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, Lori Sirman
Name of the Holding Company Director and Official

President/Director
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.

Lori Sirman
Signature of Holding Company Director and Official

03/29/2018
Date of Signature

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2017
Month / Day / Year

5493002SUZK7Q00HTF17
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

BT Holdings, Inc.
Legal Title of Holding Company

PO Box 1675
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Quitman	TX	75783

412 E. Goode St. Quitman, TX 75783
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Jason McCrary	Asst Sec/Treasurer

903-252-1139
Area Code / Phone Number / Extension

903-561-8585
Area Code / FAX Number

jason.mccrary@bthbank.com
E-mail Address

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

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

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 Federal Reserve Bank Use Only

RSSD ID ______________
C.I. ______________

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)

2BT HOLDINGS, INC.

FORM FR Y-6

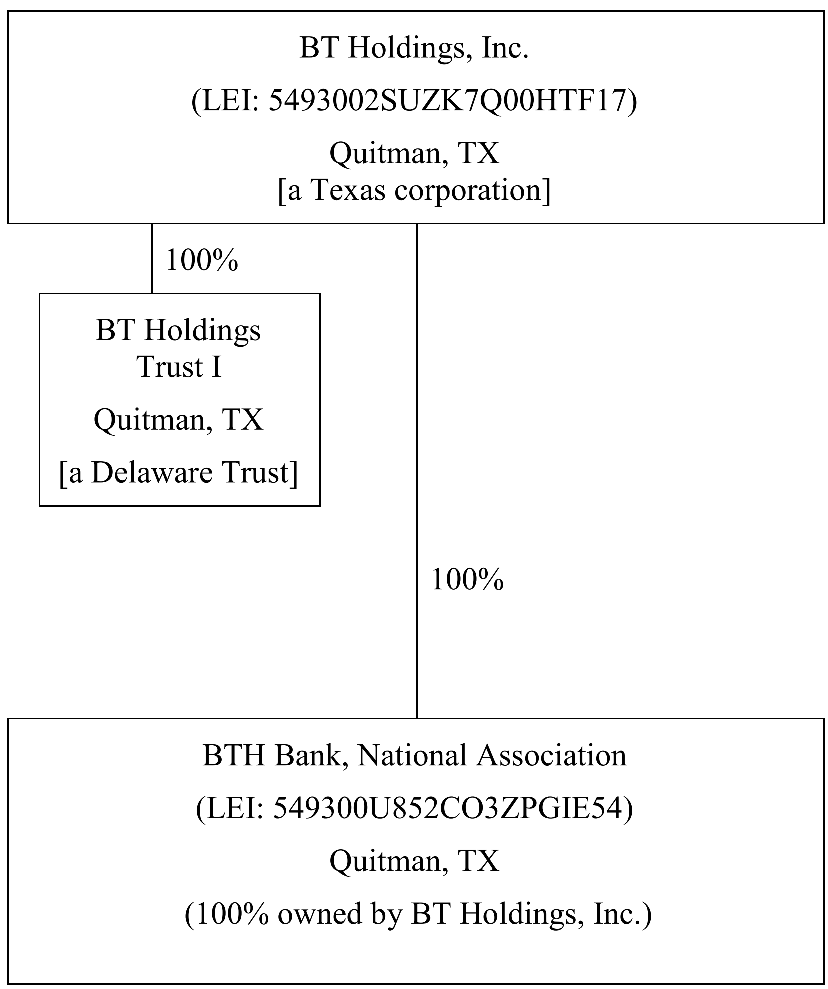
December 31, 2017

REPORT ITEM 1:

See December 31, 2017 Annual Report attached.

REPORT ITEM 2a:

Organizational Chart



REPORT ITEM 2B:

Branch Listing – See Branch Listing attached (also submitted via email – 3/29/18)

Results: A list of branches for your depository institution: BTH BANK NATIONAL ASSOCIATION (ID_RSSD: 24668).
This depository institution is held by BT HOLDINGS, INC. (3488681) of QUITMAN, TX.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

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)	24668	BTH BANK NATIONAL ASSOCIATION	412 E GOODE ST	QUITMAN	TX	75783	WOOD	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	4640468	CARTHAGE BRANCH	606 WEST PANOLA	CARTHAGE	TX	75633	PANOLA	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	5010237	DALLAS BRANCH	6925 PRESTON RD	DALLAS	TX	75205	DALLAS	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	4957988	HENDERSON BRANCH	1580 US 79 SOUTH	HENDERSON	TX	75654	RUSK	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	3394791	HOLLY LAKE BRANCH	2365 S FM 2869	HOLLY LAKE RANCH	TX	75765	WOOD	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	5010246	KILGORE BRANCH	205 N KILGORE ST	KILGORE	TX	75662	GREGG	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	3872589	LINDALE BANK STORE BRANCH	3222 SOUTH MAIN, BUILDING A	LINDALE	TX	75771	SMITH	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	5010255	LONGVIEW BRANCH	3805 N SPUR 63	LONGVIEW	TX	75605	GREGG	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	5166349	MCKINNEY BRANCH	2550 ELDORADO PARKWAY	MCKINNEY	TX	75070	COLLIN	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	1959253	MINEOLA BRANCH	1825 N PACIFIC ST	MINEOLA	TX	75773	WOOD	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	4890021	PLANO BRANCH	1801 PRESTON RD., SUITE C	PLANO	TX	75093	COLLIN	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
OK		Full Service	4284497	TYLER BRANCH	6657 OLD JACKSONVILLE HWY	TYLER	TX	75703	SMITH	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	
ADD	10/18/2017	Full Service		FORT WORTH TEMPORARY BRANCH	5020 COLLINWOOD AVE, STE 400	FORT WORTH	TX	76107	TARRANT	UNITED STATES	Not Required	Not Required	BTH BANK NATIONAL ASSOCIATION	24668	

Form FR Y-6

BT Holdings, Inc.
Quitman, TX 75783
Fiscal Year Ending December 31, 2017

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 12-31-2017			**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 12-31-2017**		
(1)(a) **Name & Address (City, State, Country)**	**(1)(b)** **Country of Citizenship or Incorporation**	**(1)(c)** **Number and Percentage of Each Class of Voting Securities**	**(2)(a)** **Name & Address (City, State, Country)**	**(2)(b)** **Country of Citizenship or Incorporation**	**(2)(c)** **Number and Percentage of Each Class of Voting Securities**
None	N/A	N/A	BT Holdings, Inc. Employee Stock Ownership Plan Longview, TX 75601	USA	433,934 shares 5.19%
			Voting trustees:		
			Donna James Mineola, TX 75773, USA	USA	
			Lauren Wheeler Dallas, TX 75214, USA	USA	
			April Witt Tyer, TX 75703, USA	USA	
			Clint Quinn Longview, TX 75605, USA	USA	
			Matt Pollard Chandler, TX 75758, USA	USA	

Form FR Y-6

BT Holdings, Inc.
Quitman, TX 75783
Fiscal Year Ending December 31, 2017

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)
John R. Dyer Tyler, TX, 75707, USA	banker	Chairman & Director	Chairman and CEO - BTH Bank	N/A	1.29%	0%	N/A
Lori Sirman Tyler, TX, 75703, USA	banker	President & Director	President - BTH Bank	N/A	0.10%	0%	N/A
Troy Robinson Mineola, TX, 75773, USA	banker	Vice Chairman & Director	Vice Chairman and COO - BTH Bank	N/A	0.84%	0%	N/A
Juan D. Nichols Quitman, TX, 75783, USA	retired utility manager	Director	N/A	N/A	0.25%	0%	N/A
George H. Camp Quitman, TX 75783, USA	retired businessman	Director	N/A	N/A	0.23%	0%	N/A
Richard Roberts Quitman, TX 75783, USA	attorney	Director	N/A	Attorney - Richard Roberts Atty at Law	0.71%	0%	Richard Roberts. Attorney at Law - 50% GTT Farms LLC - 50% Don Roberts Abstract & Title Co. - 50% Roberts Title Services, LLC - 50% Land @ Salem, LLC - 100%
Ben J. Kerr, III Quitman, TX 75783, USA	attorney	Director	N/A	Attorney - Ben J. Kerr, Atty at Law	0.51%	0%	Ben J. Kerr, Atty at Law - 100%
Marshall Mitchell Longview, TX 75601, USA	retired banking regulator	Director	N/A	N/A	0.26%	0%	N/A
William L. Adamson, III Kilgore, TX 75661, USA	businessman	Director	N/A	President-Sabine Pipe, Inc.	0.38%	0%	Sabine Pipe - 60% Adamson Energy LLC - 50% Twenty Nine Ventures LLC - 50% Adamson Investment - 50%
Beth Medlin Quitman, TX 75783, USA	businesswoman	Director	N/A	CFO-Medlin Electric, Inc.	0.23%	0%	Medlin Electric, Inc. - 23%

B. T. HOLDINGS, INC. AND SUBSIDIARY

QUITMAN, TEXAS

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

B. T. HOLDINGS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Table of Contents

HENRY & PETERS
CERTIFIED PUBLIC ACCOUNTANTS | EST. 1929

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee of the
Board of Directors of
B.T. Holdings, Inc.
Quitman, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of B.T. Holdings, Inc. and subsidiary (a Texas corporation), which comprise 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 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 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 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 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. 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 B.T. Holdings, Inc. and subsidiary as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information in Schedules I, II and III

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in schedules I, II and III 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 audit 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.

Report on Other Legal and Regulatory Requirements

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, BTH Bank's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013, and our report dated March 19, 2018 expressed an unqualified opinion.

Henry & Peters, P.C.

Tyler, Texas
March 19, 2018

B. T. HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and due from banks	$ 64,895,904	$ 27,436,261
Interest-bearing deposits with banks	1,000,000	-
Investment securities available-for-sale	523,783,433	227,434,545
Loans, net of allowance	1,054,996,722	908,794,754
Loans held for sale	910,000	1,566,373
Premises and equipment, net	19,032,094	19,902,844
Other real estate owned	320,000	230,000
Restricted equity securities, at cost	5,945,903	3,948,857
Accrued interest receivable	8,769,910	4,133,551
Goodwill	14,191,449	14,191,449
Federal income tax receivable	2,236,485	3,883,210
Other assets	1,633,887	1,062,680
Total assets	$ 1,697,715,787	$ 1,212,584,524
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing deposits	$ 172,592,356	$ 156,868,595
Interest-bearing deposits	1,299,093,665	906,542,884
Total deposits	1,471,686,021	1,063,411,479
Securities sold under repurchase agreements	1,288,427	2,643,493
Junior subordinated debentures	7,217,000	7,217,000
Notes payable	45,747,762	30,438,783
Accrued interest payable	1,679,026	884,621
Other liabilities	1,209,053	1,098,233
Total liabilities	1,528,827,289	1,105,693,609
Stockholders' equity:		
Common stock $1 par, 15,000,000 and 15,000,000 shares authorized, 10,970,041 and 8,749,704 shares issued,10,674,127 and 8,356,477 shares outstanding	10,970,041	8,749,704
Additional paid-in-capital	132,135,769	86,968,364
Retained earnings	35,449,741	23,643,291
Treasury stock, 295,914 and 393,227 shares, at cost	(4,052,520)	(5,175,455)
KSOP commitment	(3,787,762)	(3,153,783)
Accumulated other comprehensive loss	(1,826,771)	(4,141,206)
Total stockholders’ equity	168,888,498	106,890,915
Total liabilities and stockholders' equity	$ 1,697,715,787	$ 1,212,584,524

See accompanying notes to
consolidated financial statements.

