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, REX G. JOHNSON
Name of the Holding Company Director and Official

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.

Signature of Holding Company Director and Official

03/28/2017
Date of Signature

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

- [x] 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, 2016
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

HODGE BANCSHARES INC
Legal Title of Holding Company

P.O. BOX 1600
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
HODGE	LA	71247-1600

4619 QUITMAN HWY
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
FRANK E JOHNSON III	VP (HODGE BANK)

318/259-7362
Area Code / Phone Number / Extension

318/259-9505
Area Code / FAX Number

FEJOHNSON@HODGEBANK.NET
E-mail Address

N/A
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."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

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.

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

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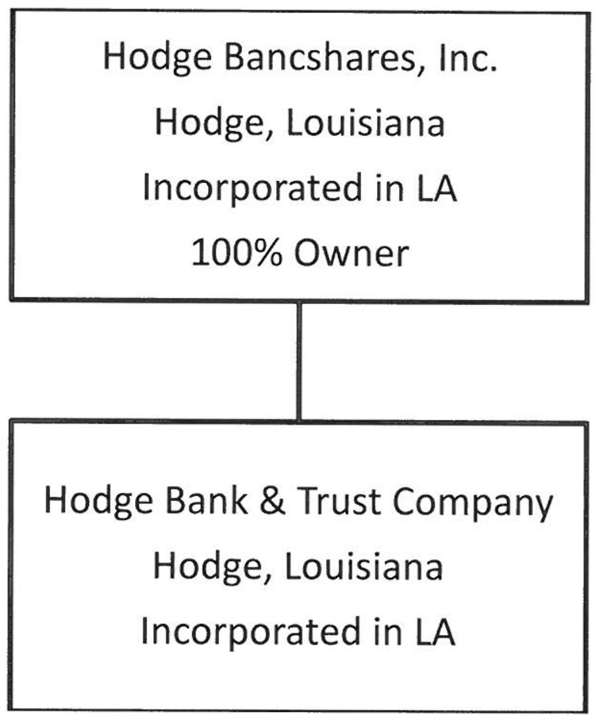
City State Zip Code

Physical Location (if different from mailing address)

Form FR Y-6
Hodge Bancshares, Inc.
Hodge, Louisiana
Fiscal Year Ending December 31, 2016

Report Item

1.
   a. The BHC is not required to prepare Form 10K with the SEC.
   b. The BHC does prepare an annual report for its shareholders. The annual report consists of the audited financial statements.
2. Organizational Chart



No entity on the organization chart has a LEI.

Results: A list of branches for your depository institution: HODGE BANK & TRUST COMPANY (ID_RSSD: 931355).
This depository institution is held by HODGE BANCSHARES, INC. (1130678) of HODGE, LA.
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/07/2017.

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)	931355	HODGE BANK & TRUST COMPANY	4619 QUITMAN HIGHWAY	HODGE	LA	71247	JACKSON	UNITED STATES	13164	0	HODGE BANK & TRUST COMPANY	931355	

Form FR Y-6

HODGE BANCSHARES, INC
HODGE, LOUISIANA
Fiscal Year Ending December 31, 2016

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-20XX				Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-20XX		
(1)(a)	(1)(b)	(1)(c)		(2)(a)	(2)(b)	(2)(c)
Name & Address (City, State, Country)	Country of Citizenship or Incorporation	Number and Percentage of Each Class of Voting Securities		Name & Address (City, State, Country)	Country of Citizenship or Incorporation	Number and Percentage of Each Class of Voting Securities
Frank E. Johnson Quitman, LA, USA	USA	3846 - 28.08% Common Stock		None	N/A	N/A
Rex G. Johnson Quitman, LA, USA	USA	3846 - 28.08% Common Stock				
Frank Henderson Fouke, AR, USA	USA	2308 - 16.85% Common Stock				
Selwyn Kelley Columbus, GA, USA	USA	2222 - 16.22%				

Form FR Y-6

HODGE BANCSHARES, INC
HODGE, LOUISIANA
Fiscal Year Ending December 31, 2016

Report Item 4: Insiders
(1)(a)(b)(c) and (2)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with holding company	(3)(a) Title & Position with holding company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Frank E. Johnson Quitman, LA, USA	N/A	President & Director	Chairman (Hodge Bank & Trust Co.)	N/A	28.08	None	N/A
Rex G. Johnson Quitman, LA, USA	N/A	Secretary/Treasurer & Director	President/CEO (Hodge Bank &	N/A	28.08	None	N/A
Frank Henderson Fouke, AR, USA	Agriculture Sales	N/A	N/A	N/A	16.85	None	N/A
Selwyn Kelley Columbus, GA, USA	Housewife	N/A	N/A	N/A	16.22	None	N/A

HODGE BANCSHARES, INC.
AND SUBSIDIARY

HODGE, LOUISIANA

DECEMBER 31, 2016 AND 2015

HODGE BANCSHARES, INC. AND SUBSIDIARY

HODGE, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

HEARD, MCELROY, & VESTAL
LLC
CERTIFIED PUBLIC ACCOUNTANTS

2808 KILPATRICK BOULEVARD
MONROE, LOUISIANA 71201
318-388-3108 PHONE • 318-323-4266 FAX

302 DEPOT STREET, SUITE A
DELHI, LOUISIANA 71232
318-878-5573 PHONE • 318-878-5872 FAX

March 15, 2017

The Audit Committee and Stockholders
Hodge Bancshares, Inc. and Subsidiary
Hodge, Louisiana

Independent Auditors' Report

We have audited the accompanying consolidated financial statements of Hodge Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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 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.

Auditor's 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 of 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 auditor's 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 also includes assessing 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 consolidated financial position of Hodge Bancshares, Inc. and Subsidiary as of December 31, 2016 and 2015, and the consolidated 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.

