**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 Womack
Signature of Holding Company Director and Official

03/30/2018
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, 2017**
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

| City | State | Zip Code |
|---|---|---|
| Colorado City | TX | 79512 |

228 Elm Street
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

| Name | Title |
|---|---|
| Richy C. Womack | Director and Secretary |

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)

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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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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)

---

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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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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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, 2017

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 March 30, 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 12/31/17

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.

Mary D. Brownfield
Fort Worth, TX 76132
United States Citizens
Owns and/or controls 15,000 shares of common stock which represents 8.65% 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.

Joe H. Morren
Colorado City, TX 79512
United States Citizen
Owns 10,000 shares of common stock which represents 5.77% 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 12/31/17

None

## 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. Joe H. Morren
   Colorado City, TX 79512
2. Certified Public Accountant
3. a. Director - City National Bancshares, Inc.
   b. N/A
   c. N/A
4. a. Owns 5.77% 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, 2017

## Report Item 3 (1)
## Current Shareholders with ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/17

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 12/31/17

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

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

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

December 31, 2017 and 2016

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

December 31, 2017 and 2016

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HAMBY & HENGELI LLC
accountants and advisors

## 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, 2017 and 2016, 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, 2017 and 2016 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 6, 2018

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

CONSOLIDATED BALANCE SHEETS

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 5,830,770 | $ 6,094,302 |
| Securities available for sale | 63,682,236 | 62,788,429 |
| Nonmarketable equity securities | 157,500 | 157,500 |
| Loans, net | 51,007,292 | 49,968,621 |
| Premises and equipment, net | 912,422 | 952,906 |
| Foreclosed real estate | 65,003 | 285,003 |
| Accrued interest receivable | 983,336 | 732,393 |
| Other assets | 161,178 | 364,781 |
| | $ 122,799,737 | $ 121,343,935 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | $ 20,427,490 | $ 20,033,134 |
| Interest-bearing | 90,339,322 | 90,508,995 |
| Total deposits | 110,766,812 | 110,542,129 |
| Note payable | 75,000 | 150,000 |
| Accrued interest payable | 38,194 | 37,274 |
| Dividends payable | 346,894 | 346,894 |
| Other liabilities | 8,847 | 17,170 |
| Total liabilities | 111,235,747 | 111,093,467 |
| Commitments (Note H) | | |
| Stockholders' equity | | |
| 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 | 6,898,302 | 6,275,146 |
| Accumulated other comprehensive loss | (783,117) | (1,473,483) |
| Total stockholders' equity | 11,563,990 | 10,250,468 |
| | $ 122,799,737 | $ 121,343,935 |

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, 2017 | 2016 |
|---|---|---|
| Interest income | | |
| Loans, including fees | $ 3,407,087 | $ 3,217,926 |
| Debt securities: | | |
| Taxable | 884,332 | 990,816 |
| Tax-exempt | 147,822 | 57,800 |
| Other interest and dividends | 71,506 | 42,375 |
| Total interest income | 4,510,747 | 4,308,917 |
| Interest expense | | |
| Deposits | 585,955 | 525,295 |
| Borrowed funds | 5,614 | 8,160 |
| Total interest expense | 591,569 | 533,455 |
| Provision for loan losses | 140,000 | 200,000 |
| Net interest income after provision for loan losses | 3,779,178 | 3,575,462 |
| Noninterest income | | |
| Service charges on deposit accounts | 578,188 | 579,444 |
| Trust department income | 299,225 | 280,629 |
| Net gain (loss) on sale of securities[1] | (15,600) | 108,072 |
| Net loss on sale of assets and writedowns | (44,562) | (105,967) |
| Other income | 342,401 | 326,531 |
| Total noninterest income | 1,159,652 | 1,188,709 |
| Noninterest expense | | |
| Salaries and employee benefits | 1,502,842 | 1,467,304 |
| Occupancy and equipment | 230,807 | 254,853 |
| Data processing | 240,712 | 238,250 |
| Regulatory fees and assessments | 86,560 | 118,240 |
| Other general and administrative | 861,411 | 860,102 |
| Total noninterest expense | 2,922,332 | 2,938,749 |
| NET INCOME | $ 2,016,498 | $ 1,825,422 |