B. T. HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$47,936,766	$ 35,039,252
Interest on investment securities:		
Taxable	1,217,238	1,322,595
Tax-exempt	5,809,406	2,219,588
Dividend income on securities	235,171	174,553
Other	543,337	148,897
Total interest and dividend income	55,741,918	38,904,885
INTEREST EXPENSE		
Interest on deposits	15,794,947	7,310,624
Interest on promisssory notes	1,732,317	957,837
Interest on junior subordinated debentures	207,303	171,308
Other	18,845	20,161
Total interest expense	17,753,412	8,459,930
Net interest income	37,988,506	30,444,955
PROVISION FOR LOAN LOSSES	2,565,194	2,516,329
Net interest income after provision for loan losses	35,423,312	27,928,626
OTHER INCOME		
Service charges and fees on deposits	1,678,252	1,603,980
Other income	409,801	919,839
Total other income	2,088,053	2,523,819
OTHER EXPENSES		
Salaries and employee benefits	11,595,914	10,281,737
Occupancy and equipment expense	3,181,822	3,172,521
Other expenses	5,883,388	5,295,620
Total other expenses	20,661,124	18,749,878
Earnings before provision for federal income taxes	16,850,241	11,702,567
PROVISION FOR FEDERAL INCOME TAXES		
Federal income tax expense	5,043,791	3,105,638
NET EARNINGS	$11,806,450	$ 8,596,929
Earnings per share:		
Basic	$ 1.37	$ 1.00
Diluted	$ 1.26	$ 0.94

See accompanying notes to
consolidated financial statements.

B. T. HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
NET EARNINGS	$ 11,806,450	$ 8,596,929
Other comprehensive income, net of tax:		
Unrealized holding gains (losses) on available-for-sale securities arising during the year	2,299,039	(4,037,150)
Reclassification adjustment for amounts realized on securities sales included in net earnings	15,396	(450,401)
Total other comprehensive (loss) income, net of tax	2,314,435	(4,487,551)
TOTAL COMPREHENSIVE INCOME	$ 14,120,885	$ 4,109,378

See accompanying notes to
consolidated financial statements.

B. T. HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Total	Capital Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	KSOP Commitment	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2015	$106,522,980	$ 8,743,754	$ 86,355,466	$ 15,046,362	$ (532,121)	$ (3,436,826)	$ 346,345
Net earnings	8,596,929	-	-	8,596,929	-	-	-
KSOP commitment	283,043	-	-	-	-	283,043	-
Exercise of stock options	60,850	5,950	54,900	-	-	-	-
Purchase of 400,783 shares of treasury stock	(5,286,088)	-	(23,809)	-	(5,262,279)	-	-
Sale of 49,291 shares of treasury stock	760,553	-	141,608	-	618,945	-	-
Stock based compensation expense	440,199	-	440,199	-	-	-	-
Other comprehensive income, net of tax	(4,487,551)	-	-	-	-	-	(4,487,551)
Balance at December 31, 2016	106,890,915	8,749,704	86,968,364	23,643,291	(5,175,455)	(3,153,783)	(4,141,206)
Net earnings	11,806,450	-	-	11,806,450	-	-	-
KSOP commitment	(633,979)	-	-	-	-	(633,979)	-
Exercise of stock options	333,100	32,200	300,900	-	-	-	-
Issuance of 2,188,137 shares of common stock, net of expenses of $56,273 - 2017 stock offering	45,894,604	2,188,137	43,706,467	-	-	-	-
Purchase of 80,241 shares of treasury stock	(1,283,856)	-	-	-	(1,283,856)	-	-
Sale of 177,554 shares of treasury stock	3,007,260	-	600,469	-	2,406,791	-	-
Stock based compensation expense	559,569	-	559,569	-	-	-	-
Other comprehensive loss, net of tax	2,314,435	-	-	-	-	-	2,314,435
Balance at December 31, 2017	$168,888,498	$ 10,970,041	$ 132,135,769	$ 35,449,741	$ (4,052,520)	$ (3,787,762)	$ (1,826,771)

See accompanying notes to
consolidated financial statements.

B. T. HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 11,806,450	$ 8,596,929
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation expense	1,233,109	1,268,232
Net loss (gain) on sale of securities	15,396	(450,401)
Net loss on sale and disposal of premises and equipment	130,135	446,393
Provision for loan losses	2,565,194	2,516,329
Net loss on sales and write-downs of other real estate and other assets	351,115	29,658
Net amortization of investment premium and discount	4,720,296	3,262,803
Stock based compensation expense	559,569	440,199
Increase in other assets	(571,212)	(23,295)
Originations of loans held for sale	(53,359,497)	(39,684,064)
Proceeds from sales of loans	53,743,564	37,758,720
Net gains included in earnings, from loans held for sale	272,306	358,971
Decrease in federal income tax receivable	497,021	439,079
Increase in accrued interest receivable	(4,636,359)	(1,080,741)
Increase in accrued interest payable	794,405	185,851
Increase (decrease) in other liabilities	110,820	(62,015)
Net cash provided by operating activities	18,232,312	14,002,648
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of premises and equipment	(2,090,344)	(5,723,976)
Proceeds from sales and disposal of premises and equipment	50,350	2,700
Net maturities of interest bearing deposits with banks	(1,000,000)	-
Purchase of investment securities available-for-sale	(2,142,912,611)	(1,198,293,050)
Net increase in restricted equity securities	(1,997,046)	(975,250)
Proceeds from sales, maturities, calls and paydowns of securities available-for-sale	1,845,292,172	1,135,963,613
Net increase in loans	(148,767,160)	(237,259,612)
Proceeds from sales of other real estate and repossessed assets	1,106,385	21,242
Net cash used in investing activities	(450,318,254)	(306,264,333)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	15,723,761	33,426,661
Net increase in interest-bearing deposits	392,550,782	240,707,357
Net increase (decrease) in securities sold under agreements to repurchase	(1,355,066)	924,002
Proceeds from other notes payable	1,280,000	4,676,314
Repayments of other notes payable	(3,155,000)	(3,333,435)
Proceeds from FHLB advances	585,000,000	741,549,000
Repayments of FHLB advances	(585,000,000)	(741,549,000)
Proceeds from exercise of stock options	333,100	60,850
Issuance of promissory notes	16,550,000	11,685,000
Purchase of treasury stock	(1,283,856)	(5,286,088)
Sale of treasury stock	3,007,260	760,553
Issuance of common stock, net of expenses	45,894,604	-
Net cash provided by financing activities	469,545,585	283,621,214
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,459,643	(8,640,471)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,436,261	36,076,732
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 64,895,904	$ 27,436,261
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Net change in unrealized gains/losses on securities available-for-sale	$ 2,314,435	$ (4,487,551)
Increase (decrease) in KSOP commitment	$ 633,979	$ (283,043)
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 15,813,791	$ 7,330,785
Cash paid for Federal income taxes	$ 4,547,813	$ 2,950,000

See accompanying notes to
consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements. The policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of B. T. Holdings, Inc. (Company) and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

NATURE OF OPERATIONS

B. T. Holdings, Inc. and its subsidiary, BTH Bank, N. A. (Bank), provide banking services to consumers and commercial customers in Tyler, Longview, Lindale, Kilgore, Henderson, Mineola, Quitman, Carthage, Dallas, Plano and Holly Lake Ranch, Texas, and the surrounding areas. In January 2017, the Bank closed its Winnsboro, Texas location; in August 2017, the Bank opened a new location in McKinney, Texas. In May 2018, the Bank plans to open a new location in Fort Worth, Texas.

The Company owns 100% of the common securities of the Delaware statutory trust (Trust Common Securities) formed by the Company for the sole purpose of issuing the mandatorily redeemable preferred securities (see note 12).

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans 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 estimated losses on loans. 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. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term; however, the amount of the change that is reasonably possible cannot be estimated.

Other significant estimates include the estimates of the fair value of investments held as available-for-sale and the estimate of stock compensation expense.

CASH EQUIVALENTS

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as cash and due from banks. Net cash flows are reported for loan and deposit transactions, and short-term borrowings with initial maturities less than 90 days.

INVESTMENT SECURITIES

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. The Company had no securities classified as held-to-maturity for the years ending December 31, 2017 and 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INVESTMENT SECURITIES - CONTINUED

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses.

RESTRICTED EQUITY SECURITIES

The Company is a member of the Federal Reserve Bank (FRB) and the Federal Home Loan Bank (FHLB) systems. Members of the FHLB system are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The Company also owns stock in the Independent Bankers Financial Corporation (IBFC) and the Fannie Mae system. FHLB, FRB and IBFC stock are carried at cost, classified as restricted securities, and periodically reviewed for impairment based on the likelihood of ultimate recovery of par value.

LOANS HELD FOR SALE

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

LOANS

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses, and any unamortized premiums or discounts on purchased loans. Direct loan costs are charged to expense when paid, which approximates the results of deferral and amortization of such expenses.

NONACCRUAL LOANS

Generally, loans are placed on nonaccrual when reasonable doubt exists as to the full, timely collection of principal or interest or when a loan becomes contractually past due at ninety days and interest is considered a loss, unless the loan is both well-secured and in the process of collection. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Typically, interest payments received on nonaccrual loans are applied as a reduction of the loan principal balance. Nonaccrual loans may be restored to accrual status when (1) none of the principal and interest is due and unpaid, and management expects repayment of the remaining contractual principal and interest, or (2) it otherwise becomes well-secured and in the process of collection.

IMPAIRED LOANS

Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company continually assesses loans for impairment by evaluating collectability and the probability of nonperformance of the original loan terms. Factors considered by management include the current financial condition of the creditor, the current value of the collateral, and general economic conditions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

LOANS - CONTINUED

IMPAIRED LOANS - CONTINUED

The method of accounting for impaired loans is consistent across the portfolio segments. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the Company determines that foreclosure is probable, the Company measures the loan at the fair value of the collateral and recognizes any loss immediately. Groups of loans with similar risk characteristics, including individually evaluated loans not determined to be impaired, are collectively evaluated for impairment. When a loan is determined to be impaired, the Company recognizes the impairment by creating a valuation allowance with a corresponding charge to loan allowance. 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.

Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans is recognized only to the extent of interest payments received.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is management's estimate of credit losses inherent in the loan portfolio, including unfunded credit commitments, at the balance sheet date. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans classified as troubled debt restructurings are analyzed on an individual basis for impairment subsequent to the restructuring. An additional impairment is accounted for in the same manner as general impaired loans. Loans in all portfolio segments are charged-off when they are deemed to be uncollectible. At that time, the related credit loss is deducted from the allowance. Recoveries of previously charged-off amounts are recorded when received.

METHODOLOGY

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries.

The balance of 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. To perform this analysis, management divides the loan portfolio into portfolio segments, which are further divided into classes. A portfolio segment is the level at which management develops and documents a systematic methodology to determine the allowance for loan losses, and a segment class is the subdivision of a portfolio segment based on the initial measurement attribute, risk characteristics and methods for assessing risk.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ALLOWANCE FOR LOAN LOSSES - CONTINUED

METHODOLOGY - CONTINUED

Allowance levels for all portfolio segments are influenced by a number of factors, including, but not limited to, loan volume, delinquency rates and historical loss rates based on a rolling twelve quarter period. Historical loss rates are adjusted based on management's analysis of non-financial factors, including: changes in the Company's lending procedures and monitoring; national and local economic factors; portfolio trends; management's ability, experience and depth; the results of the loan portfolio review and changes in loan grades assigned; concentrations of credit risk and other external factors. In addition to these general factors, management also considers risks specific to the nature of the loans in each portfolio segment. While management attributes portions of the allowance for loan losses to individual impaired loans and specific loan portfolio segments, the entire allowance is available to absorb credit losses inherent in the total loan portfolio.

Below is a summary of the segments of the Company's loan portfolio:

Commercial: This portfolio segment includes general secured and unsecured commercial loans which are not secured by real estate. Risks inherent to this portfolio segment include fluctuations in the local and national economy.

Commercial - real estate: The commercial - real estate portfolio segment includes all commercial loans that are secured by real estate, other than those included in the 1-4 family residential segment. The segment includes construction of both business and residential structures and real estate development loans. Risks inherent to this portfolio segment include fluctuations in property values and changes in the local and national economy impacting the sale of the finished structures.

Tax exempt: Tax exempt loans consist of loans to taxing authorities, including counties, cities, school districts, hospitals, etc. Risks inherent to this portfolio segment include those risks which would impact the taxing authority's ability to assess and collect sufficient tax revenue. These risks may include declines in property values and fluctuations in the economy local to the taxing authority.

Consumer: This portfolio segment consists of non-real estate loans to consumers. This includes secured and unsecured loans such as auto and personal loans. The risks inherent to this portfolio segment include those factors that would impact the consumer's ability to meet their obligations under the loan. These include increases in the local unemployment rate and fluctuations in consumer and business sales.

1-4 Family Residential: This portfolio segment includes loans to both commercial and consumer borrowers secured by real estate for housing units of up to four families. Risks inherent to this portfolio segment include increases in the local unemployment rate, changes in the local economy, and factors that would impact the value of the underlying collateral, such as changes in property values.

Agricultural: The agricultural portfolio segment includes loans to companies in the dairy and cattle industries and farmers. Loans in the segment are secured by collateral including cattle, equipment and real estate. Risks inherent in this portfolio segment include adverse changes in climate, fluctuations in feed and cattle prices and changes in property values.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ALLOWANCE FOR LOAN LOSSES - CONTINUED

CREDIT QUALITY INDICATORS

The Company monitors the credit quality of the loans in the various segments by identifying and evaluating credit quality indicators specific to each segment class. This information is incorporated into management's analysis of the adequacy of the allowance for loan losses. Information for the credit quality indicators is updated monthly for classified assets and quarterly for the remainder of the portfolio. The following is a discussion of the primary credit quality indicators most closely monitored for the respective portfolio segment classes:

Commercial: In assessing risk associated with commercial loans, management considers the business's cash flow and the value of the underlying collateral to be the primary credit quality indicators.

Commercial - real estate:

Construction: In assessing the credit quality of construction loans, management considers the ability of the borrower to finance principal and interest payments in the event that he is unable to sell the completed structure to be a primary credit quality indicator. For real estate development loans, management also considers the likelihood of the successful sale of the constructed properties in the development.

Other: Management considers the strength of the borrower's cash flows and changes in property values to be key credit quality indicators of other commercial – real estate loans.

Tax exempt: Primary credit quality indicators utilized by management for tax exempt loans include historical and projected trends in tax revenues and allotments and management's assessment of the strength of the entity's management and oversight boards.

Consumer:

Other: Management considers the debt to income ratio of the borrower, the borrower's credit history, the availability of other credit to the borrower and the borrower's past-due history to be primary credit quality indicators for unsecured loans.

Auto: In addition to the credit quality indicators described under other, management also considers the estimated value of the underlying collateral in assessing auto and other secured consumer loans.

1-4 Family Residential: Management considers changes in the local economy, changes in property values, and changes in local unemployment rates to be key credit quality indicators of the loans in the 1-4 family residential loan segment.

Agricultural: In assessing risk associated with agricultural loans, management considers the borrower's cash flows, the value of the underlying collateral and sources for secondary repayment to be primary credit quality indicators.

BANK PREMISES AND EQUIPMENT

Company premises and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

OTHER REAL ESTATE OWNED

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Company's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amounts by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed.

Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when the legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at a lower of cost or fair value less estimated cost to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating expenses, gains and losses on disposition, and changes in the valuation allowance are reported in other noninterest expense.

The carrying amount of foreclosed residential real estate properties held where physical possession has been obtained was $-0- at December 31, 2017. In addition, at December 31, 2017, there were no consumer mortgage loans secured by residential real estate properties where formal foreclosure procedures were in process.

LOAN SERVICING

The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate.

GOODWILL

Goodwill represents the excess of the cost of the business acquired over the fair value of the net assets acquired. Qualitative factors are assessed at least annually to determine whether it is necessary to perform the two-step goodwill impairment test. The assessment of qualitative factors determines whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. If the qualitative assessment determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the first and second steps of the goodwill impairment test are unnecessary.

If the qualitative assessment indicates that it is more likely than not that the fair value is less than its carrying amount, then the following two-step approach is used to test goodwill for impairment. The first step is to compare the fair value of the reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any.

The second step of the impairment test is to compare the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. Management has prepared a qualitative assessment and determined that it is not more likely than not that the fair value of the reporting unit was less than its carrying amount at December 31, 2017 and 2016; therefore, the first and second steps were unnecessary. The Company concluded there was no impairment of goodwill at December 31, 2017 and 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

TREASURY STOCK

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the average cost method.

INCOME TAXES

The Company uses the asset and liability method to account for income taxes, including recognition of deferred tax assets and liabilities for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax basis. The Company reviews its deferred tax assets for recovery. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in the valuation allowance from period to period are included in the Company's tax provision in the period of change.

The provision for income taxes recognizes the tax effects of all income and expense transactions in the statements of income, regardless of the year in which the transactions are reported for tax purposes, in accordance with the provisions of ASC Topic 740, *Accounting for Income Taxes* (ASC 740).

The Company accounts for uncertainties in income taxes in accordance with ASC 740. Due to the complexities of the tax code, actual payment of taxes could be different from any current estimate of tax liabilities. At December 31, 2017, the Company does not believe that there are any uncertain tax positions that would adversely impact the financial position or results of operations. Any interest and penalties on income tax assessments are calculated as a component of the provision for income taxes. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination. The Company files a consolidated tax return with its subsidiary.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

In the ordinary course of business the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, 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.

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment 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 the estimates. The fair value estimates of existing on and off-balance sheet financial instruments do not include the value of anticipated future business or the value of assets and liabilities not considered financial instruments.

REGULATORY CAPITAL

Banking regulations require the maintenance of certain capital levels. See Note 18 for information related to regulatory matters and capital requirements.

STOCK-BASED COMPENSATION

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite period for the entire award.

ADVERTISING COSTS

Advertising costs are expensed as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

EARNINGS PER SHARE

Basic net earnings per share is computed using the weighted-average number of common shares outstanding. The dilutive effect of potential common shares outstanding is included in diluted net earnings per share.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale which are also recognized as separate components of equity.

LOSS CONTINGENCIES

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of a loss is probable and an amount of range of loss can be reasonably estimated.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on net income.

RECENT ACCOUNTING PRONOUNCEMENTS

ASU 2014-09, *Revenue from Contracts with Customers* In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The new guidance provides that revenue should be recognized for the transfer of goods and services to customers in an amount equal to the consideration it receives or expects to receive. The guidance also includes expanded disclosure requirements that provides comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for fiscal years beginning after December 15, 2018. The Company is assessing the new guidance and expects that it will not have a material impact to its consolidated financial statements as a significant amount of the Company's revenues are derived from net interest income and financial assets which are excluded from the scope of the guidance.

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* In January 2016, the FASB issue amended guidance that requires equity investments to be measured at fair value with changes in fair value recognized in net income. The guidance also eliminates the requirement 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 on the balance sheet. The new guidance is effective for fiscal years beginning after December 15, 2018. The adoption of this guidance is not expected to have a material impact on the consolidated financial statements.

ASU No. 2016-02, *Leases* In February 2016, the FASB issued guidance that changes the accounting treatment of leases, in that lessees will recognize most leases on-balance sheet. This will increase reported assets and liabilities, as lessees will be required to recognize a right-of-use asset along with a lease liability, measured on a discounted basis. Lessees are allowed to account for short-term leases (those with a term of twelve months or less) off-balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2019. The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements which currently are not reflected in its consolidated balance sheet. Upon adoption of the guidance, the Company expects to report increased assets and increased liabilities as a result of recognizing right-of-use assets and lease liabilities on its consolidated balance sheet.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

RECENT ACCOUNTING PRONOUNCEMENTS

ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* In June 2016, the FASB issued this update that replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's loan portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2020. The Company is currently assessing the requirements and necessary changes to the existing credit loss estimation methods and identifying a complete set of data requirements and sources. The Company is currently evaluating the impact ASU No. 2016-13 will have on its consolidated financial statements.

ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* In May 2017, the FASB issued this guidance that relates to changes in the terms or conditions of a share-based payment award. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments will be effective for the Company for annual periods beginning after December 15, 2017. This ASU is not expected to have a material impact on the Company's consolidated financial statements

ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. In February 2018, the FASB issued this guidance which allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the reduction of the federal corporate income tax rate pursuant to enactment of the Tax Act. The guidance is required to be applied retrospectively to each period (or periods) in which the effect of the change in the federal corporate income tax rate is recognized. The Company early adopted this standard effective January 1, 2018 and reclassified $393,458 that was recorded to income tax expense due to re-measuring from 35% to 21% the federal deferred taxes on the accumulated other comprehensive income components related to available for sale securities.

