>	<b>\$ 13,277</b>	<b>\$ 1,048,017</b>	<b>\$ 51,674,816</b>

The carrying amounts of loans by credit quality indicator are as follows:

	December 31, 2018			
	Pass	Special Mention	Substandard	Total Loans
Real Estate	\$ 16,788,201	\$ 122,371	\$ 597,804	\$ 17,508,376
Commercial	11,131,670	-	621,486	11,753,156
Agricultural	8,969,537	75,247	20,915	9,065,699
Consumer and Other	9,314,968	26,133	99,540	9,440,641
<b>Total Loans</b>	<b>\$ 46,204,376</b>	<b>\$ 223,751</b>	<b>\$ 1,339,745</b>	<b>\$ 47,767,872</b>

	December 31, 2017			
	Pass	Special Mention	Substandard	Total Loans
Real Estate	\$ 18,023,517	\$ 126,431	\$ 1,268,338	\$ 19,418,286
Commercial	11,474,580	-	415,655	11,890,235
Agricultural	10,918,214	20,984	21,542	10,960,740
Consumer and Other	9,246,370	62,997	96,188	9,405,555
<b>Total Loans</b>	<b>\$ 49,662,681</b>	<b>\$ 210,412</b>	<b>\$ 1,801,723</b>	<b>\$ 51,674,816</b>

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2018 and 2017

**NOTE E – PREMISES AND EQUIPMENT**

Premises and equipment are as follows:

	December 31,	
	2018	2017
Land	\$ 78,440	\$ 78,440
Buildings and improvements	2,265,015	2,265,015
Furniture, fixtures and equipment	2,103,927	2,051,014
	4,447,382	4,394,469
Accumulated depreciation	(3,557,297)	(3,482,047)
	\$ 890,085	\$ 912,422

**NOTE F - DEPOSITS**

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

<u>Year Ending December 31,</u>	
2019	\$31,372,472
2020	1,212,246
2021	514,034
2022	1,022
2023	80,000
Thereafter	-
	\$33,179,774

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at December 31, 2018 and 2017 was \$9,650,263 and \$7,654,695, respectively.

**NOTE G - BORROWINGS**

Note Payable

The Company has a \$2,000,000 long-term line of credit with one of its correspondent banks. The line is collateralized by the common stock of the Bank and matures August 15, 2020. Interest accrues at the prime rate published by the Wall Street Journal plus .75% adjusted annually, resulting in a rate of 6.25% and 5.25% at December 31, 2018 and 2017, respectively. Interest is due quarterly with principal due at maturity. At December 31, 2018 and 2017, \$75,000 and \$75,000 was outstanding under the line, respectively.

Federal Funds Lines

The Company has unsecured federal funds lines at various correspondent banks. At December 31, 2018, the Company was eligible to borrow \$8,000,000. No amounts were outstanding under these lines at December 31,

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

2018 and 2017. Federal funds lines are uncommitted and funding requests made by the Company are subject to the lending institutions' approval and funding availability at the time of request.

**NOTE H – LOAN COMMITMENTS AND OTHER RELATED ACTIVITY**

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance sheet risk at December 31, 2018 and 2017, were as follows:

	2018	2017
Unfunded commitments to extend credit	\$ 3,977,612	\$ 4,017,213
Commercial and standby letters of credit	739,249	732,839

**NOTE I – MINIMUM REGULATORY CAPITAL REQUIREMENTS**

The Bank 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 effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at a rate of 0.625% per year from 0.0% for 2015 to 2.5% on January 1, 2019. The capital conservation buffer for 2018 is 1.875% and for 2017 is 1.25%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2018, that the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2018 and 2017, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2018 and 2017

The Bank's actual and required capital amounts and ratios as of December 31, 2018 and 2017 are presented in the following table.

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
<u>As of December 31, 2018</u>						
Total capital (to risk weighted assets)	\$ 13,594	19.5%	\$ 5,568	8.0%	\$ 6,961	10.0%
Tier 1 capital (to risk weighted assets)	13,050	18.7%	4,176	6.0%	5,568	8.0%
Common Tier 1 capital (to risk weighted assets)	13,050	18.7%	3,132	4.5%	4,524	6.5%
Tier 1 capital (to average assets)	13,050	10.5%	4,972	4.0%	6,215	5.0%
<u>As of December 31, 2017</u>						
Total capital (to risk weighted assets)	\$ 13,082	18.8%	\$ 5,572	8.0%	\$ 6,965	10.0%
Tier 1 capital (to risk weighted assets)	12,414	17.8%	4,179	6.0%	5,572	8.0%
Common Tier 1 capital (to risk weighted assets)	12,414	17.8%	3,134	4.5%	4,527	6.5%
Tier 1 capital (to average assets)	12,414	10.2%	4,851	4.0%	6,064	5.0%

**NOTE J – EMPLOYEE BENEFIT PLAN**

The Company has a 401(k) plan in which substantially all eligible employees participate. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. Under this plan, the Company is allowed an annual contribution to the plan at the discretion of the Board of Directors. The Company's expense related to the plan amounted to \$38,493 and \$37,084 for the years ended December 31, 2018 and 2017, respectively.