[1] Net gain (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 $(15,600) and $108,072 for 2017 and 2016, 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, 2017 | Years ended December 31, 2016 |
|---|---|---|
| Net income | $ 2,016,498 | $ 1,825,422 |
| Other comprehensive income (loss) | | |
| Gross unrealized gains (losses) on securities available for sale | 674,766 | (643,603) |
| Reclassification adjustment for (gains) losses realized in net income | 15,600 | (108,072) |
| Total other comprehensive income (loss) | 690,366 | (751,675) |
| TOTAL COMPREHENSIVE INCOME | $ 2,706,864 | $ 1,073,747 |

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, 2017 and 2016

| | Common Stock | Surplus | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2015 | $250,000 | $ 8,046,997 | $ (2,828,192) | $ 5,728,181 | $ (721,808) | $ 10,475,178 |
| Net income | - | - | - | 1,825,422 | - | 1,825,422 |
| Other comprehensive loss | - | - | - | - | (751,675) | (751,675) |
| Purchase of Treasury Stock | - | - | (20,000) | - | - | (20,000) |
| QSCB tax credit distributions | - | - | - | (149,803) | - | (149,803) |
| Dividends declared | - | - | - | (1,128,654) | - | (1,128,654) |
| 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 |

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, 2017 | Years ended December 31, 2016 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $ 2,016,498 | $ 1,825,422 |
| Adjustments to reconcile net income to cash provided by operating activities | | |
| Net amortization of premium on investment securities | 987,212 | 907,468 |
| Loss (gain) on sale of investment securities | 15,600 | (108,072) |
| Provision for loan losses | 140,000 | 200,000 |
| Depreciation and amortization expense | 77,412 | 99,721 |
| Loss on sale of assets | 39,562 | 105,967 |
| Writedown on repossessed assets | 5,000 | - |
| Tax credit recorded as investment income | (135,850) | (149,803) |
| Net change in: | | |
| Accrued interest receivable and other assets | (414,282) | (275,614) |
| Accrued interest payable and other liabilities | (7,403) | (8,667) |
| Cash provided by operating activities | 2,723,749 | 2,596,422 |
| Cash flows from investing activities | | |
| Proceeds from maturities, calls and paydowns of securities available for sale | 18,859,255 | 25,201,892 |
| Proceeds from sales of securities available for sale | 22,266,678 | 23,241,627 |
| Purchases of securities available for sale | (42,332,186) | (49,113,405) |
| Loans originated, net of principal collections | (1,213,671) | 844,187 |
| Purchase of treasury stock | - | (20,000) |
| Additions to premises and equipment | (36,928) | (161,819) |
| Proceeds from sales of assets | 577,380 | 245,290 |
| Cash provided by (used for) investing activities | (1,879,472) | 237,772 |
| Cash flows from financing activities | | |
| Net change in deposits | 224,683 | (1,369,443) |
| Principal payments on long term debt | (75,000) | (100,000) |
| Cash dividends paid on common stock | (1,257,492) | (1,129,654) |
| Cash used for financing activities | (1,107,809) | (2,599,097) |
| Net change in cash and cash equivalents | (263,532) | 235,097 |
| Cash and cash equivalents, beginning of year | 6,094,302 | 5,859,205 |
| Cash and cash equivalents, end of year | $ 5,830,770 | $ 6,094,302 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the period for: | | |
| Interest on deposits and borrowed funds | $ 590,649 | $ 541,374 |
| Supplemental disclosure of non-cash transactions | | |
| Loan balances transferred to foreclosed real estate | $ 35,000 | $ 255,000 |

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

## 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:

### Organization 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.

### Nature of Operations

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. 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 State 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.

### Significant Concentrations of Credit Risk

Most of the Company's activities are with customers located within Mitchell and Nolan counties. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in those areas. Note B discusses the types of securities in which Company invests. Note D discusses the nature of the Company's lending activities. The Company does not have any significant concentrations to any one industry or customer.

### Cash and Cash Equivalents

For purposes 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.

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.

Investment Securities

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

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are 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 quoted market value. For financial reporting purposes, such stock is considered restricted and is carried at cost 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.

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 considered impaired, and is comprised of valuation allowances calculated on a loan-by-loan basis. Impaired loans are all specifically identified loans for which 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 restructuring (TDRs) and classified as impaired. 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.

On a quarterly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Company's major loan segments. Significant overall risk factors for both the Company's commercial and consumer portfolios include the strength of the real estate and agricultural market in the Company's lending area.

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" and "substandard." 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, and doubtful loans for which it is probable that the Company will not collect all contractual principal or interest are also 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.

Foreclosed Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the initial carrying value or fair value less cost to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

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.

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 2014.

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 re 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.

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.