NOTE 2 - CASH AND DUE FROM BANKS

The Company is required to maintain certain daily reserve balances in cash or on deposit in accordance with Federal Reserve Bank requirements. The Company was not required to have cash on hand or on deposit with the Federal Reserve Bank to meet regulatory requirements at December 31, 2017 or 2016 as cash vault supplies were sufficient to cover reserve requirements.

NOTE 3 - INVESTMENT SECURITIES

Investment securities at December 31, 2017 and 2016 are summarized as follows:

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Municipal securities	$469,582,180	$ 1,805,007	$ 3,459,876	$467,927,311
Mortgage-backed securities	57,011,670	-	1,155,548	55,856,122
	$526,593,850	$ 1,805,007	$ 4,615,424	$523,783,433
December 31, 2016				
Available-for-sale:				
Municipal securities	$161,901,698	$ 78,788	$ 5,102,545	$156,877,941
Mortgage-backed securities	71,807,402	-	1,250,798	70,556,604
	$233,709,100	$ 78,788	$ 6,353,343	$227,434,545

NOTE 3 - INVESTMENT SECURITIES - CONTINUED

The amortized cost and fair value of investment securities at December 31, 2017 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers and/or issuers may have the right to call or prepay their obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due within one year	$ 9,458,352	$ 9,463,793
Due after one year through five years	84,751,935	83,780,700
Due after five years through ten years	85,603,098	84,771,472
Due after ten years	346,780,465	345,767,468
	$ 526,593,850	$ 523,783,433

Investment securities with amortized cost of $74,788,152 and $73,979,140 and fair values of $74,469,261 and $72,542,996 at December 31, 2017 and 2016, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Sales of securities, all of which were available-for-sale, were as follows:

	2017	2016
Gross realized gains	$ 5,934	$ 468,887
Gross realized losses	21,330	18,486

The following table provides 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. The Company held 175 and fourteen securities which had been in continuous loss positions over twelve months at December 31, 2017 and 2016, respectively. As of December 31, 2017, the securities in a loss position were composed of municipal and mortgage-backed securities.

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
December 31, 2017:						
Municipal securities	$ 2,099,608	$ 210,319,255	$ 1,360,268	$ 57,027,872	$ 3,459,876	$ 267,347,127
Mortgage-backed securities	119,177	10,715,753	1,036,371	45,259,546	1,155,548	55,975,299
	$ 2,218,785	$ 221,035,008	$ 2,396,639	$ 102,287,418	$ 4,615,424	$ 323,322,426
December 31, 2016:						
Municipal securities	$ 5,061,100	$ 131,328,598	$ 41,445	$ 1,809,270	$ 5,102,545	$ 133,137,868
Mortgage-backed securities	1,029,163	58,767,635	221,635	9,649,060	1,250,798	68,416,695
	$ 6,090,263	$ 190,096,233	$ 263,080	$ 11,458,330	$ 6,353,343	$ 201,554,563

Unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. Based on evaluation of available evidence, including recent changes in interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

NOTE 3 - INVESTMENT SECURITIES - CONTINUED

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) 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. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment would be reduced and the resulting loss recognized in net earnings in the period the other-than-temporary impairment is identified.

Mortgage-backed securities are backed by pools of mortgages that are insured or guaranteed by the Federal Home Loan Mortgage Corporation (FHLMCs), the Federal National Mortgage Association (FNMA) or the Government National Mortgage Association (GNMA).

At December 31, 2017, there were no holdings of securities of any one issuer, other than the U. S. government and its agencies, in an amount greater than 10% of shareholders' equity.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

LOAN PORTFOLIO COMPOSITION

The loan portfolio at December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Real estate:		
Residential	$ 357,203,262	$ 318,943,450
Non-residential	279,637,279	249,145,999
Consumer	14,770,789	16,229,635
Commercial	392,804,296	309,592,058
Agriculture	2,836,398	3,207,316
Municipal	17,927,723	20,891,379
Overdraft and overdraft protection loans	115,109	59,455
Loans held for sale	910,000	1,566,373
Total gross loans	1,066,204,856	919,635,665
Less:		
Unearned discount	170,401	92,953
Allowance for loan losses	10,127,733	9,181,585
Total net loans	$ 1,055,906,722	$ 910,361,127

The Company has entered into transactions with certain directors, executive officers, significant shareholders and their affiliates. 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. Loans to such related parties at December 31, 2017 and 2016 totaled $3,978,061 and $3,461,481, respectively.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

ALLOWANCE FOR LOAN LOSSES

An allowance is maintained for loan losses that represent management's best estimate of probable loan losses inherent in the Company's loan portfolio. In determining the allowance for loan losses, loans in the portfolio were disaggregated with similar credit risk characteristics into portfolio segments. See Note 1 "Summary of Significant Accounting Policies" for additional information. The allowance for loan losses is increased through a provision for loan losses charged to earnings and reduced by net charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance and subsequent recoveries are added back. The allowance for loan losses and the recorded investment in financing receivables for the year ended December 31, 2017, are summarized as follows:

	Allowance for Loan Losses				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Real estate:					
Residential	$ 2,507,338	$ -	$ 7,747	$ 851,644	$ 3,366,729
Non-residential	2,909,485	(200,000)	-	917,570	3,627,055
Consumer	484,642	(24,538)	17,504	148,525	626,133
Commercial	3,065,659	(1,415,444)	-	558,699	2,208,914
Agriculture	121,355	-	-	41,043	162,398
Municipal	141,052	-	-	47,713	188,765
Overdraft and overdraft protection	(47,946)	(15,120)	10,805	-	(52,261)
	$ 9,181,585	$ (1,655,102)	$ 36,056	$ 2,565,194	$10,127,733

	Allowance for Loan Losses			Financing Receivables		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Real estate:						
Residential	$ -	$ 3,366,729	$ 3,366,729	$ -	$ 358,113,262	$ 358,113,262
Non-residential	-	3,627,055	3,627,055	-	279,637,279	279,637,279
Consumer	-	626,133	626,133	-	14,770,789	14,770,789
Commercial	-	2,208,914	2,208,914	-	392,804,296	392,804,296
Agriculture	-	162,398	162,398	-	2,836,398	2,836,398
Municipal	-	188,765	188,765	-	17,927,723	17,927,723
Overdraft and overdraft protection	-	(52,261)	(52,261)	-	115,109	115,109
	$ -	$10,127,733	$ 10,127,733	$ -	$ 1,066,204,856	$ 1,066,204,856

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

ALLOWANCE FOR LOAN LOSSES – CONTINUED

The allowance for loan losses and the recorded investment in financing receivables for the year ended December 31, 2016, are summarized as follows:

	Allowance for Loan Losses				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Real estate:					
Residential	$ 1,831,487	$ (7,747)	$ -	$ 683,598	$ 2,507,338
Non-residential	2,154,785	(38,539)	-	793,239	2,909,485
Consumer	391,149	(43,513)	4,874	132,132	484,642
Commercial	2,265,733	(35,892)	-	835,818	3,065,659
Agriculture	88,269	-	-	33,086	121,355
Municipal	102,596	-	-	38,456	141,052
Overdraft and overdraft protection	(27,581)	(31,890)	11,525	-	(47,946)
	$ 6,806,438	$ (157,581)	$ 16,399	$ 2,516,329	$ 9,181,585

	Allowance for Loan Losses			Financing Receivables		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Real estate:						
Residential	$ -	$ 2,507,338	$ 2,507,338	$ -	$ 320,509,823	$ 320,509,823
Non-residential	-	2,909,485	2,909,485	-	249,145,999	249,145,999
Consumer	-	484,642	484,642	-	16,229,635	16,229,635
Commercial	-	3,065,659	3,065,659	-	309,592,058	309,592,058
Agriculture	-	121,355	121,355	-	3,207,316	3,207,316
Municipal	-	141,052	141,052	-	20,891,379	20,891,379
Overdraft and overdraft protection	-	(47,946)	(47,946)	-	59,455	59,455
	$ -	$ 9,181,585	$ 9,181,585	$ -	$ 919,635,665	$ 919,635,665

There have been no changes to the Company’s accounting policies or methodology from the prior period that affected the current provision for credit losses.

CREDIT QUALITY

Management uses internally assigned loan grades, among other factors, to evaluate the collectability of the loan portfolio. As part of management's internal loan review process, loan grades are reviewed at least annually and more frequently if evidence of deterioration is noted. The loan grades currently utilized by management are as follows:

- <u>Prime Plus</u>: A credit fully secured with insured deposits in BTH Bank or a federally insured financial institution, U. S. Treasury Securities, or other collateral that completely negates any risk of loss.
- <u>Prime</u>: A credit relationship that is supported by a reasonable combination of exceptionally strong character elements, debt service capacity, guarantor support, and/or collateral coverage. Other characteristics of a prime credit might include a lengthy history with BTH Bank, timely provision of thorough financial and other information to support the credit, and based on BTH Bank’s credit review, minimal risk of severe financial stress which could materially impact the continued viability of the capacity to meet the scheduled BTH Bank debt service.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED
CREDIT QUALITY – CONTINUED

- Good: A credit relationship that is similar in profile to a Prime credit, but for which there are one or more characteristics that result in a grade of Good. These credits will also have no material weaknesses based on potential stresses that might develop.
- Acceptable: A credit relationship that exhibits no material weaknesses or vulnerabilities, but might be subject to some degree of concern should it encounter significant external factors. A combination of strong guarantor support and/or collateral protection may be mitigating elements of this grade.
- Needs Improvement: A credit relationship in which the customer, the CSO, and/or bank leadership have identified certain factors that need attention and improvement. These factors might include: financial reporting, reversal of unfavorable recent trends, the impact of economic/political/competitive considerations, need for more equity, etc. These credits, depending on the degree of improvement identified as needed, the probability of achieving the improvement, and the strength of character, capacity, collateral, and guarantor support, might be on the BTH Bank Watch List. These relationships will not indicate any likelihood of loss to be incurred by the bank.
- Substandard: A credit relationship that has been identified with a well-defined weakness or weaknesses that jeopardize the repayment of the credit. Absent timely correction of the weakness(es), a loss might be incurred.
- Doubtful: A substandard credit profile with the added characteristic that repayment of the balance is doubtful.
- Loss: A credit relationship for which there is no sound basis for carrying it as an asset.