Heard, McElroy & Vestal LLC
Monroe, Louisiana

HODGE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31 2016	DECEMBER 31 2015
ASSETS		
Cash and due from banks	$ 2,743,510	$ 3,620,022
Federal funds sold	2,025,000	3,025,000
Interest-bearing deposits with banks	3,273,610	4,245,362
Securities available-for-sale (Note 2)	7,918,178	9,658,588
Securities to be held-to-maturity (Note 2)	3,285,937	3,174,994
Loans (Notes 1 and 3)	47,953,092	43,688,049
Overdrafts	83,455	465,348
Total loans	48,036,547	44,153,397
Less: Allowance for loan losses (Note 4)	(1,035,233)	(1,090,223)
Net loans	47,001,314	43,063,174
Bank premises and equipment - net (Note 5)	33,439	18,819
Accrued interest receivable	309,498	247,838
Cash surrender value of life insurance (Note 9)	172,362	152,366
Other real estate	-	-
Other	136,777	122,035
Total other assets	652,076	541,058
TOTAL ASSETS	$ 66,899,625	$ 67,328,198

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

HODGE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS - CONTINUED

	DECEMBER 31 2016	2015
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand - non-interest bearing	$ 9,932,452	$ 11,007,836
Demand - interest bearing	8,726,588	9,485,822
Certificates of deposit - $250,000 and over (Note 6)	3,561,988	9,351,330
Certificates of deposit - other (Note 6)	20,301,857	14,345,485
Savings	9,402,252	9,832,160
	51,925,137	54,022,633
Official checks outstanding	1,368,856	263,310
Accrued interest payable	34,766	29,756
Other liabilities	12,402	33,752
Accumulated postretirement benefits payable (Note 9)	768,877	847,292
	2,184,901	1,174,110
TOTAL LIABILITIES	54,110,038	55,196,743
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)	-	-
STOCKHOLDERS' EQUITY		
Common stock $1 par value, 1,000,000 shares authorized, 13,697 shares issued and outstanding - 2016 and 2015	13,697	13,697
Capital surplus	565,902	565,902
Retained earnings	12,312,265	11,548,093
Accumulated other comprehensive income (loss)	(102,277)	3,763
TOTAL STOCKHOLDERS' EQUITY	12,789,587	12,131,455
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 66,899,625	$ 67,328,198

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

HODGE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31 2016	2015
INTEREST INCOME		
Interest and fees on loans	$ 3,095,052	$ 2,900,468
Interest on investment securities		
Taxable	171,265	246,790
Tax-exempt	42,874	43,922
Interest on deposits in banks	30,819	30,329
Interest on federal funds sold	15,233	5,396
	3,355,243	3,226,905
INTEREST EXPENSE		
Interest on deposits	162,111	170,205
	162,111	170,205
NET INTEREST INCOME	3,193,132	3,056,700
PROVISION FOR LOAN LOSSES (Note 4)	70,000	120,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,123,132	2,936,700
OTHER INCOME		
Net gain on sales of other real estate	8,000	-
Service fees and late charges	246,444	265,262
Collection, exchange and safe deposit rental	10,295	13,832
Miscellaneous income	121,726	107,340
	386,465	386,434
OTHER EXPENSES (Note 13)		
Personnel	1,045,393	1,069,349
Occupancy	97,862	74,264
Furniture and equipment	96,482	115,637
Other	402,943	371,840
	1,642,680	1,631,090
NET INCOME	$ 1,866,917	$ 1,692,044

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

HODGE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31 2016	YEAR ENDED DECEMBER 31 2015
Net income	$ 1,866,917	$ 1,692,044
Other comprehensive income		
Unrealized holding gain (loss) arising during period	(106,040)	59,384
Less - reclassification adjustment for gains realized in net income	-	-
Other comprehensive income (loss)	(106,040)	59,384
Comprehensive income	$ 1,760,877	$ 1,860,384

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

HODGE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE TWO YEARS ENDED DECEMBER 31, 2016

	TOTAL	CAPITAL STOCK	CAPITAL SURPLUS
BALANCE - December 31, 2014	$ 11,393,605	$ 13,870	$ 565,902
Net income	1,692,044	-	-
Other comprehensive income	59,384	-	-
Reclassification of Treasury Stock per Louisiana Law	-	(173)	-
Dividends declared	(1,013,578)	-	-
BALANCE - December 31, 2015	12,131,455	13,697	565,902
Net income	1,866,917	-	-
Other comprehensive income	(106,040)	-	-
Dividends declared	(1,102,745)	-	-
BALANCE - December 31, 2016	$ 12,789,587	$ 13,697	$ 565,902

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

RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
$ 10,945,007	$ (75,553)	$ (55,621)
1,692,044	-	-
-	-	59,384
(75,380)	75,553	-
(1,013,578)	-	-
11,548,093	-	3,763
1,866,917	-	-
-	-	(106,040)
(1,102,745)	-	-
$ 12,312,265	$ -	$ (102,277)

HODGE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31 2016	YEAR ENDED DECEMBER 31 2015
OPERATING ACTIVITIES		
Interest received	$ 3,293,583	$ 3,275,853
Fees and commissions received	378,465	386,434
Interest paid	(157,101)	(176,007)
Cash paid to suppliers and employees	(1,737,741)	(1,681,132)
Income taxes paid	-	-
Net cash provided by operating activities	1,777,206	1,805,148
INVESTING ACTIVITIES		
Net change in federal funds sold	1,000,000	(2,500,000)
Activity in available-for-sale securities:		
Maturities, prepayments and calls	7,184,859	3,367,317
Purchases	(5,506,080)	-
Activity in held-to-maturity securities:		
Maturities, prepayments and calls	430,474	150,000
Purchases	(585,826)	-
Net change in interest bearing deposits with banks	971,752	247,418
Loan originations and principal collections, net	(4,008,140)	(1,132,286)
Purchases of property and equipment	(19,324)	-
Proceeds from sale of other real estate	8,000	130,748
Net increase in other assets	(34,735)	(22,804)
Net cash provided by (used in) investing activities	(559,020)	240,393
FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, NOW accounts and savings accounts	(2,264,529)	354,842
Net increase in bank checks outstanding	1,105,546	38,004
Net increase (decrease) in certificates of deposit	167,030	(449,538)
Dividends paid	(1,102,745)	(1,013,578)
Net cash provided by (used in) financing activities	(2,094,698)	(1,070,270)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	(876,512)	975,271
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	3,620,022	2,644,751
CASH AND DUE FROM BANKS AT END OF YEAR	$ 2,743,510	$ 3,620,022

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

HODGE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

	YEAR ENDED DECEMBER 31 2016	2015
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income	$ 1,866,917	$ 1,692,044
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of other assets	(8,000)	-
Depreciation	4,704	13,953
Postretirement benefits expense	(78,415)	(61,641)
Provision for loan losses	70,000	120,000
(Increase) decrease in:		
Accrued interest receivable	(61,660)	48,948
Increase (decrease) in:		
Accrued interest payable	5,010	(5,802)
Accrued expenses	(21,350)	(2,354)
Net cash provided by operating activities	$ 1,777,206	$ 1,805,148

DISCLOSURE OF ACCOUNTING POLICY

For the purpose of presentation in the Statements of Consolidated Cash Flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks."