Accounting Standards Updates

*ASU 2014-09 "Revenue from Contracts with Customers*". ASU 2014-09 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.

*ASU 2016-01 "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities"*. ASU 2016-01 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. This guidance becomes effective for annual reporting periods beginning after December 15, 2018. The Company is still evaluating the overall effect that the guidance will have on its consolidated financial statements and disclosures.

*ASU 2016-13 "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments".* The amendments under ASU 2016-13 require 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 ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This guidance becomes effective for annual reporting periods beginning after December 15, 2020 and interim reporting periods beginning after December 15, 2021. The Company is currently evaluating the effect that the guidance will have on its consolidated financial statements and disclosures.

*ASU 2017-08 "Receivables – Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities".* The amendments in ASU 2017-08 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. The Company has elected to early adopt his guidance effective January 1, 2017, the impact of the adoption was not material to the consolidated financial statements or disclosures.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through February 6, 2018, 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, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities available for sale | | | | |
| SBA pools | $ 229,999 | $ - | $ (4,208) | $ 225,791 |
| State and municipal | 9,539,113 | 1,429 | (145,349) | 9,395,193 |
| Corporate | 8,846,152 | - | (262,841) | 8,583,311 |
| Mortgage-backed | 45,850,089 | 21,125 | (393,273) | 45,477,941 |
| | $ 64,465,353 | $ 22,554 | $ (805,671) | $ 63,682,236 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities available for sale | | | | |
| SBA pools | $ 276,517 | $ - | $ (6,781) | $ 269,736 |
| State and municipal | 8,613,632 | - | (277,998) | 8,335,634 |
| Corporate | 6,610,171 | 5,461 | (247,105) | 6,368,527 |
| Mortgage-backed | 48,761,592 | 9,261 | (956,321) | 47,814,532 |
| | $ 64,261,912 | $ 14,722 | $ (1,488,205) | $ 62,788,429 |

The amortized cost and estimated market value of debt securities at December 31, 2017, by contractual maturity are as follows:

| | Available for Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due in one year or less | $ 666,258 | $ 664,729 |
| Due after one year through five years | 5,708,290 | 5,611,993 |
| Due after five years through ten years | 7,350,072 | 7,117,662 |
| Due after ten years | 4,660,645 | 4,584,120 |
| | 18,385,265 | 17,978,504 |
| Securities without fixed maturities | 46,080,088 | 45,703,732 |
| | $ 64,465,353 | $ 63,682,236 |

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, 2017 and 2016, investment securities with carrying values of $17,771,805 and $19,419,252, respectively, were pledged to secure public deposits and for other purposes.

During 2017, there were gross realized gains of $41,158 and gross realized losses of $56,758 on the sale of investment securities. During 2016, there were gross realized gains of $151,401 and gross realized losses of $43,329 on the sale of investment securities.

Information pertaining to securities with gross unrealized losses, at December 31, 2017 and 2016 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

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

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Less than 12 months | | Over 12 months | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| Securities available for sale | | | | |
| SBA pools | $ - | $ - | $ (6,781) | $ 267,423 |
| State and municipal | (264,506) | 7,911,246 | (13,492) | 424,388 |
| Corporate | (46,037) | 1,729,664 | (201,068) | 3,123,603 |
| Mortgage-backed | (956,321) | 45,728,616 | - | - |
| | $ (1,266,864) | $ 55,369,526 | $ (221,341) | $ 3,815,414 |

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, | |
|---|---|---|
| | 2017 | 2016 |
| Federal Reserve Bank | $ 82,500 | $ 82,500 |
| TIB - The Independent BankersBank | 75,000 | 75,000 |
| | $ 157,500 | $ 157,500 |

## NOTE D - LOANS

Major classifications of loans are as follows:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Real Estate | $ 19,418,286 | $ 19,987,302 |
| Commercial | 11,890,235 | 11,751,314 |
| Agricultural | 10,960,740 | 9,273,339 |
| Consumer and Other | 9,405,555 | 9,510,694 |
| | 51,674,816 | 50,522,649 |
| Less: Allowance For Loan Losses | (667,524) | (554,028) |
| Total Loans | $ 51,007,292 | $ 49,968,621 |

