American National Bank & Trust™

ANNUAL REPORT
2017

Trust, it's our last name.™

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Member FDIC and Equal Housing Lender

FINANCIAL HIGHLIGHTS

In thousands of dollars

	YEAR ENDED DECEMBER 31, 2017	YEAR ENDED DECEMBER 31, 2016	%CHANGE
Demand Deposits	34,340	31,856	7.8%
Total Deposits	535,090	453,702	17.9%
Total Assets	639,509	573,289	11.6%
Total Loans (net)	424,231	352,837	20.2%
Allowance for Loan Losses	5,075	5,129	-1.1%
Return on Earning Assets	3.94%	3.73%	5.6%
Cost of Funds	0.80%	0.38%	110.5%
Average Net Spread	3.14%	3.35%	-6.3%
Growth in Capital	4,756	4,411	7.8%
Total Capital Beginning	64,252	59,841	7.4%
Total Capital Ending	69,008	64,252	7.4%
Interest Income	23,239	18,940	22.7%
Interest Expense	3,399	1,357	150.5%
Net Interest Income	19,840	17,583	12.8%
Non-Interest Income	11,122	11,307	-1.6%
Non-Interest Expense	22,091	20,755	6.4%
Profit Before Provision	8,871	8,135	9.0%
Provision for Loan Losses	180	0	
Income Taxes	2,604	2,036	27.9%
Net Income	6,087	6,099	-0.2%
Earnings Per Share	2.68	2.68	11.1%
Dividends Paid	0.50	0.50	0.0%
Book Value	30.37	28.28	7.4%
Return on Average Assets	0.98%	1.16%	-15.5%
Return on Average Equity	9.00%	9.68%	-7.0%

Dwight Berry
President and
Chief Executive Officer

To Our Shareholders

It is a pleasure to announce that 2017 was another great year for American National Bank & Trust. The bank continues to enjoy a strong profitable growth pattern. Expanding the market areas served by the bank has proven to be very positive for the financial prowess of the company. The grand opening of our newly constructed Fort Worth facility located at the corner of 7th and Summit was held in August, 2017. As seen on our cover, the building is a beautiful two story full service branch offering a full array of commercial banking activities including commercial lending, deposit gathering, correspondent banking, mortgage services, personal investment services, and trust services. Management continues to search for great personnel and promising locations to expand financial horizons even further.

As reflected in the financial statements that are presented on the following pages total assets increased 11.6% to an unprecedented level of $639 million during 2017. Total deposits increased 17.9% to $535 million and loans increased 20.2% to $424 million. Capital continues to increase at record levels and increased 7.4% to over $69 million. Return on assets was a very respectable .98% and return on equity was 9%. Just as all C corporations were affected, there was a year-end tax law adjustment that was mandated. For the bank that amount was $534,932. This is a one-time entry and the 2018 tax obligation will be greatly reduced. Even with the additional accrual adjustment, yearly profit was in excess of $6 million.

Succession planning for the Board of Directors was addressed in 2017 with the following four Advisory Directors agreeing to serve:

- Todd Davenport, a Wichita Falls attorney,
- Charles Gibson, a Wichita Falls petroleum engineer,
- Ken Hogan, a metroplex technology and data processing business owner,
- John Osborne, a Fort Worth oil and gas investor and real estate developer.

Although these four individuals were selected as Advisory Directors in 2017, they were not new to our operation as they have been strong bank advocates for several years in their respective lines of business. We are proud to recommend these gentlemen to the shareholders for full directorships at the annual shareholder meeting April 17, 2018.

Following the merger with First National Bank of Chillicothe in August of 2015, Mike Bauster, joined the Board of Directors to represent the First National shareholders. He has since vacated his board seat but continues to serve the bank as a consultant. Richard Naylor, a retired Fort Worth educator, has assumed Mike's unexpired board position. He was a long-time shareholder of First National Bank of Chillicothe and strong advocate of the bank before and after the merger.

Blake Andrews has been named Wichita Falls Market President . Blake has served the bank for twenty years as Chief Financial Officer and is heavily involved in several different community organizations in the Wichita Falls area. He is, and will continue to be a great leader in our home market. Vice President Mark Veitenheimer joined the Wichita Falls office as a commercial lender with expertise in agricultural lending and Vice President Bill Patty has rejoined the Main Branch in the Commercial Lending Department.

As we continue to grow in the Flower Mound and Fort Worth markets, several talented individuals have joined our ranks. During 2017 Senior Vice Presidents Sharon Butler and Sheryl Kiser came onboard as Trust Officers in our Flower Mound office. In Fort Worth Vice President Jill Winfrey has established our mortgage loan department and Vice President Kyle Turnipseede is our Treasury Management officer.