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

HODGE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of Hodge Bancshares, Inc. (the Company) and its wholly owned subsidiary, Hodge Bank and Trust Company (the Bank). All significant intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations - Hodge Bancshares, Inc. (the Company) was organized in 1984 by certain officers and directors of Hodge Bank and Trust Company (the Bank) for the purpose of acquiring controlling interest in the Bank. On January 29, 1985, certain stockholders of the Bank exchanged 13,870 shares of Bank stock with a par value of $10 per share for 13,870 shares of Hodge Bancshares, Inc. stock with a par value of $1 per share and the assumption of debt of $48.66 per share of stock. Hodge Bancshares, Inc. purchased additional shares so that at December 31, 1985, it owned 89.536% of the Bank's stock. On October 18, 1999, the Company acquired the remaining shares of the Bank's stock, so that it currently owns 100% of the Bank's stock.

The Bank generates commercial mortgage and consumer loans and receives deposits from customers located primarily in Hodge, Louisiana and the surrounding areas. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the Louisiana State Office of Financial Institutions and the Federal Deposit Insurance Corporation.

The Bank is subject to competition from other financial institutions, and is also subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

The accounting and reporting policies of Hodge Bancshares, Inc. and Subsidiary conform to accounting principles generally accepted in the United States of America and general practices within the banking industry. The following is a description of the more significant of those policies.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the 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 relate to the determination of the allowance for losses on loans, the valuation of real estate acquired in connection with foreclosures, in satisfaction of loans, and the fair value of financial instruments. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for losses on loans and foreclosed real estate may change materially in the future.

Interest-Bearing Deposits in Banks - Interest-bearing deposits in banks mature in one to three years and are carried at cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investment Securities – Securities are classified as held to maturity, available for sale, or trading. Management determines the appropriate classification of securities at the time of purchase. If management has the positive intent and ability to hold securities until maturity, then they are classified as held to maturity and carried at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the effective interest method over the period to maturity. Securities to be held for indefinite periods of time are classified as securities available for sale and carried at fair value with the unrealized gains and losses reported as a component of other comprehensive income, net of tax. Gains and losses on the sale of securities available for sale are determined using the specific-identification method. Securities held for resale in anticipation of short-term market movements are classified as trading and carried at fair value, with changes in unrealized holding gains and losses included in earnings. The Bank currently has no securities classified as trading.

The Bank reviews securities for impairment on at least an annual basis and more frequently when economic or market conditions warrant such an evaluation. 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 to the extent the impairment is related to credit losses. The amount of impairment related to other factors is recognized in other comprehensive income. In estimating other-than-temporary impairment losses, management considers, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and the near-term prospects of the issuer, and the intent and ability of the Bank to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. There were no impairment losses for the years ended December 31, 2016 and 2015.

Unrealized holding gains and losses on securities available for sale which have been reported as direct increases or decreases in stockholder's equity, net of any related deferred tax effects, are accounted for as other comprehensive income. Cumulative changes in unrealized gains and losses on such securities are accounted for in accumulated other comprehensive income as part of stockholder's equity.

Loans - 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. Loan origination fees and those certain direct origination costs are recognized currently, and are not capitalized and amortized as the effect to income each year is deemed immaterial.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based upon contractual terms of the loan. However, loans may be placed on nonaccrual 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, or when the loan becomes well secured and in the process of collection.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 income. 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 allocated and general unallocated components. The allocated component relates to loans that are classified by management as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the 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. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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. Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, economic conditions, and other relevant factors that affect repayment of the loans.

Bank Premises and Equipment - Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation computed principally by the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. When premises, automobiles and equipment are retired or otherwise disposed of, the cost of the assets and related accumulated depreciation are removed from the accounts and the resulting gains or losses are recognized.

Other Real Estate – Other real estate represents property acquired through foreclosure or deeded in lieu of foreclosure on loans on which the borrowers have defaulted as to payment of principal and interest. These properties are carried at the lower of cost of acquisition or the asset's fair value less estimated selling costs. Reductions in the balance at the date of acquisition are charged to the allowance for loan losses. Any subsequent write-downs to reflect current fair value are charged to noninterest expense. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value. The Bank held $0 and $0 in other real estate, and there were no allowances for possible write-downs in the value of other real estate owned at December 31, 2016 or 2015, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Advertising Costs - Advertising costs are expensed as incurred. Advertising costs totaled $9,985 and $12,427 for the years ended December 31, 2016 and 2015, respectively.

Income Taxes - Hodge Bank and Trust Company and Hodge Bancshares, Inc. file a consolidated federal income tax return. Hodge Bancshares, Inc. elected S Corporation status effective January 1, 2000. Under those provisions, the Company does not pay corporate income taxes on its taxable income. Instead, the stockholders are liable for individual income taxes on their respective share of the Company's net income at the individual stockholder level. As such, no provision for income taxes has been recorded by the Company. However, the Company is required to review various tax positions it has taken with respect to the continued applicability of its tax status as an S corporation, and whether it is appropriately filing tax returns for all jurisdictions for which it has nexus. The Company does not expect its positions to change significantly over the next twelve months. Any penalties related to late filing or other requirements would be recognized as penalties expense in the Company's accounting records.

The Company files U.S. federal and Louisiana state income tax returns. The Company's federal and state income tax returns for the tax years 2013 and beyond remain subject to examination by the Internal Revenue Service and La. Department of Revenue.