Transactions in the allowance for loan losses are as follows:

| | 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 | 2,927 | 27,840 | - | (57,271) | (26,504) |
| Balance at December 31, 2017 | $ 87,635 | $ 81,651 | $ 127,838 | $ 370,400 | $ 667,524 |

| | Year Ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Real Estate | Commercial | Agricultural | Consumer and Other | Total |
| Balance at December 31, 2015 | $ 126,693 | $ 75,611 | $ 51,336 | $ 235,437 | $ 489,077 |
| Provision for loan losses | (55,389) | 40,693 | 38,596 | 176,100 | 200,000 |
| Charge-offs | - | (85,452) | - | (186,902) | (272,354) |
| Recoveries | 2,927 | 40,252 | - | 94,126 | 137,305 |
| Net (charge-offs) recoveries | 2,927 | (45,200) | - | (92,776) | (135,049) |
| Balance at December 31, 2016 | $ 74,231 | $ 71,104 | $ 89,932 | $ 318,761 | $ 554,028 |

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, 2017 | | | | |
|---|---|---|---|---|---|
| | Real Estate | Commercial | Agricultural | Consumer and Other | Total |
| **Allocation of Allowance To:** | | | | | |
| 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 |
| | $ 87,635 | $ 81,651 | $ 127,838 | $ 370,400 | $ 667,524 |
| **Recorded Investment In:** | | | | | |
| 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 |
| | $ 19,418,286 | $ 11,890,235 | $ 10,960,740 | $ 9,405,555 | $ 51,674,816 |

| | Year Ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Real Estate | Commercial | Agricultural | Consumer and Other | Total |
| **Allocation of Allowance To:** | | | | | |
| Impaired loans - evaluated individually | $ - | $ - | $ - | $ - | $ - |
| Impaired loans - evaluated collectively | - | - | - | - | - |
| Total impaired loans | - | - | - | - | - |
| Unimpaired loans - evaluated collectively | 74,231 | 71,104 | 89,932 | 318,761 | 554,028 |
| | $ 74,231 | $ 71,104 | $ 89,932 | $ 318,761 | $ 554,028 |
| **Recorded Investment In:** | | | | | |
| Impaired loans - evaluated individually | $ - | $ - | $ - | $ - | $ - |
| Impaired loans - evaluated collectively | - | - | - | - | - |
| Total impaired loans | - | - | - | - | - |
| Unimpaired loans - evaluated collectively | 19,987,302 | 11,751,314 | 9,273,339 | 9,510,694 | 50,522,649 |
| | $ 19,987,302 | $ 11,751,314 | $ 9,273,339 | $ 9,510,694 | $ 50,522,649 |

Information relative to impaired loans is as follows:

| | 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 | - | - | - | - | - |
| Total Loans | $ 1,048,017 | $ - | $ 1,048,017 | $ - | $ 213,324 |

| | December 31, 2016 | | | | Year Ended December 31, 2016 |
|---|---|---|---|---|---|
| | 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 | $ - | $ - | $ - | $ - | $ 37,797 |
| Commercial | - | - | - | - | 25,392 |
| Agricultural | - | - | - | - | 131,443 |
| Consumer and Other | - | - | - | - | - |
| Total Loans | $ - | $ - | $ - | $ - | $ 194,632 |

The Company did not have any commitments to extend credit on impaired loans at December 31, 2017 and interest income recognized on impaired loans was $19,281 and $-0- for the years ended December 31, 2017 and 2016. The Company did not have any troubled debt restructurings at December 31, 2017 and 2016.

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

| | 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 |
| Total | $ 49,097,969 | $ 1,515,553 | $ 13,277 | $ 1,048,017 | $ 51,674,816 |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Accruing Loans | | | | |
| | Current | 30-89 Days Past Due | 90 Days or More Past Due | Nonaccrual Loans | Total Loans |
| Real Estate | $ 19,439,954 | $ 523,226 | $ 24,122 | $ - | $ 19,987,302 |
| Commercial | 11,444,652 | 306,662 | - | - | 11,751,314 |
| Agricultural | 9,270,685 | 2,654 | - | - | 9,273,339 |
| Consumer and Other | 8,876,298 | 620,094 | 14,302 | - | 9,510,694 |
| Total | $ 49,031,589 | $ 1,452,636 | $ 38,424 | $ - | $ 50,522,649 |

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

| | 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 |
| Total Loans | $ 49,662,681 | $ 210,412 | $ 1,801,723 | $ 51,674,816 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Total Loans |
| Real Estate | $ 19,596,189 | $ 301,578 | $ 89,535 | $ 19,987,302 |
| Commercial | 11,300,682 | 10,226 | 440,406 | 11,751,314 |
| Agricultural | 9,182,265 | 68,144 | 22,930 | 9,273,339 |
| Consumer and Other | 9,294,574 | 86,615 | 129,505 | 9,510,694 |
| Total Loans | $ 49,373,710 | $ 466,563 | $ 682,376 | $ 50,522,649 |