2018 and beyond holds so many opportunities for your bank to continue to grow and prosper. Serving our customers expeditiously and carefully managing controlled growth in location and products continue to be top priorities. As always, thank you for your continued trust and support.

Dwight Berry
President & CEO

Charles Gibson
Wichita Falls
Petroleum Engineer

John Osborne
Fort Worth oil and gas investor
& real estate developer

Ken Hogan
Metroplex technology & data
processing business owner

Todd Davenport
Wichita Falls Attorney

Richard Naylor
Fort Worth Educator

Kyle Turnipseede
Fort Worth Vice President
Treasury Management Director

Jill Winfrey
Fort Worth Vice President
Mortgage

Sharon Butler
Flower Mound Senior Vice President
Trust Officer

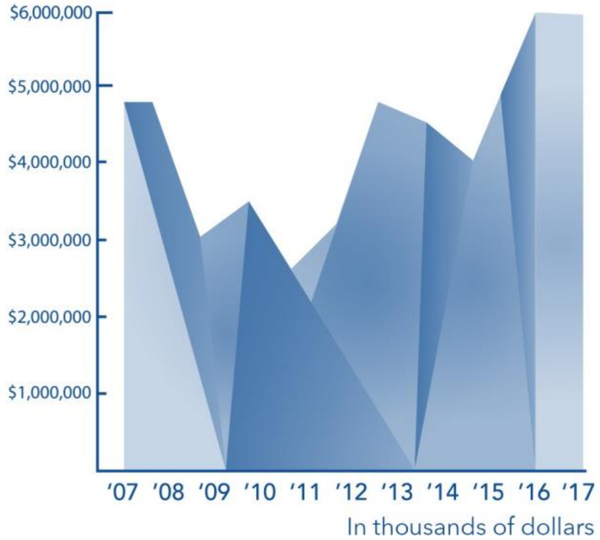
Sheryl Kiser
Flower Mound Senior Vice President
Trust Officer

Bill Patty
Wichita Falls Vice President
Commercial Lending

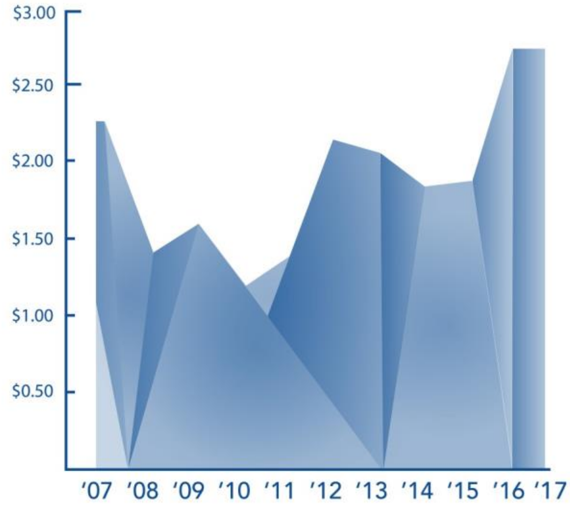
Mark Veitenheimer
Wichita Falls Vice President
Commercial Lending