Compensated Absences - Employees of the Bank are entitled to paid vacations, sick days and other time off depending on job classification, length of service and other factors. The Bank does not accumulate vacation or sick time. The estimate for the amount of compensation for future absences was immaterial and, accordingly, no liability has been recorded in the accompanying financial statements. The Bank's policy is to recognize the costs of compensated absences when paid to employees.

Treasury Stock – On January 1, 2015 the Louisiana Business Corporation Act (the Act) became effective. Under the provisions of the Act, there is no concept of "Treasury Shares". Rather, shares purchased by the Company constitute authorized but unissued shares. Under Accounting Standards Codification (ASC) 505-30, *Treasury Stock*, accounting for treasury stock shall conform to state law. Accordingly, the Company's Consolidated Statement of Financial Condition reflects this change. The cost of shares purchased by the Company has been allocated to Common Stock and Retained Earnings balances.

Off-Balance-Sheet Instruments - In the ordinary course of business the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Recent Accounting Pronouncements – In January 2016, the FASB issued ASU 2016-01, *Financial Instruments*. The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments in this Update also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. In addition, the amendments supersede the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities.

HODGE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The provisions within this Update require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument- specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. This amendment excludes from net income gains or losses that the entity may not realize because those financial liabilities are not usually transferred or settled at their fair values before maturity. The amendments in this Update require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements.

The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has elected to early adopt the provision that allows the Company not to disclose the fair value of financial instruments in accordance with guidance in ASC 825. The adoption of the remaining provisions is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 2 - INVESTMENT SECURITIES

The carrying amounts (amortized cost) of investments securities and their approximate fair values are as follows:

Securities available for sale **December 31, 2016**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Debt securities:				
U. S. Government agency securities	$ 6,503,269	$ -	$ 149,777	$ 6,353,492
Mortgage backed securities and CMO's	1,517,186	47,500	-	1,564,686
	$ 8,020,455	$ 47,500	$ 149,777	$ 7,918,178

Securities to be held to maturity **December 31, 2016**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
State and municipal securities	$ 3,285,937	$ 1,229	$ 38,088	$ 3,249,078

HODGE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 - INVESTMENT SECURITIES - CONTINUED

Securities available for sale **December 31, 2015**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Debt securities:				
U. S. Government agency securities	$ 7,429,749	$ 3,081	$ 77,077	$ 7,355,753
Mortgage backed securities and CMO's	2,225,076	77,759	-	2,302,835
	$ 9,654,825	$ 80,840	$ 77,077	$ 9,658,588

Securities to be held to maturity **December 31, 2015**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
State and municipal securities	$ 3,174,994	$ 13,686	$ 4,814	$ 3,183,866

Securities with carrying amounts of approximately $6,052,329 at December 31, 2016, and $3,995,325 at December 31, 2015, were pledged to secure public deposits and for other purposes required or permitted by law.

The carrying value and estimated market value of investment debt securities available for sale at December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

The amortized cost and estimated fair value of investment securities at December 31, 2016, by contractual maturity, were as follows:

	Securities available - for-sale		Securities to be held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,007,711	$ 2,004,218	$ 609,132	$ 607,831
Due from one to five years	4,340,317	4,221,688	2,144,139	2,127,710
Due from five to ten years	1,171,279	1,178,507	532,666	513,537
Due after ten years	501,149	513,765	-	-
	$ 8,020,456	$ 7,918,178	$ 3,285,937	$ 3,249,078

NOTE 2 - INVESTMENT SECURITIES - CONTINUED

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

December 31, 2016	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available-for-sale						
Debt securities:						
U.S. Government agency securities						
- Notes	$ 145,602	$ 5,857,873	$ 4,175	$ 495,619	$ 149,777	$ 6,353,492
- Mortgage backed securities and pools	-	-	-	-	-	-
	$ 145,602	$ 5,857,873	$ 4,175	$ 495,619	$ 149,777	$ 6,353,492
Securities to be held to maturity						
State and municipal securities	$ 37,384	$ 2,721,240	$ 704	$ 101,301	$ 38,088	$ 2,822,541

December 31, 2015	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available-for-sale						
Debt securities:						
U.S. Government agency securities						
- Notes	$ 26,546	$ 2,471,286	$ 50,531	$ 2,947,156	$ 77,077	$ 5,418,442
- Mortgage backed securities and pools	-	-	-	-	-	-
	$ 26,546	$ 2,471,286	$ 50,531	$ 2,947,156	$ 77,077	$ 5,418,442
Securities to be held to maturity						
State and municipal securities	$ 1,074	$ 1,050,867	$ 3,740	$ 376,566	$ 4,814	$ 1,427,433

The unrealized losses on the Bank's investment in debt securities were caused by interest rate increases. The Bank expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

For the years ended December 31, 2016 and 2015, proceeds from sales and redemptions of securities available for sale and held to maturity amounted to $7,615,333 and $3,517,317, respectively, with no realized gain or loss.

HODGE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 3 – LOANS

Major classifications of loans at December 31, are as follows:

	2016	2015
Real estate	$ 30,354,838	$ 28,122,590
Consumer	6,244,089	5,864,558
Commercial & Industrial	11,354,165	9,700,901
	$ 47,953,092	$ 43,688,049

Maturity and repricing information on loans outstanding at December 31, 2016 is as follows:

	MATURITY/REPRICING DATES					
	3 Months or Less	3-12 Months	1-3 Years	3-5 Years	More Than 5 Years	Total
Real Estate						
Fixed rates	$ 6,124,628	$ 11,356,767	$ 6,934,606	$ 4,484,913	$ 375,812	$ 29,276,726
Variable rates	-	1,078,112	-	-	-	1,078,112
	6,124,628	12,434,879	6,934,606	4,484,913	375,812	30,354,838
Consumer						
Fixed rates	879,557	1,461,920	1,846,906	1,406,967	648,739	6,244,089
Commercial						
Fixed rates	3,197,954	3,973,555	1,604,991	1,473,823	54,692	10,305,015
Variable rates	1,049,150	-	-	-	-	1,049,150
	4,247,104	3,973,555	1,604,991	1,473,823	54,692	11,354,165
TOTALS	$ 11,251,289	$ 17,870,354	$ 10,386,503	$ 7,365,703	$ 1,079,243	$ 47,953,092