Loans are summarized by internally assigned loan grades as of December 31, 2017, as follows:

	Residential Real Estate	Non-Residential Real Estate	Consumer	Commercial	Agriculture	Municipal	Overdraft	Total
Grade:								
1 - Prime Plus	$ -	$ -	$ 2,973,972	$ 1,159,187	$ 111,936	$ -	$ -	$ 4,245,095
2 - Prime	28,722,027	20,948,965	409,765	40,405,537	-	-	-	90,486,294
3 - Good	271,702,055	217,849,289	7,763,427	288,036,311	926,746	16,858,600	-	803,136,428
4 - Acceptable	53,348,266	34,929,614	3,081,125	54,955,434	1,006,415	1,069,123	115,109	148,505,086
5 - Needs Improvement	4,260,337	2,524,530	542,500	4,102,278	791,301	-	-	12,220,946
6 - Substandard	80,577	3,384,881	-	4,145,549	-	-	-	7,611,007
7 - Doubtful	-	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-	-
Total	$358,113,262	$ 279,637,279	$ 14,770,789	$ 392,804,296	$ 2,836,398	$ 17,927,723	$ 115,109	$ 1,066,204,856

Loans are summarized by internally assigned loan grades as of December 31, 2016, as follows:

	Residential Real Estate	Non-Residential Real Estate	Consumer	Commercial	Agriculture	Municipal	Overdraft	Total
Grade:								
1 - Prime Plus	$ -	$ -	$ 2,583,922	$ 1,052,328	$ 39,381	$ -	$ -	$ 3,675,631
2 - Prime	19,313,293	5,458,336	41,009	8,303,121	-	-	-	33,115,759
3 - Good	243,076,653	184,406,860	9,469,048	247,702,801	1,195,934	20,891,379	-	706,742,675
4 - Acceptable	54,603,037	51,452,066	4,040,290	48,774,836	1,972,001	-	59,455	160,901,685
5 - Needs Improvement	3,366,738	4,198,740	16,695	101,238	-	-	-	7,683,411
6 - Substandard	150,102	3,629,997	78,671	3,657,734	-	-	-	7,516,504
7 - Doubtful	-	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-	-
Total	$320,509,823	$ 249,145,999	$ 16,229,635	$ 309,592,058	$ 3,207,316	$ 20,891,379	$ 59,455	$ 919,635,665

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

CREDIT QUALITY – CONTINUED

The following table summarizes the payment status of loans in the Company's total loan portfolio as of December 31, 2017, including an aging of delinquent loans and loans 90 days or more past due continuing to accrue interest.

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Real Estate:							
Residential	$ -	$ -	$ -	$ -	$ 358,113,262	$ 358,113,262	$ -
Non-residential	350,000	-	-	350,000	279,287,279	279,637,279	-
Consumer	8,641	-	-	8,641	14,762,148	14,770,789	-
Commercial	1,616,593	-	-	1,616,593	391,187,703	392,804,296	-
Agriculture	-	-	-	-	2,836,398	2,836,398	-
Municipal	-	-	-	-	17,927,723	17,927,723	-
Overdraft and overdraft				-			
protection	-	-	-	-	115,109	115,109	-
Total	$ 1,975,234	$ -	$ -	$ 1,975,234	$ 1,064,229,622	$ 1,066,204,856	$ -

The following table summarizes the payment status of loans in the Company's total loan portfolio as of December 31, 2016, including an aging of delinquent loans and loans 90 days or more past due continuing to accrue interest.

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Real Estate:							
Residential	$ 198,357	$ -	$ 60,000	$ 258,357	$ 320,251,466	$ 320,509,823	$ -
Non-residential	-	-	-	-	249,145,999	249,145,999	-
Consumer	19,617	-	397	20,014	16,209,621	16,229,635	-
Commercial	4,344	-	-	4,344	309,587,714	309,592,058	-
Agriculture	-	-	-	-	3,207,316	3,207,316	-
Municipal	-	-	-	-	20,891,379	20,891,379	-
Overdraft and overdraft protection	-	-	-	-	59,455	59,455	-
Total	$ 222,318	$ -	$ 60,397	$ 282,715	$ 919,352,950	$ 919,635,665	$ -

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

CREDIT QUALITY – CONTINUED

The following table presents information regarding nonperforming assets (loans on nonaccrual status) as of December 31, 2017 and 2016:

	2017	2016
Real estate:		
Residential	$ -	$ 60,000
Non-residential	3,074,866	344,821
Consumer	-	-
Commercial	4,145,549	-
Agriculture	-	-
Municipal	-	-
Overdraft and overdraft protection loans	-	-
Total	$ 7,220,415	$ 404,821

If interest on nonaccrual loans had been accrued, such income would have been $116,436 and $4,146 in 2017 and 2016, respectively.

IMPAIRED LOANS AND TROUBLED DEBT RESTRUCTURING

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with original contractual terms of the loan. Loans with insignificant delays or insignificant short falls in the amount of payments expected to be collected are not considered to be impaired. Loans defined as individually impaired, based on applicable accounting guidance, include larger balance nonperforming loans and troubled debt restructuring. A troubled debt restructuring (TDR) is a restructuring in which a bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The Company did not have any loans at December 31, 2017 and 2016 that were considered to be impaired. There were no TDRs as of December 31, 2017 and 2016.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2017 and 2016, are summarized as follows:

	2017	2016
Land	$ 2,852,980	$ 3,237,980
Building	15,235,199	14,143,028
Leasehold improvements	1,323,131	1,323,131
Furniture, fixtures and equipment	7,980,250	7,803,335
Construction in progress	428,100	1,606,402
Total cost	27,819,660	28,113,876
Less: accumulated depreciation	8,787,566	8,211,032
Net premises and equipment	$19,032,094	$19,902,844

Depreciation expense totaled $1,233,109 and $1,268,232 in 2017 and 2016, respectively, and is included as a component of occupancy and equipment expense in the consolidated statements of earnings.

NOTE 5 - PREMISES AND EQUIPMENT - CONTINUED

The Company leases operating facilities in Carthage, Dallas, Kilgore, McKinney and Plano, Texas. These leases were originated between August 2013 and February 2017; the next expiration date is August 2018 and the longest term lease expires in March 2028. The Company also leases a temporary office location in Fort Worth, Texas until the new Forth Worth lease space construction is complete; this lease term ends in March 2018, unless an extension is required due to construction delays.

Rental expense in the aggregate was $594,871 and $623,352 in 2017 and 2016, respectively.

At December 31, 2017, future minimum rental commitments under non-cancelable operating leases are as follows:

2018	$ 791,253
2019	820,371
2020	842,979
2021	817,091
2022	826,041
Thereafter	3,378,707
	$ 7,476,442

NOTE 6 - RESTRICTED EQUITY

The Bank is an investor in the Independent Bankers Financial Corporation and a member of the Federal Reserve Bank, Federal Home Loan Bank and Fannie Mae and is required to maintain an investment in the capital stock of each. The stocks are restricted in that they can only be redeemed by the issuer at par value. Restricted equity securities at December 31, 2017 and 2016 were as follows:

	2017	2016
Federal Reserve Bank	$ 3,291,850	$ 2,756,800
Independent Bankers Financial Corporation	106,539	82,243
Federal Home Loan Bank	2,547,200	1,109,500
Fannie Mae, net of unrealized gain/loss	314	314
Total	$ 5,945,903	$ 3,948,857

NOTE 7 - LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others totaled $47,557,970 and $39,508,839 at December 31, 2017 and 2016, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were $168,617 and $128,563 at December 31, 2017 and 2016, respectively.

Mortgage servicing rights of $102,450 and $130,328 were capitalized in 2017 and 2016, respectively. Amortization of mortgage servicing rights was $40,705 and $29,029 in 2017 and 2016, respectively. Mortgage servicing rights are recorded at their estimated fair value of $372,128 and $290,568 at December 31, 2017 and 2016, respectively, and are included in other assets in the consolidated balance sheets.

NOTE 8 - DEPOSITS

Deposit account balances at December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Non-interest bearing	$ 172,592,356	$ 156,868,595
Interest-bearing demand	758,389,362	380,394,356
Savings	191,534,393	110,383,292
Certificates of deposit (CDs)	349,169,910	415,765,236
Total deposits	$ 1,471,686,021	$ 1,063,411,479

Deposits of executive officers, directors and significant shareholders were $5,263,842 and $3,149,359 at December 31, 2017 and 2016, respectively.

Certificates of deposit and other time deposits issued in denominations that meet or exceed the FDIC insurance limit of $250 thousand or more totaled $121,755,000 and $120,589,000 at December 31, 2017 and 2016, respectively, and are included in interest-bearing deposits in the consolidated balance sheet. Although these balances exceed the FDIC insurance individual limit, depending on the account ownership styling, some of these balances are still covered by FDIC insurance.

At December 31, 2017, the scheduled maturity of CDs was as follows:

2018	$ 160,846,366
2019	76,365,170
2020	42,090,928
2021	18,385,732
2022	15,719,176
Thereafter	35,762,538
	$ 349,169,910

CD deposits of executive officers, directors and significant shareholders were $3,504,621 and $2,488,342 at December 31, 2017 and 2016, respectively.

NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank (FHLB) advances were as follows at December 31, 2017.

	2017
Balance at end of period	$ -
Average amount outstanding during the period	1,602,740
Maximum amount outstanding during the period	50,000,000
Weighted average interest rate during the period	1.09%
Interest rates at end of period	n/a

As a member of the FHLB system, the Company has the ability to obtain borrowings up to a maximum total of $486,635,344 subject to the level of qualified, pledgable loans and FHLB stock owned. The advances are collateralized by a blanket pledge of the Company's single family loans, multi-family loans, commercial loans, small business loans and FHLB stock owned by the Company.

NOTE 10 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Bank has agreed to sell certain investment securities under agreements to repurchase the securities on specified dates on a short-term basis. These agreements bear interest at variable rates, ranging from 0.02% to 0.60% at December 31, 2017, and mature between 2018 and 2030. The securities are subject to repurchase in June 2018 and October 2018. Such securities sold totaled $1,288,427 and $2,643,493 at December 31, 2017 and 2016, respectively.

NOTE 11 - NOTES PAYABLE

PROMISSORY NOTES

As part of the 2014 Stock Offering, the Company offered for sale two Floating Rate Subordinated Promissory Notes. The “7-Year Note”, due in 2022, was offered for sale up to $15 million in aggregate principal. The 7-Year Notes mature on June 30, 2022 and pay interest each quarter at a floating rate per annum equal to the *Wall Street Journal* prime rate determined quarterly as of the first business day of each calendar quarter, plus 1.25% with a minimum interest rate of 3.875% and a maximum interest rate of 6.375% per annum.

The “10-Year Note”, due in 2025, was offered for sale up to $20 million in aggregate principal. The 10-Year Notes mature on June 30, 2025 and pay interest each quarter at a floating rate per annum equal to the *Wall Street Journal* prime rate determined quarterly as of the first business day of each calendar quarter, plus 1.75% with a minimum interest rate of 3.875% and a maximum interest rate of 6.375% per annum.