**NOTE K – RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Company has granted loans to executive officers, principal shareholders and directors and parties affiliated with those persons (collectively, "insiders"). The Company has loans to insiders aggregating \$546,310 and \$599,982 at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, deposits from insiders totaled \$3,861,331 and \$4,094,963, respectively.

**NOTE L – FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, excluding transaction costs. When measuring fair value, entities should maximize the use of observable inputs and minimize the use of unobservable inputs. The following describes the three levels of inputs that may be used to measure fair value:

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2 Inputs* - 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 Inputs* - Unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The Company used the following methods and significant assumptions to estimate fair value:

*Securities Available for Sale* – Securities are recorded at fair value on a recurring basis based upon measurements obtained from an independent pricing service. The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things (Level 2).

*Impaired Loans* – The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants (Level 3).

*Foreclosed Real Estate* – The Company does not record foreclosed real estate at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these properties to reflect the current appraised value (less estimate of cost to sell). In some cases, the properties for which appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for real estate held for sale are obtained from independent appraisers (Level 3).

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2018 and 2017

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a recurring basis:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
<u>Securities available for sale</u>				
U.S. Treasuries	\$ 1,996,826	\$ -	\$ -	\$ 1,996,826
Corporate	-	10,877,561	-	10,877,561
State and municipal	-	9,035,460	-	9,035,460
Mortgage-backed	-	42,160,237	-	42,160,237
SBA Pools	-	125,635	-	125,635
	<u>\$ 1,996,826</u>	<u>\$62,198,893</u>	<u>\$ -</u>	<u>\$64,195,719</u>
	December 31, 2017			
	Level 1	Level 2	Level 3	Total
<u>Securities available for sale</u>				
Corporate	\$ -	\$ 8,583,311	\$ -	\$ 8,583,311
State and municipal	-	9,395,193	-	9,395,193
Mortgage-backed	-	45,477,941	-	45,477,941
SBA Pools	-	225,791	-	225,791
	<u>\$ -</u>	<u>\$63,682,236</u>	<u>\$ -</u>	<u>\$63,682,236</u>

During 2018 and 2017, there were no Level 3 assets or liabilities measured at fair value on a recurring basis.

Assets and liabilities recorded at fair value on a non-recurring basis are summarized below.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ -	\$ 282,552	\$ 282,552
Foreclosed real estate	-	-	80,971	80,971
	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ -	\$ 1,048,017	\$ 1,048,017
Foreclosed real estate	-	-	65,003	65,003

**CITY NATIONAL BANCSHARES, INC. AND SUBSIDIARIES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

Impaired loans, which are measured for impairment using the fair value of collateral for collateral dependent loans, had a carrying amount of \$282,552 and \$1,048,017, with no valuation allowance at December 31, 2018 and 2017.

At December 31, 2018 and 2017, foreclosed real estate had an initial cost basis of \$80,971 and \$65,003, respectively, with no valuation allowance.

**NOTE M – SUBSEQUENT EVENTS**

In December, various shareholders agreed to sell their individual shares of stock to new shareholders. The transaction is scheduled to occur in 2019 and represents a majority number of outstanding shares of the Company.

**Results:** A list of branches for your depository institution: **CITY NATIONAL BANK OF COLORADO CITY, THE** (ID RSSD: 799854).  
 This depository institution is held by **TM&S BANCSHARES, INC. (2215460)** of **DOVER, DE**.  
 The data are as of **12/31/2018**. Data reflects information that was received and processed through **01/06/2019**.

**Reconciliation and Verification Steps**

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

**Actions**

**OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.  
**Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.  
**Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.  
**Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.  
**Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

**Submission Procedure**

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.  
 If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:  
 To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action of Change, Close, Delete, or Add**.  
 The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - <https://y10online.federalreserve.gov>.

\* FDIC UNINUM, Office Number, and ID RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID RSSD*	Comments
OK		Full Service (Head Office)	799854	CITY NATIONAL BANK OF COLORADO CITY, THE	228 ELM	COLORADO CITY	TX	79512-6321	MITCHELL	UNITED STATES	Not Required	Not Required	CITY NATIONAL BANK OF COLORADO CITY, THE	799854	

**Results:** A list of branches for your depository institution: **CITY NATIONAL BANK OF COLORADO CITY, THE** (ID RSSD: 799854).  
 This depository institution is held by **CITY NATIONAL BANCSHARES, INC. [2215451]** of **COLORADO CITY, TX**.  
 The data are as of **12/31/2018**. Data reflects information that was received and processed through **01/06/2019**.

**Reconciliation and Verification Steps**

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

**Actions**

**OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.  
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**Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.  
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 If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

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\* FDIC UNINUM, Office Number, and ID RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID RSSD*	Comments
OK		Full Service (Head Office)	799854	CITY NATIONAL BANK OF COLORADO CITY, THE	228 ELM	COLORADO CITY	TX	79512-6321	MITCHELL	UNITED STATES	Not Required	Not Required	CITY NATIONAL BANK OF COLORADO CITY, THE	799854	