The following table details loans individually and collectively evaluated for impairment at December 31, 2016 and 2015:

	2016		
	Loans Evaluated for Impairment		
	Individually	Collectively	Total
Real estate	3,781,774	26,573,064	30,354,838
Commercial	3,182,236	8,171,929	11,354,165
Consumer and other	301,595	5,942,494	6,244,089
	7,265,605	40,687,487	47,953,092

	2015		
	Loans Evaluated for Impairment		
	Individually	Collectively	Total
Real estate	1,333,320	26,789,270	28,122,590
Commercial	2,621,010	7,079,891	9,700,901
Consumer and other	410,831	5,453,727	5,864,558
	4,365,161	39,322,888	43,688,049

HODGE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 3 – LOANS - CONTINUED

At December 31, 2016 and 2015, the carrying amount of impaired loans and the related allowance consisted of the following:

	Impaired Loans				
2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real Estate	3,366,801	3,366,801	-	2,277,376	199,949
Commercial and Industrial	2,157,445	2,157,445	-	1,952,175	129,778
Individual - Family, Personal, Installment	148,530	148,530	-	191,863	7,175
Subtotal	5,672,776	5,672,776	-	4,421,414	336,902
With an allowance recorded:					
Real Estate	419,922	414,973	27,245	282,646	34,896
Commercial and Industrial	1,026,579	1,024,791	489,417	950,342	42,830
Individual - Family, Personal, Installment	192,862	153,065	83,565	184,249	10,425
Subtotal	1,639,363	1,592,829	600,227	1,417,237	88,150
Total:					
Real Estate	3,786,723	3,781,774	27,245	2,560,022	234,844
Commercial and Industrial	3,184,024	3,182,236	489,417	2,902,517	172,608
Individual - Family, Personal, Installment	341,392	301,595	83,565	376,112	17,600
Total	7,312,139	7,265,605	600,227	5,838,650	425,052
2015					
With no related allowance recorded:					
Real Estate	1,187,951	1,187,951	-	1,144,812	80,400
Commercial and Industrial	1,746,905	1,746,905	-	1,766,649	106,522
Individual - Family, Personal, Installment	235,195	235,195	-	252,557	2,363
Subtotal	3,170,051	3,170,051	-	3,164,017	189,285
With an allowance recorded:					
Real Estate	145,369	145,369	29,539	183,730	10,425
Commercial and Industrial	874,105	874,105	703,105	697,454	13,680
Individual - Family, Personal, Installment	175,636	175,636	89,136	142,497	12,975
Subtotal	1,195,110	1,195,110	821,780	1,023,680	37,080
Total:					
Real Estate	1,333,320	1,333,320	29,539	1,328,542	90,825
Commercial and Industrial	2,621,010	2,621,010	703,105	2,464,102	120,202
Individual - Family, Personal, Installment	410,831	410,831	89,136	395,054	15,338
Total	4,365,161	4,365,161	821,780	4,187,697	226,365

NOTE 3 – LOANS - CONTINUED

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan.

Credit Indicators
Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention – These loans reveal emerging weaknesses, specifically in repayment of the loan and need to be monitored on a regular basis. These loans have potential areas of concern such as excessive delinquencies, little or no principal reduction during the life of the loan, declining financial condition, or external factors such as negative economic or marketing conditions.

Substandard – These loans are inadequately protected by current net worth or pledged collateral. Credit line has shown inability or severe strain in meeting repayment terms, or no repayment has been experienced on the credit.

Doubtful – These loans contain serious weaknesses, such as inadequate repayment experience or collateral exposure. It is unlikely the Bank will collect all monies owed. A Doubtful classification causes the loan to be placed on non-accrual status.

Loss – These loans are considered uncollectible and their continuance as a Bank asset is unwarranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

The table below illustrates the carrying amount of loans by credit quality indicator at December 31, 2016 and 2015:

2016	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real Estate:						
Construction & Land Development	3,268,090	-	14,699	-	-	3,282,789
Farmland	1,778,647	-	-	-	-	1,778,647
Closed-End 1-4 Family Residential First Liens	17,738,657	-	380,384	-	-	18,119,041
Closed-End 1-4 Family Residential Junior Liens	892,444	-	19,890	-	-	912,334
Non-Farm, Non Residential	6,262,027	-	-	-	-	6,262,027
Commercial and Industrial	10,329,374	-	1,024,791	-	-	11,354,165
Individual - Family, Personal, Installment	6,091,024	-	153,065	-	-	6,244,089
	46,360,263	-	1,592,829	-	-	47,953,092

NOTE 3 – LOANS - CONTINUED

2015	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real Estate:						
Construction & Land Development	2,445,016	-	-	-	-	2,445,016
Farmland	2,148,083	-	-	-	-	2,148,083
Closed-End 1-4 Family Residential First Liens	17,753,696	-	120,390	-	-	17,874,086
Closed-End 1-4 Family Residential Junior Liens	845,882	-	24,979	-	-	870,861
Non-Farm, Non Residential	4,784,544	-	-	-	-	4,784,544
Commercial and Industrial	8,826,796	-	874,105	-	-	9,700,901
Individual - Family, Personal, Installment	5,688,922	-	175,636	-	-	5,864,558
	42,492,939	-	1,195,110	-	-	43,688,049

A summary of current, past due and non-accrual loans at December 31, 2016 and 2015, is as follows:

	Past Due	Past Due Over 90 Days				
	30-89	and	Non-	Total		Total
2016	Days	Accruing	Accruing	Past Due	Current	Loans
Real Estate:						
Construction & Land Development		-	31,839	31,839	3,250,950	3,282,789
Farmland	-	-	-	-	1,778,647	1,778,647
Closed-End 1-4 Family Residential First Liens	339,293	-	428,513	767,806	17,351,235	18,119,041
Closed-End 1-4 Family Residential Junior Liens	-	-	10,342	10,342	901,992	912,334
Non-Farm, Non Residential	-	-	-	-	6,262,027	6,262,027
Commercial and Industrial	406,885	-	329,947	736,832	10,617,333	11,354,165
Individual - Family, Personal, Installment	50,525	-	297,096	347,621	5,896,468	6,244,089
	796,703	-	1,097,737	1,894,440	46,058,652	47,953,092