In 2016, the Company offered for sale up to $25,000,000 in aggregate principal of two Floating Rate Subordinated Promissory Notes. The “Floating Rate Subordinated Promissory Notes Due 2023”, due on December 31, 2023, were issued in denominations and multiples of $25,000 and pay interest each quarter at a floating rate per annum equal to the *Wall Street Journal* prime rate determined quarterly as of the first business day of each calendar quarter, plus 1.25% with a minimum interest rate of 3.875% and a maximum interest rate of 6.375% per annum.

The “Floating Rate Subordinated Promissory Notes Due 2026”, due on December 31, 2026, were issued in denominations and multiples of $25,000 and pay interest each quarter at a floating rate per annum equal to the *Wall Street Journal* prime rate determined quarterly as of the first business day of each calendar quarter, plus 1.75% with a minimum interest rate of 3.875% and a maximum interest rate of 6.375% per annum.

In 2017, the Company offered for sale up to $25,000,000 in aggregate principal of two Floating Rate Subordinated Promissory Notes. The “Floating Rate Subordinated Promissory Notes Due 2024”, due on December 31, 2024, were issued in denominations and multiples of $25,000 and pay interest each quarter at a floating rate per annum equal to the *Wall Street Journal* prime rate determined quarterly as of the first business day of each calendar quarter, plus 1.25% with a minimum interest rate of 3.875% and a maximum interest rate of 6.375% per annum.

The “Floating Rate Subordinated Promissory Notes Due 2027”, due on December 31, 2027, were issued in denominations and multiples of $25,000 and pay interest each quarter at a floating rate per annum equal to the *Wall Street Journal* prime rate determined quarterly as of the first business day of each calendar quarter, plus 1.75% with a minimum interest rate of 3.875% and a maximum interest rate of 6.375% per annum.

The subordinated notes are identical in terms and conditions, except for the maturity dates and interest rates payable on the notes. The notes will repay to the investors the outstanding principal amount and all accrued and unpaid interest. The notes are not callable until the fifth anniversary and can be called in part or in full at the Company’s discretion. The notes are unsecured and rank senior to the Company’s common stock, any preferred stock that may be issued, and the indebtedness that is incurred in connection with the issuance of trust preferred securities (see Note 12).

KSOP NOTE PAYABLE

The Company’s Employee Stock Ownership Plan with 401(k) Provisions (KSOP), as described in Note 15, is funded by a $4,100,000 line of credit with another financial institution. The revolving line of credit originally transacted on December 30, 2013, was modified in April 2017 to increase the line amount and extend the maturity to April 30, 2027. The note payable has an interest rate of 4.50% with principal and interest due in monthly installments and was secured by 279,428 shares of Company stock as of December 31, 2017.

NOTE 11 - NOTES PAYABLE - CONTINUED

LINE OF CREDIT

On December 16, 2015, the Company entered into a line of credit agreement with another financial institution. The $4,000,000 revolving line of credit was modified on November 3, 2016 increasing the principal amount to $5,000,000. The note has an interest rate of prime plus one-half percent or a minimum interest rate of 3.75% and matures June 30, 2018. All outstanding interest is due and payable on a monthly basis with the entire unpaid principal balance and all accrued unpaid interest due at maturity. This note payable is secured by 3,000 shares of Company stock as of December 31, 2017.

Notes payable at December 31, 2017 and 2016 were as follows:

	2017	2016
Promissory notes (7 year)	24,635,000	12,985,000
Promissory notes (10 year)	17,325,000	12,425,000
KSOP note payable	3,787,762	3,153,783
Line of credit	-	1,875,000
	$ 45,747,762	$ 30,438,783

Notes payable mature as follows:

2018	$ 360,000
2019	360,000
2020	360,000
2021	360,000
2022	8,510,000
Thereafter	35,797,762
	$ 45,747,762

NOTE 12 - JUNIOR SUBORDINATED DEBENTURES

In connection with capitalizing the Company in 2007, $7,000,000 in floating rate capital securities (Trust Preferred Securities) were issued. The proceeds from the sale of the Trust Preferred Securities and the issuance of $217,000 in common securities to the Company were used to purchase an equivalent amount of Junior Subordinated Debentures issued by the Company.

The Company owns 100% of the common securities of the Delaware statutory trust formed by the Company for the sole purpose of issuing the mandatorily redeemable preferred securities. The Trust Preferred Securities represent preferred undivided beneficial interests in the assets of the trusts and are subject to mandatory redemption upon repayment of the Junior Subordinated Debentures.

The Company's obligations under the Junior Subordinated Debentures and related agreements, taken together, constitute a full and unconditional guarantee by the Company of the Trust Preferred Securities.

Interest in connection with the Trust Preferred Securities is payable quarterly, and accrues at an annual rate equal to the 3-month LIBOR plus 1.64%. The Trust Preferred Securities mature in 2037, unless the Company elects and obtains any required regulatory approvals to redeem the Trust Preferred Securities. The principal and interest payments on the Junior Subordinated Debentures are in a superior position to the liquidation rights of holders of the Company's common stock but are junior in position to the subordinated promissory notes (see Note 11).

The Company has the right to defer payment of interest on the Junior Subordinated Debentures at any time or from time to time for a period not to exceed 20 consecutive quarterly periods, provided that no deferral period may extend beyond the stated maturity date of the Junior Subordinated Debentures, and further provided that the Company may not declare or pay any dividends or enter into certain other debt and equity transactions during such deferral period.

NOTE 12 - JUNIOR SUBORDINATED DEBENTURES - CONTINUED

With certain exceptions, the amount of the principal and any accrued and unpaid interest on the debentures are subordinated in right of payment to the prior payment in full of all senior indebtedness of the Company.

The Trust Preferred Securities qualify as Tier I capital for regulatory reporting purposes. The following is a summary of the outstanding Trust Preferred Securities issued by the trust and the Junior Subordinated Debentures issued by the Company to the trust as of December 31, 2017:

	Trust Preferred Securities Issued by Trust	Junior Subordinated Debentures Held by Trust	Interest Rate	Issuance Date	Maturity Date
B.T. Holding Trust I	$ 7,000,000	$ 7,217,000	Variable Rate at LIBOR +1.64% (3.148% at December 31, 2017)	5/30/2007	9/6/2037

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained by the Company upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various types of collateral on standby letters of credit, including equipment and certificates of deposit. The extent of the collateral held for those commitments at December 31, 2017, was in a range from -0- to 100 percent.

At December 31, 2017 and 2016, financial instruments whose contract amounts represented credit risk were as follows:

	2017	2016
Commitments to extend credit	$ 294,014,000	$ 217,446,000
Letters of credit	4,568,000	6,253,000

The Company maintains balances at certain financial institutions in excess of the FDIC insured limit. The financial strength and solvency of these institutions are routinely monitored.

NOTE 14 - CONTINGENT LIABILITIES

In the ordinary course of business, the Company has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In addition, the Company is subject to certain claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial condition of the Company.

NOTE 15 - EMPLOYEE BENEFIT PLANS

The Company created the "B. T. Holdings, Inc. Employee Stock Ownership Plan with 401(k) Provisions" (KSOP) to provide employees the opportunity to acquire beneficial interests in the common stock of the Company funded through contributions made by the Company. The Company commits to contribute a matching contribution of 100% of the employee's elective contributions up to 3% of compensation, plus 50% of the elective contributions in excess of 3% up to 6% of the employee's compensation. This "safe harbor" contribution is fully vested and non-forfeitable at all times. In addition to the safe harbor contribution, every year the Company will decide whether to make a non-elective, or optional, contribution to the KSOP and the amount of any such contribution. Optional contributions are allocated to participants as a match to participant deferrals. For the years ended December 31, 2017 and 2016, Company contributions attributable to the Plan amounted to $539,511 and $534,630, respectively.

The Company also offers health, dental, and vision insurance, along with life insurance, short-term disability and long-term disability at no cost to full-time employees who regularly work over 30 hours per week. The Company paid $1,021,705 and $888,775 for employee insurance, administration of the various policies, and payroll administration in 2017 and 2016, respectively.

NOTE 16 - STOCK-BASED COMPENSATION

The Company's 2007 Stock Option Plan (2007 Plan) and 2012 Equity Incentive Plan (2012 Plan) provide that 28,500 shares and 1,850,000 shares, respectively, of the Company's common stock will be reserved for the award of incentive stock options (ISO) to purchase shares of common stock. At December 31, 2017, there are 212,350 shares remaining that are reserved for future grants under the 2012 Plan, and no shares remaining under the 2007 Plan. The following is a summary of stock option activity during the years ended December 31, 2017 and 2016:

	Options Issued and Outstanding	Weighted Average Exercise Price
Balance at December 31, 2015	1,156,750	$ 10.63
Granted	262,250	14.84
Exercised	(5,950)	(10.23)
Forfeited or expired	(2,550)	(12.71)
Balance at December 31, 2016	1,410,500	11.41
Granted	265,000	19.95
Exercised	(32,200)	(10.34)
Forfeited or expired	(15,300)	(13.33)
Balance at December 31, 2017	1,628,000	12.80
Exercisable at December 31, 2017	745,136	$ 10.80

As noted in the table above, there were 265,000 and 262,250 options granted in 2017 and 2016, respectively. The Company recognizes the cost of employee services received in exchange for an award of equity investment based on the grant-date fair value of the award. That cost will be recognized over the vesting period of the award. Stock-based compensation expense related to stock options for the years ended December 31, 2017 and 2016 was $559,569 and $440,199, respectively. As of December 31, 2017, there was $2,963,176 of total unrecognized compensation cost related to non-vested stock options that will be expensed over the various vesting periods ending in December 2023.

NOTE 16 - STOCK-BASED COMPENSATION - CONTINUED

The weighted-average fair value of options granted in the years ended December 31, 2017 and 2016 was $6.17 and $2.50, respectively, and was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions.

	2017	2016
Exercise price	$19.95	$14.84
Expected option life (years)	5.2	5.0
Expected volatility	30%	15%
Risk-free interest rate of return	1.98%	1.52%
Annual forfeiture rate	1%	1%
Expected annual dividend yield	0%	0%

The risk-free interest rate is based on the U.S. Treasury constant maturities yield in effect at the time of the grant. The expected lives are based on the terms of the option agreements. The expected volatility is based on the Company's estimated level of volatility. The dividend yield assumption is based on the Company's expectation of dividend payouts.