## NOTE E – PREMISES AND EQUIPMENT

Premises and equipment are as follows:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Land | $ 78,440 | $ 78,440 |
| Buildings and improvements | 2,265,015 | 2,253,496 |
| Furniture, fixtures and equipment | 2,051,014 | 2,025,605 |
| | 4,394,469 | 4,357,541 |
| Accumulated depreciation | (3,482,047) | (3,404,635) |
| | $ 912,422 | $ 952,906 |

## NOTE F - DEPOSITS

At December 31, 2017, the scheduled maturities of time deposits are as follows:

| Year Ending December 31, | |
|---|---|
| 2018 | $30,460,666 |
| 2019 | 3,614,244 |
| 2020 | 93,482 |
| 2021 | 46,819 |
| 2022 | 1,009 |
| Thereafter | - |
| | $34,216,220 |

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at December 31, 2017 and 2016 was $7,654,695 and $6,896,468, 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, 2018. Interest accrues at the prime rate published by the Wall Street Journal plus .75% adjusted annually, resulting in a rate of 5.25% and 4.50% at December 31, 2017 and 2016, respectively. Interest is due quarterly with principal due at maturity. At December 31, 2017 and 2016, $75,000 and $150,000 was outstanding under the line, respectively.

Federal Funds Lines

The Company has unsecured federal funds lines at various correspondent banks. At December 31, 2017, the Company was eligible to borrow $8,000,000. No amounts were outstanding under these lines at December 31, 2017 and 2016. 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, 2017 and 2016, were as follows:

| | 2017 | 2016 |
|---|---|---|
| Unfunded commitments to extend credit | $ 4,017,213 | $ 4,073,374 |
| Commercial and standby letters of credit | 732,839 | 767,893 |

## 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% by 2019. The capital conservation buffer 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, 2017, 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 2017 and 2016, 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.

The Bank's actual and required capital amounts and ratios as of December 31, 2017 and 2016 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) | | | |
| As of December 31, 2017 | | | | | | |
| 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% |
| As of December 31, 2016 | | | | | | |
| Total capital (to risk weighted assets) | $ 12,416 | 18.5% | $ 5,362 | 8.0% | $ 6,702 | 10.0% |
| Tier 1 capital (to risk weighted assets) | 11,862 | 17.7% | 4,021 | 6.0% | 5,362 | 8.0% |
| Common Tier 1 capital (to risk weighted assets) | 11,862 | 17.7% | 3,016 | 4.5% | 4,356 | 6.5% |
| Tier 1 capital (to average assets) | 11,862 | 9.7% | 4,889 | 4.0% | 6,112 | 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 $37,084 and $36,954 for the years ended December 31, 2017 and 2016, 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 $599,982 and $492,433 at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, deposits from insiders totaled $4,094,963 and $3,229,542, 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:

- *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).

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, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Securities available for sale | | | | |
| SBA pools | $ - | $ 225,791 | $ - | $ 225,791 |
| State and municipal | - | 9,395,193 | - | 9,395,193 |
| Mutual funds | - | 8,583,311 | - | 8,583,311 |
| Mortgage-backed | - | 45,477,941 | - | 45,477,941 |
| | $ - | $63,682,236 | $ - | $63,682,236 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Securities available for sale | | | | |
| SBA pools | $ - | $ 269,736 | $ - | $ 269,736 |
| State and municipal | - | 8,335,634 | - | 8,335,634 |
| Mutual funds | - | 6,368,527 | - | 6,368,527 |
| Mortgage-backed | - | 47,814,532 | - | 47,814,532 |
| | $ - | $62,788,429 | $ - | $62,788,429 |

During 2017 and 2016, 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, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Impaired loans | $ - | $ - | $ 1,048,017 | $ 1,048,017 |
| Foreclosed real estate | - | - | 65,003 | 65,003 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Foreclosed real estate | $ - | $ - | $ 285,003 | $ 285,003 |

Impaired loans, which are measured for impairment using the fair value of collateral for collateral dependent loans, had a carrying amount of $1,048,017, with no valuation allowance at December 31, 2017. The Company did not have any impaired loans at December 31, 2016.

At December 31, 2017 and 2016, foreclosed real estate had an initial cost basis of $65,003 and $285,003, respectively, with no valuation allowance.