	Past Due	Past Due Over 90 Days				
	30-89	and	Non-	Total		Total
2015	Days	Accruing	Accruing	Past Due	Current	Loans
Real Estate:						
Construction & Land Development		-	-	-	2,445,016	2,445,016
Farmland	-	-	-	-	2,148,083	2,148,083
Closed-End 1-4 Family Residential First Liens	238,564	-	263,992	502,556	17,371,530	17,874,086
Closed-End 1-4 Family Residential Junior Liens	-	-	-	-	870,861	870,861
Non-Farm, Non Residential	-	-	-	-	4,784,544	4,784,544
Commercial and Industrial	220,621	32,470	385,348	638,439	9,062,462	9,700,901
Individual - Family, Personal, Installment	244,038	2,932	216,447	463,417	5,401,141	5,864,558
	703,223	35,402	865,787	1,604,412	42,083,637	43,688,049

HODGE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the year ended December 31, were as follows:

	2016	2015
Balance, beginning of year	$ 1,090,223	$ 1,004,752
Provision for loan losses	70,000	120,000
	1160,223	1,124,752
Recoveries	33,314	15,970
	1,193,536	1,140,722
Loans charged off	(158,304)	(50,499)
Balance, end of year	$ 1,035,233	$ 1,090,223

The following tables detail the balance in the allowance for loan losses by portfolio segment at December 31, 2016 and 2015:

2016	Balance January 1, 2016	Provision for Loan Losses	Loans Charged Off	Recoveries	Balance December 31, 2016
Real Estate:					
Construction & Land Development	5,724	16,869	(40)	-	22,553
Farmland	5,988	6,633	-	-	12,621
Closed-End 1-4 Family Residential First Liens	74,756	86,901	(23,858)	3,059	140,859
Closed-End 1-4 Family Residential Junior Liens	14,497	2,678	-	-	17,175
Non-Farm, Non Residential	13,338	19,947	-	-	33,285
Commercial and Industrial	787,618	(126,968)	(67,998)	2,907	595,559
Individual - Family, Personal, Installment	188,303	63,939	(66,408)	27,348	213,182
	1,090,223	70,000	(158,304)	33,314	1,035,233

2015	Balance January 1, 2015	Provision for Loan Losses	Loans Charged Off	Recoveries	Balance December 31, 2015
Real Estate:					
Construction & Land Development	41,823	(36,099)	-	-	5,724
Farmland	18,509	(12,521)	-	-	5,988
Closed-End 1-4 Family Residential First Liens	145,450	(70,693)	-	-	74,756
Closed-End 1-4 Family Residential Junior Liens	6,262	8,234	-	-	14,497
Non-Farm, Non Residential	26,663	(13,325)	-	-	13,338
Commercial and Industrial	564,563	227,103	(5,548)	1,500	787,618
Individual - Family, Personal, Installment	201,483	17,301	(44,951)	14,470	188,303
	1,004,752	120,000	(50,499)	15,970	1,090,223

HODGE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 4 - ALLOWANCE FOR LOAN LOSSES - CONTINUED

	Allowance for Loan Losses Disaggregated by Impairment Method		
2016	Individually	Collectively	Total
Real Estate:			
Construction & Land Development	2,000	20,553	22,553
Farmland	-	12,621	12,621
Closed-End 1-4 Family Residential First Liens	14,403	126,456	140,859
Closed-End 1-4 Family Residential Junior Liens	10,842	6,333	17,175
Non-Farm, Non Residential	-	33,285	33,285
Commercial and Industrial	489,417	106,142	595,559
Individual - Family, Personal, Installment	83,565	129,617	213,182
	600,227	435,006	1,035,233

	Allowance for Loan Losses Disaggregated by Impairment Method		
2015	Individually	Collectively	Total
Real Estate:			
Construction & Land Development	-	5,724	5,724
Farmland	-	5,988	5,988
Closed-End 1-4 Family Residential First Liens	17,390	57,366	74,756
Closed-End 1-4 Family Residential Junior Liens	12,149	2,348	14,497
Non-Farm, Non Residential	-	13,338	13,338
Commercial and Industrial	703,105	84,513	787,618
Individual - Family, Personal, Installment	89,136	99,167	188,303
	821,780	268,443	1,090,223

Loans on which the accrual of interest has been discontinued or reduced totaled $1,097,737 and $865,787 at December 31, 2016 and 2015, respectively. Net interest income for 2016 and 2015 would have been higher by approximately $78,000 and $45,000, respectively, had interest been accrued at contractual rates on nonperforming loans. No additional funds are committed to be advanced in connection with impaired loans.

HODGE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 - BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31, consist of the following:

	2016			
	ESTIMATED LIVES	COST	ACCUMULATED DEPRECIATION	NET
Land	-	$ 10,000	$ -	$ 10,000
Building	5 to 40 yrs.	363,303	345,023	18,680
Furniture and equipment	3 to 40 yrs.	345,922	341,163	4,759
		$ 719,225	$ 686,186	$ 33,439

	2015			
	ESTIMATED LIVES	COST	ACCUMULATED DEPRECIATION	NET
Land	-	$ 10,000	$ -	$ 10,000
Building	5 to 40 yrs.	344,379	344,379	-
Furniture and equipment	3 to 40 yrs.	345,922	337,103	8,819
		$ 700,301	$ 681,482	$ 18,819

Depreciation expense charged to operations totaled $4,704 and $13,953 in 2016 and 2015, respectively.

NOTE 6 – TIME DEPOSITS

At December 31, 2016, the scheduled maturities of Certificates of Deposit and IRAs are as follows:

2017	20,297,376
2018	2,247,639
2019	913,458
2020	258,099
2021	47,273
Later years	100,000
	23,863,845

NOTE 7 - PROFIT-SHARING PLAN

The Bank has established a profit-sharing plan (the Plan) which covers substantially all employees with at least one year of service. The Plan is a defined contribution plan based on profits of the Bank. Contributions to the Plan were $75,874 during 2016 and $83,917 during 2015.