At December 31, 2017 and 2016, the 1,628,000 and 1,410,500 options issued and outstanding, respectively, had exercise prices and weighted-average remaining contractual lives as follows:

	2017	2016
Exercisable options:		
Options outstanding	745,136	558,635
Weighted-average exercise price	$10.80	$10.37
Weighted-average remaining contractual life (years)	5.8	6.2
Unexercisable options:		
Options outstanding	882,864	851,865
Weighted-average exercise price	$14.49	$12.09
Weighted-average remaining contractual life (years)	7.6	7.7

NOTE 17 - FEDERAL INCOME TAXES

The consolidated provision for federal income taxes consists of the following:

	2017	2016
Current expense	$ 3,877,915	$ 3,555,925
Deferred expense (benefit)	1,165,876	(450,287)
Total income tax expense	$ 5,043,791	$ 3,105,638

The provision for federal income taxes differs from that computed by applying federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

	2017	2016
Federal statutory income tax at 35% and 34%, respectively	$ 5,897,584	$ 3,978,873
Tax exempt interest, net of disallowance	(2,222,997)	(1,017,055)
Stock option expense	195,849	149,668
Non-deductible expenses	26,596	26,152
Change in enacted tax rate to 21% - Tax Act	1,133,500	-
Other	13,259	(32,000)
Total income tax expense	$ 5,043,791	$ 3,105,638

NOTE 17 - FEDERAL INCOME TAXES - CONTINUED

On December 22, 2017, the Tax Act was signed into law and reduced the corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result, the Company was required to re-measure, through income tax expense, the deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. The re-measurement of the net deferred tax asset resulted in additional income tax expense of $1,133,500.

Federal income taxes receivable in the accompanying consolidated balance sheets were as follows:

	2017	2016
Current receivable (payable)	$ 492,085	$ (177,770)
Deferred receivable	1,744,400	4,060,980
Federal income taxes receivable	$ 2,236,485	$ 3,883,210

The components of the deferred tax assets and liabilities included in federal income tax receivable at December 31, in the accompanying consolidated balance sheets consist of the following:

	2017	2016
Deferred tax assets:		
Allowance for loan losses	$ 2,089,181	$ 3,015,084
Other real estate	7,350	27,668
Net unrealized loss on available-for-sale securities	590,187	2,133,349
Other	16,204	68,858
Gross deferred tax assets	2,702,922	5,244,959
Deferred tax liabilities:		
Depreciable assets	(747,890)	(981,655)
Mortgage servicing rights	(78,147)	(98,793)
Intangibles	(68,885)	(102,322)
Investment in partnership	(10,742)	-
Other	(52,858)	(1,209)
Gross deferred tax liabilities	(958,522)	(1,183,979)
Net deferred tax asset	$ 1,744,400	$ 4,060,980

NOTE 18 - REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company 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 Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer for 2017 is 1.25% and for 2016 is 0.625%. 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, the Company and Bank meet all capital adequacy requirements to which they are subject.

NOTE 18 - REGULATORY MATTERS - CONTINUED

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 notifications 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 institution's category.

The following tables outline the regulatory components of the Company's and Bank's capital and capital ratios under the rules applicable at December 31, 2017 and 2016, respectively:

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017:						
Total capital to risk-weighted assets						
Consolidated	$ 212,569,000	17.76%	110,683,465	9.250%		n/a
BTH Bank	217,109,000	18.15%	110,657,010	9.250%	119,629,200	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	163,741,000	13.68%	86,751,905	7.250%		n/a
BTH Bank	206,981,000	17.30%	86,731,170	7.250%	95,703,360	8.00%
Common equity tier 1 capital						
Consolidated	156,524,000	13.08%	68,803,235	5.750%		n/a
BTH Bank	206,981,000	17.30%	68,786,790	5.750%	77,758,980	6.50%
Leverage capital to average assets						
Consolidated	163,741,000	10.05%	65,185,240	4.000%		n/a
BTH Bank	206,981,000	12.70%	65,172,760	4.000%	81,465,950	5.00%
December 31, 2016:						
Total capital to risk-weighted assets						
Consolidated	$ 137,020,000	14.20%	83,209,946	8.625%		n/a
BTH Bank	143,421,000	14.87%	83,190,195	8.625%	$ 96,452,400	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	104,058,000	10.79%	63,914,886	6.625%		n/a
BTH Bank	134,239,000	13.92%	63,899,715	6.625%	77,161,920	8.00%
Common equity tier 1 capital						
Consolidated	96,841,000	10.04%	49,443,591	5.125%		n/a
BTH Bank	134,239,000	13.92%	49,431,855	5.125%	62,694,060	6.50%
Leverage capital to average assets						
Consolidated	104,058,000	8.99%	46,290,480	4.000%		n/a
BTH Bank	134,239,000	11.60%	46,281,520	4.000%	57,851,900	5.00%

NOTE 19 - CONCENTRATIONS OF CREDIT

Most of the Company's business activity is with customers located within the state. Investments in state and municipal securities primarily involve Texas governmental entities. The Company also maintains deposits with other financial institutions in amounts that exceed FDIC insurance coverage. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 19 - CONCENTRATIONS OF CREDIT - CONTINUED

Generally, the Company's policy is to require collateral on loans. Collateral requirements for financings vary depending on the type of collateral involved, the equity of the borrower or project, and other subjective factors. Unsecured credit is granted to business concerns and individuals only if supported by satisfactory current financial statements and credit history.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Company's statutory legal lending limit as of December 31, 2017, was $32,566,287, which limits the amount of credit that can be extended to any single borrower or group of related borrowers. The Company has been approved by the Office of the Comptroller of the Currency to participate in the Supplemental Lending Limit Program (SLLP) whereby the Company may extend credit up to approximately $51,745,211 for agriculture, small business and single family mortgages.

The contractual amounts of credit-related financial instruments such as commitments to extend credit and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

The Company extends credit on a regular basis in the form of federal funds sold and certificates of deposit purchased from certain third party correspondent banks. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of Federal Deposit Insurance Corporation (FDIC) insurance to present no significant additional risk to the Company.

NOTE 20 - OTHER INCOME AND OTHER EXPENSE

Other income consisted of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Check income	$ 45,983	$ 41,577
Return item fee	183,975	171,563
Safe deposit box rental	38,890	42,986
Wire transfer fee	68,122	70,165
Gain (loss) on sale of securities	(15,396)	450,401
Other non-interest income	88,227	143,147
	$ 409,801	$ 919,839

NOTE 20 - OTHER INCOME AND OTHER EXPENSE – CONTINUED

Other expenses consisted of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Advertising	$ 653,963	$ 651,739
ATM expenses	556,361	445,044
Data processing	421,148	341,534
Directors fees	206,659	139,525
eBank expenses	271,976	245,549
FDIC assessment	499,628	445,910
Legal and professional fees	444,199	358,655
Other real estate expenses	380,595	117,868
Postage	121,250	117,741
Software maintenance	373,364	328,696
Telephone	389,051	361,739
Net loss on sales and disposals of premises and equipment	130,135	446,393
Other operating expenses	1,435,059	1,295,227
	$ 5,883,388	$ 5,295,620

NOTE 21 - UNUSED LINES OF CREDIT

As of December 31, 2017, the Company had an unused commitment from a commercial bank to fund purchases of federal funds totaling $7,500,000. The line renews annually and has no expiration date but may be terminated at any time at the sole discretion of the commercial bank without notice to any party. Each advance of federal funds requested shall be made available only if the commercial bank elects to do so at its sole discretion. All advances are due and payable in full on the next business day after the date of borrowing. The commercial bank, at its sole discretion, may permit advances to be renewed daily and may require security prior to advancing funds.

As of December 31, 2017, the Company had a second unused commitment from another commercial bank to fund purchases of federal funds totaling $15,000,000. Each advance of federal funds requested shall be made on an as-available basis. All advances are unsecured and are due and payable in full on the next business day after the date of borrowing. If an advance remains outstanding more than ten consecutive business days, the commercial bank requires that government securities be pledged as collateral to secure the advance. If an advance remains outstanding for more than fifteen consecutive business days, the commercial bank, at its sole discretion, may require the advance to be converted to a loan with a specified repayment program.

The Company is a member of the FHLB. As a member, the Company is eligible to borrow money for varying amounts and terms. The maximum borrowing capacity is recalculated each quarter by the FHLB. All advances are collateralized by a blanket lien on real estate secured loans. The maximum borrowing capacity at December 31, 2017, net of outstanding advances and letters of credit, was $486,635,344.

NOTE 22 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate fair values.

Interest-bearing deposits with banks: The carrying amounts of interest-bearing deposits maturing within 90 days approximate their fair values.

Loans: Fair values for loans receivable are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

NOTE 22 - FAIR VALUES OF FINANCIAL INSTRUMENTS - CONTINUED

Securities: Fair values for securities are based on quoted market prices. The carrying values of restricted stock are approximately fair value.

Deposits: The fair values disclosed for non-interest bearing deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values.

Long-term borrowings: The fair values of the Company's long-term borrowings approximate the carrying value.

Accrued interest: The carrying amounts of accrued interest approximate the fair value.

Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the counterparties' credit standing. The Company has no off-balance sheet derivative financial instruments.

The estimated fair values and related carrying or notional amounts of the Company's financial instruments are as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 65,895,904	$ 65,895,904	$ 27,436,261	$ 27,436,261
Securities available-for-sale	523,783,433	523,783,433	227,434,545	227,434,545
Restricted equity securities	5,945,903	5,945,903	3,948,857	3,948,857
Loans receivable	1,055,906,722	1,053,745,000	910,361,127	909,351,000
Accrued interest receivable	8,769,910	8,769,910	4,133,551	4,133,551
Financial liabilities:				
Deposits and securities sold under repurchase agreements	$ 1,472,974,448	$ 1,448,899,000	$ 1,066,054,972	$ 1,051,677,000
Accrued interest payable	1,679,026	1,679,026	884,621	884,621

The fair value of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. While these estimates of fair value are based on management's judgment of appropriate factors, there is no assurance that, were the Company to have disposed of such items at December 31, 2017 and 2016, the estimated fair values would necessarily have been achieved at those dates since market values may differ depending on various circumstances. The estimated fair values at December 31, 2017 and 2016 should not necessarily be considered to apply at subsequent dates.

In addition, other assets, such as property and equipment and liabilities of the Company, that are not defined as financial instruments, are not included in the above disclosures. Also, nonfinancial instruments typically not recognized in financial statements may have value, but are not included in the above disclosures. These include, among other items, the estimated earning power of core deposit accounts, the trained work force, customer goodwill and similar items.

NOTE 23 - STOCK OFFERING

The Company initiated a third stock offering in 2017 in which the Company offered for sale up to 2,000,000 shares of common stock, par value $1.00 per share, at an offering price of $21.00 per share. The offering was subject to the terms and conditions contained in a confidential private placement memorandum. To participate in the offering, an investor had to satisfy eligibility requirements discussed in the private placement memorandum. Under the oversubscription option of the offering, the Company reserved the right to increase the size of the offering by an amount not to exceed 400,000 additional shares, which equals 20% of the maximum offering amount. Common stock shares of 2,268,855 were issued as part of this offering during 2017. See Note 11 for discussion of notes payable issued in connection with the 2017 stock offering.