NOTE 8 - DEFERRED COMPENSATION PLAN

In 1986, the Bank adopted a deferred compensation plan for some directors who choose to participate in the plan. The plan is a non-qualified plan for tax purposes. The benefits are unfunded and non-assignable.

NOTE 8 - DEFERRED COMPENSATION PLAN - CONTINUED

Although not required to do so, the Bank has purchased life insurance contracts on the participants of the plan at a cost of $24,615 and $12,445 in 2016 and 2015, respectively. The participants have no interest in the policies, the proceeds of which are subject to the claims of general creditors. In 2016 and 2015, a portion of the cost of the life insurance contracts was paid from accumulated cash value of the policies.

The Bank has recognized the accumulated post-retirement benefit obligation relative to the deferred compensation plan as well as the cash surrender value of the life insurance available to fund this obligation.

At December 31, 2016, the present value of the obligation was $768,877 and the cash surrender value of insurance was $172,362. At December 31, 2015, the present value of the obligation was $847,292 and the cash surrender value of insurance was $152,366. Benefits paid under the plan totaled $142,468 and $142,468 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9 - RELATED PARTIES

The Bank has entered into transactions with its directors, significant stockholders and their affiliates (Related Parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties at December 31, 2016 and 2015, was $2,477,384 and $2,363,736, respectively. During 2016, new loans to such related parties totaled approximately $313,700 and repayments totaled approximately $200,300.

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The Bank's loans and commitments have been granted primarily to customers in the Bank's market area, most of which are depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 3. To reduce the credit risk related to these loans, the Bank may deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the customer. Collateral held varies but may include deposits, accounts receivable, inventory, property, plant and equipment and real estate.

Additionally, at times, the Bank maintains deposits in federally insured financial institutions in excess of federally insured limits. Management monitors the soundness of these financial institutions and feels the Bank's risk is negligible.

NOTE 11 - OFF–BALANCE SHEET ACTIVITIES

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

NOTE 11 - OFF–BALANCE SHEET ACTIVITIES - CONTINUED

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Unless noted otherwise, the Bank does not require collateral or other security to support financial instruments with credit risk.

COMMITMENTS TO EXTEND CREDIT

The financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and commercial letters of credit.

Commitments to extend credit are agreements to lend to a customer as long as there is not violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank has not incurred any losses on its commitments in either 2016 or 2015.

At December 31, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2016	2015
Commitments to extend credit secured by real estate	$ 2,438,054	$ 964,936
Other commitments to extend credit	$ 519,983	$ 420,067
Standby letters of credit	$ 29,756	$ 29,756

HODGE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 12 – ANALYSIS OF OTHER EXPENSES

The following is a breakdown of other expenses:

	YEAR ENDED DECEMBER 31	
	2016	2015
PERSONNEL		
Salaries and other compensation	$ 762,918	$ 741,210
Payroll taxes	55,794	55,659
Insurance and benefits	226,681	272,480
	$ 1,045,393	$ 1,069,349
OCCUPANCY		
Depreciation - building	$ 644	$ -
Real estate taxes	59,956	55,799
Utilities	10,291	9,280
Repairs and maintenance	26,971	9,185
	$ 97,862	$ 74,264
FURNITURE AND EQUIPMENT		
Depreciation	$ 4,060	$ 13,953
Service contracts	13,388	21,284
Data processing expense	74,955	72,888
Repairs and maintenance	3,202	6,488
Auto	877	1,024
	$ 96,482	$ 115,637
OTHER		
Advertising	$ 9,985	$ 12,427
ATM Interchange and online banking fees	89,092	79,673
Charitable contributions	2,979	2,251
Correspondent bank fees	12,262	14,434
Courier service	2,705	3,814
Credit reports	5,052	4,816
Deferred compensation	24,615	12,445
Directors fees	21,000	21,000
Dues and subscriptions	8,264	6,896
FDIC assessment	46,623	47,878
Insurance and bonds	22,383	21,516
Legal and professional fees	72,970	63,501
Losses and recoveries	(1,648)	2,201
Miscellaneous	26,811	19,757
Other real estate expense	315	1,196
Postage	21,565	21,050
Stationery and supplies	26,830	20,504
Telephone	6,471	11,103
Cash short	4,666	5,378
	$ 402,940	$ 371,840

NOTE 13 - REGULATORY MATTERS

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 material effect on the Bank's financial statements. Under capital adequacy guidelines, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off - balance - sheet items as calculated under regulatory accounting practices. The Bank's 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 and its subsidiary bank to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 1 and Common Equity /Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and tangible and core capital (as defined) to tangible assets (as defined). Management believes that as of December 31, 2016, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum Total risk-based, Tier I risk-based, Common Equity/ Tier 1 risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual and required capital amounts and ratios are as follows:

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount (000's)	Ratio	Amount (000's)	Ratio	Amount (000's)	Ratio
As of December 31, 2016:						
Total Capital to Risk Weighted Assets	$12,094	28.5%	≥$3,394	≥8.0%	≥$4,243	≥10.0%
Tier I Capital to Risk Weighted Assets	$11,558	27.2%	≥$2,546	≥6.0%	≥$3,394	≥8.0%
Common Equity/Tier I Capital to Risk Weighted Assets	$11,558	27.2%	≥$1,909	≥4.5%	≥$2,758	≥6.5%
Tier I Capital to Average Assets:	$11,558	17.4%	≥$1,993	≥4.0%	≥$3,321	≥5.0%

NOTE 13 - REGULATORY MATTERS – CONTINUED

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount (000's)	Ratio	Amount (000's)	Ratio	Amount (000's)	Ratio
As of December 31, 2015:						
Total Capital to Risk Weighted Assets	$11,301	28.9%	≥$3,128	≥8.0%	≥$3,910	≥10.0%
Tier I Capital to Risk Weighted Assets	$10,805	27.6%	≥$2,345	≥6.0%	≥$3,128	≥8.0%
Common Equity/Tier 1 Capital to Risk Weighted Assets	$10,805	27.6%	≥$1,759	≥4.5%	≥$2,541	≥6.5%
Tier I Capital to Average Assets:	$10,805	16.2%	≥$2,668	≥4.0%	≥$3,335	≥5.0%