NOTE 24 - FAIR VALUE MEASUREMENTS

ASC 820*, "Fair Value Measurements and Disclosures,"* defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 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 for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques need to maximize the use of observable inputs and minimize the use of unobservable inputs. Valuation methodologies used for assets measured at fair value are described in Note 22. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Certain assets, such as other real estate owned and repossessed collateral, are measured at fair value on a nonrecurring basis, but are subject to fair value adjustments in certain circumstances. These assets are valued at the date of repossession based on appraisals of the underlying property performed by third-party appraisers, and are included in the tables below as of the periods indicated for which a nonrecurring change in fair value has been recorded during the reporting period.

NOTE 24 - FAIR VALUE MEASUREMENTS - CONTINUED

The following tables summarize quantitative disclosures about the fair value measurements for each category of financial assets carried at fair value as of December 31, 2017 and 2016. The Company had no financial liabilities carried at fair value at December 31, 2017 and 2016. Fair value measurements for each category of financial assets carried at fair value at December 31, 2017 were:

	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Description:				
Municipal securities	$ 467,927,311	$ -	$ 467,927,311	$ -
Mortgage-backed securities	55,856,122	-	55,856,122	-
Loans held for sale	910,000	-	-	910,000
Total assets at fair value on a recurring basis	524,693,433	-	523,783,433	910,000
Other real estate owned	320,000	-	-	320,000
Total assets at fair value on a nonrecurring basis	320,000	-	-	320,000
Total	$ 525,013,433	$ -	$ 523,783,433	$ 1,230,000

Fair value measurements for each category of financial assets carried at fair value at December 31, 2016 were:

	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Description:				
Municipal securities	$ 156,877,941	$ -	$ 156,877,941	$ -
Mortgage-backed securities	70,556,604	-	70,556,604	-
Loans held for sale	1,566,373	-	-	1,566,373
Total assets at fair value on a recurring basis	229,000,918	-	227,434,545	1,566,373
Other real estate owned	230,000	-	-	230,000
Total assets at fair value on a nonrecurring basis	230,000	-	-	230,000
Total	$ 229,230,918	$ -	$ 227,434,545	$ 1,796,373

The table below sets forth the activity related to Level 3 assets on a recurring basis:

	2017	2016
Beginning Balance:	$ 1,566,373	$ -
Loans originated during the year	53,359,497	39,684,064
Net gains included in earnings	(272,306)	(358,971)
Loans sold during the year	(53,743,564)	(37,758,720)
Ending Balance:	$ 910,000	$ 1,566,373

NOTE 25 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through March XX 2018, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

B. T. HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2017

	B.T. Holdings, Inc.	BTH Bank	Eliminations	Consolidated
ASSETS				
Cash and due from banks	$ 2,766,602	$ 64,895,904	$ (2,766,602)	$ 64,895,904
Interest-bearing deposits with banks	-	1,000,000	-	1,000,000
Investment securities available-for-sale	-	523,783,433	-	523,783,433
Investment in subsidiary	205,482,109	-	(205,482,109)	-
Loans, net of allowance	-	1,054,996,722	-	1,054,996,722
Loans held for sale	-	910,000	-	910,000
Premises and equipment, net	-	19,032,094	-	19,032,094
Other real estate owned	-	320,000	-	320,000
Restricted equity securities, at cost	-	5,945,903	-	5,945,903
Accrued interest receivable	-	8,769,910	-	8,769,910
Goodwill	13,863,415	328,034	-	14,191,449
Federal income tax receivable	69,246	2,167,239	-	2,236,485
Other assets	217,000	1,416,887	-	1,633,887
Total assets	$ 222,398,372	$ 1,683,566,126	$ (208,248,711)	$ 1,697,715,787
LIABILITIES				
Deposits:				
Noninterest-bearing deposits	$ -	$ 175,358,959	$ (2,766,603)	$ 172,592,356
Interest-bearing deposits	-	1,299,093,665	-	1,299,093,665
Total deposits	-	1,474,452,624	(2,766,603)	1,471,686,021
Securities sold under repurchase agreements	-	1,288,427	-	1,288,427
Junior subordinated debentures	7,217,000	-	-	7,217,000
Notes payable	45,747,762	-	-	45,747,762
Accrued interest payable	535,112	1,143,914	-	1,679,026
Other liabilities	10,000	1,199,053	-	1,209,053
Total liabilities	53,509,874	1,478,084,018	(2,766,603)	1,528,827,289
STOCKHOLDERS' EQUITY				
Capital stock	10,970,041	625,000	(625,000)	10,970,041
Additional paid-in capital	132,135,769	155,186,094	(155,186,094)	132,135,769
Retained earnings	35,449,741	51,497,785	(51,497,785)	35,449,741
Treasury stock, at cost	(4,052,520)	-	-	(4,052,520)
KSOP commitment	(3,787,762)	-	-	(3,787,762)
Accumulated other comprehensive loss	(1,826,771)	(1,826,771)	1,826,771	(1,826,771)
Total stockholders' equity	168,888,498	205,482,108	(205,482,108)	168,888,498
Total liabilities and stockholders' equity	$ 222,398,372	$ 1,683,566,126	$ (208,248,711)	$ 1,697,715,787

See accompanying notes to
consolidated financial statements.

B. T. HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

	B.T. Holdings, Inc.	BTH Bank	Eliminations	Consolidated
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans	$ -	$ 47,936,766	$ -	$ 47,936,766
Interest on investment securities:				
Taxable	-	1,217,238	-	1,217,238
Tax-exempt	-	5,809,406	-	5,809,406
Dividend income on securities	6,132	229,039	-	235,171
Other	-	543,337	-	543,337
Total interest and dividend income	6,132	55,735,786	-	55,741,918
INTEREST EXPENSE				
Interest on deposits	-	15,794,947	-	15,794,947
Interest on promissory notes	1,732,317	-	-	1,732,317
Interest on junior subordinated debentures	207,303	-	-	207,303
Other	-	18,845	-	18,845
Total interest expense	1,939,620	15,813,792	-	17,753,412
Net interest (loss) income	(1,933,488)	39,921,994	-	37,988,506
PROVISION FOR LOAN LOSSES	-	2,565,194	-	2,565,194
Net interest (loss) income after provision for loan losses	(1,933,488)	37,356,800	-	35,423,312
OTHER INCOME				
Service charges and fees on deposits	-	1,678,252	-	1,678,252
Dividend income	480,938	-	(480,938)	-
Equity in earnings of subsidiary	13,265,294	-	(13,265,294)	-
Other income	-	409,801	-	409,801
Total other income	13,746,232	2,088,053	(13,746,232)	2,088,053
OTHER EXPENSES				
Salaries and employee benefits	559,569	11,036,345	-	11,595,914
Occupancy and equipment expense	-	3,181,822	-	3,181,822
Other expenses	157,722	5,725,666	-	5,883,388
Total other expenses	717,291	19,943,833	-	20,661,124
Earnings before provision for federal income taxes	11,095,453	19,501,020	(13,746,232)	16,850,241
Federal income tax (benefit) expense	(710,997)	5,754,788	-	5,043,791
NET EARNINGS	$ 11,806,450	$ 13,746,232	$ (13,746,232)	$ 11,806,450

See accompanying notes to
consolidated financial statements.

B. T. HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	B.T. Holdings, Inc.	BTH Bank	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings	$ 11,806,450	$ 13,746,232	$ (13,746,232)	$ 11,806,450
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation expense	-	1,233,109	-	1,233,109
Net loss on sale of securities	-	15,396	-	15,396
Net loss on sale and disposal of premises and equipment	-	130,135	-	130,135
Provision for loan losses	-	2,565,194	-	2,565,194
Net loss on sales and write-downs of other real estate & other assets	-	351,115	-	351,115
Net amortization of investment premium and discount	-	4,720,296	-	4,720,296
Stock based compensation expense	559,569	-	-	559,569
Increase in other assets	-	(571,212)	-	(571,212)
Originations of loans held for sale	-	(53,359,497)	-	(53,359,497)
Proceeds from sales of loans	-	53,743,564	-	53,743,564
Net gains included in earnings, from loans held for sale	-	272,306	-	272,306
Equity in undistributed earnings of subsidiary	(13,265,294)	-	13,265,294	-
(Increase) decrease in Federal income tax receivable	(56,910)	553,931	-	497,021
Increase in accrued interest receivable	-	(4,636,359)	-	(4,636,359)
Increase in accrued interest payable	261,153	533,252	-	794,405
Increase (decrease) in other liabilities	-	110,820	-	110,820
Net cash (used in) provided by operating activities	(695,032)	19,408,282	(480,938)	18,232,312
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of premises and equipment	-	(2,090,344)	-	(2,090,344)
Proceeds from sale and disposal of premises and equipment	-	50,350	-	50,350
Net maturities of interest bearing deposits with banks	-	(1,000,000)	-	(1,000,000)
Purchase of investment securities available-for-sale	-	(2,142,912,611)	-	(2,142,912,611)
Net increase in restricted equity securities	-	(1,997,046)	-	(1,997,046)
Proceeds from sales, maturities, calls and paydowns of securities available-for-sale	-	1,845,292,172	-	1,845,292,172
Net increase in loans	-	(148,767,160)	-	(148,767,160)
Proceeds from sale of other real estate and repossessed assets	-	1,106,385	-	1,106,385
Net cash used in investing activities	-	(450,318,254)	-	(450,318,254)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in non-interest bearing deposits	-	18,178,960	(2,455,199)	15,723,761
Net increase in interest-bearing deposits	-	392,550,782	-	392,550,782
Net decrease in securities sold under agreements to repurchase	-	(1,355,066)	-	(1,355,066)
Increase in KSOP note payable	633,979	-	-	633,979
Change in KSOP commitment	(633,979)	-	-	(633,979)
Proceeds from other notes payable	1,280,000	-	-	1,280,000
Repayments of other notes payable	(3,155,000)	-	-	(3,155,000)
Proceeds from FHLB advances	-	585,000,000	-	585,000,000
Repayment of FHLB advances	-	(585,000,000)	-	(585,000,000)
Issuance of common stock, net of expenses	45,894,604	-	-	45,894,604
Capital contribution to subsidiary entity	(59,475,878)	59,475,878	-	-
Proceeds from exercise of stock options	333,100	-	-	333,100
Issuance of promissory notes	16,550,000	-	-	16,550,000
Purchase of treasury stock	(1,283,856)	-	-	(1,283,856)
Sale of treasury stock	3,007,260	-	-	3,007,260
Dividends paid	-	(480,939)	480,939	-
Net cash provided by financing activities	3,150,230	468,369,615	(1,974,260)	469,545,585
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	2,455,198	37,459,643	(2,455,198)	37,459,643
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	311,404	27,436,261	(311,404)	27,436,261
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,766,602	$ 64,895,904	$ (2,766,602)	$ 64,895,904

See accompanying notes to
consolidated financial statements.