NOTE 14 – FAIR VALUE MEASUREMENTS

Fair value measurements are used to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with **FASB ASC 820**, "*Fair Value Measurement and Disclosures*," the fair value of a financial instrument is 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. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy - In accordance with this guidance, financial assets and financial liabilities, generally measured at fair value, are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

NOTE 14 – FAIR VALUE MEASUREMENTS - CONTINUED

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2016 and 2015 are as follows:

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Available-for-sale securities	$ -	$ 7,918,178	$ -	$ 7,918,178
December 31, 2015				
Available-for-sale securities	$ -	$ 9,658,588	$ -	$ 9,658,588

NOTE 15 - SUBSEQUENT EVENTS

The Company has evaluated events and transactions that occurred after the balance sheet date through March 15, 2017, the date for which the financial statements were available for distribution, for potential recognition and disclosure. No subsequent events requiring potential recognition or disclosure were noted.

OTHER FINANCIAL INFORMATION

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March 15, 2017

The Audit Committee and Stockholders
Hodge Bancshares, Inc. and Subsidiary
Hodge, Louisiana

Independent Auditors' Report on Other Financial Information

We have audited the consolidated financial statements of Hodge Bancshares, Inc. and Subsidiary as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated March 15, 2017, which contained an unmodified opinion on the consolidated financial statements as a whole on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on Pages 30 through 31 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Heard, McElroy & Vestal, LLC

Monroe, Louisiana

HODGE BANCSHARES, INC. AND SUBSIDIARY

DETAILS OF CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2016

	Hodge Bancshares, Inc.	Hodge Bank and Trust Company	Eliminations DR (CR)	Consolidated
ASSETS				
Cash and due from banks	$ 19,107	$ 2,743,510	$ (19,107)	$ 2,743,510
Federal funds sold	-	2,025,000	-	2,025,000
Interest-bearing deposits with banks	1,315,000	3,273,610	(1,315,000)	3,273,610
Securities available-for-sale	-	7,918,178	-	7,918,178
Securities to be held-to-maturity	-	3,285,937		3,285,937
Investment in Subsidiary	11,455,480	-	(11,455,480)	-
Loans	-	47,953,092	-	47,953,092
Overdrafts	-	83,455	-	83,455
Total loans	-	48,036,547	-	48,036,547
Less: Allowance for loan losses	-	(1,035,233)	-	(1,035,233)
Net loans		47,001,314	-	47,001,314
Bank premises and equipment - net	-	33,439	-	33,439
Accrued interest receivable	-	309,498	-	309,498
Cash surrender value of life insurance	-	172,362	-	172,362
Other	-	136,777	-	136,777
Total other assets	-	652,076	-	652,076
TOTAL ASSETS	$ 12,789,587	$ 66,899,625	$ (12,789,587)	$ 66,899,625
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Deposits				
Demand - non-interest bearing	$ -	$ 9,939,339	$ 6,887	$ 9,932,452
Demand - interest bearing	-	8,738,808	12,220	8,726,588
Certificates of deposit - $250,000 and over	-	3,876,988	315,000	3,561,988
Certificates of deposit - other	-	21,301,857	1,000,000	20,301,857
Savings	-	9,402,252	-	9,402,252
		53,259,244	1,334,107	51,925,137
Official checks outstanding	-	1,368,856	-	1,368,856
Accrued interest payable	-	34,766	-	34,766
Other liabilities	-	12,402	-	12,402
Accumulated postretirement benefits payable	-	768,877	-	768,877
	-	2,184,901	-	2,184,901
TOTAL LIABILITIES	-	55,444,145	1,334,107	54,110,038
COMMITMENTS AND CONTINGENT LIABILITIES	-	-	-	-
STOCKHOLDERS' EQUITY				
Common stock	13,697	156,250	156,250	13,697
Capital surplus	565,902	6,843,750	6,843,750	565,902
Retained earnings	12,312,265	4,557,757	4,557,757	12,312,265
Accumulated other comprehensive income (loss)	(102,277)	(102,277)	(102,277)	(102,277)
TOTAL STOCKHOLDERS' EQUITY	12,789,587	11,455,480	11,455,480	12,789,587
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,789,587	$ 66,899,625	$ 12,789,587	$ 66,899,625

See auditors' report on other financial information.

HODGE BANCSHARES, INC. AND SUBSIDIARY

DETAILS OF CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

	Hodge Bancshares, Inc.	Hodge Bank and Trust Company	Eliminations DR (CR)	Consolidated
INTEREST INCOME				
Interest and fees on loans	$ -	$ 3,095,052	$ -	$ 3,095,052
Interest on investment securities				
Taxable	-	171,265	-	171,265
Tax-exempt	-	42,874	-	42,874
Interest on deposits in banks	8,781	30,819	8,781	30,819
Interest on federal funds sold	-	15,233	-	15,233
	8,781	3,355,243	8,781	3,355,243
INTEREST EXPENSE		-		-
Interest on deposits	-	170,892	(8,781)	162,111
NET INTEREST INCOME	8,781	3,184,351	-	3,193,132
PROVISION FOR LOAN LOSSES	-	70,000	-	70,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,781	3,114,351	-	3,123,132
OTHER INCOME				
Net gain on sales of other assets		8,000	-	8,000
Service fees and late charges	-	246,444	-	246,444
Collection, exchange and safe deposit rental	-	10,295	-	10,295
Miscellaneous income	-	121,726	-	121,726
	-	386,465		386,465
OTHER EXPENSES				
Personnel	-	1,045,393	-	1,045,393
Occupancy	-	97,862	-	97,862
Furniture and equipment	-	96,482	-	96,482
Other	3,904	399,039	-	402,943
	3,904	1,638,776	-	1,642,680
INCOME BEFORE EQUITY IN EARNINGS OF SUBSIDIARY	4,877	1,862,040	-	1,866,917
EQUITY IN EARNINGS OF SUBSIDIARY	1,862,040	-	1,862,040	-
NET INCOME	$ 1,866,917	$ 1,862,040	$ 1,862,040	$ 1,866,917

See auditors' report on other financial information.