American National Bank & Trust
YEAR END STATISTICS

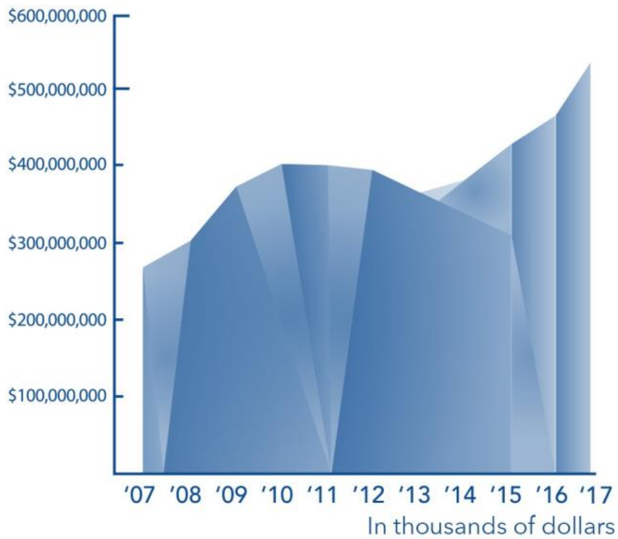
CONSOLIDATED NET INCOME



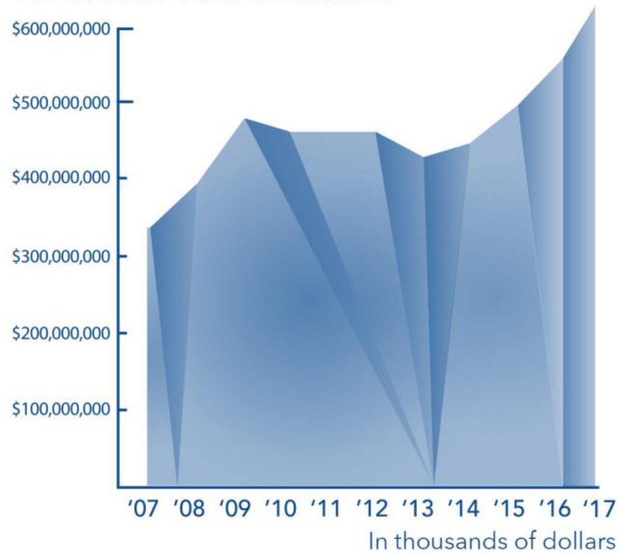
EARNINGS PER SHARE



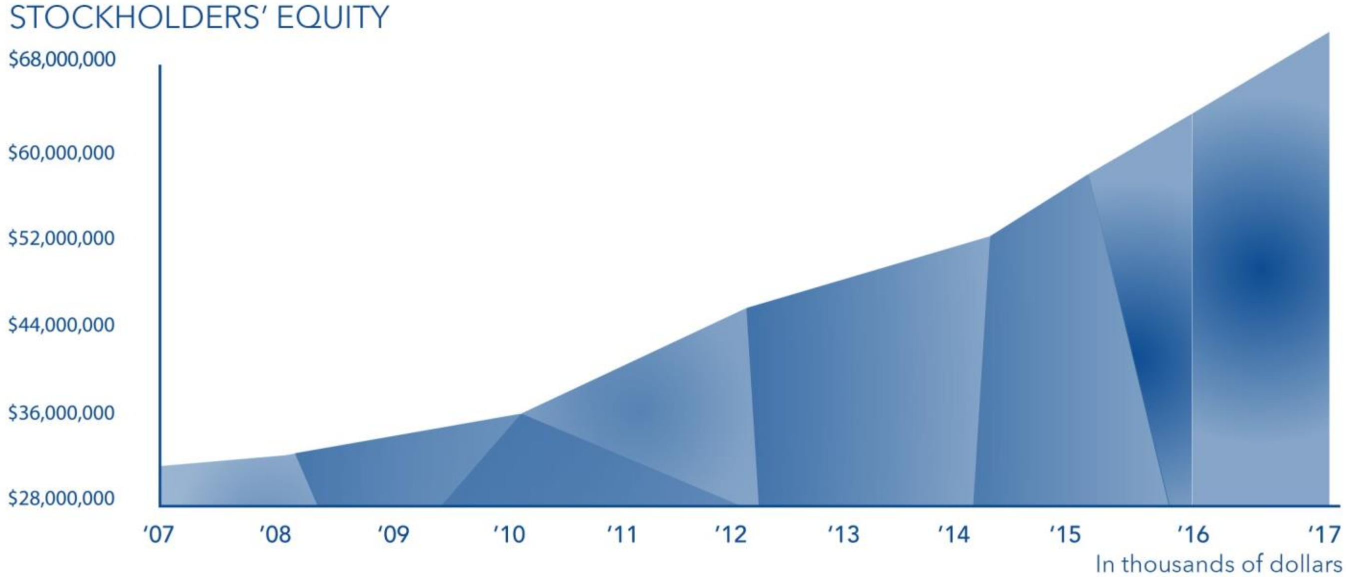
YEAR END DEPOSITS



YEAR END TOTAL ASSETS



STOCKHOLDERS' EQUITY



AMERIBANCSHARES, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
and Additional Information

December 31, 2017 and 2016

(With Independent Auditor's Report Thereon)

Payne & Smith, LLC
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
AmeriBancShares, Inc. and Subsidiaries
Wichita Falls, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AmeriBancShares, Inc. and Subsidiaries (Company) 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 consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based upon 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmeriBancShares, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Payne & Smith, LLC

February 28, 2018

5952 Royal Lane • Suite 158 • Dallas, TX 75230 • 214 / 363-9927 • Fax 214 / 363-9980

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(In thousands of dollars, except share amounts)

	2017	2016
ASSETS		
Cash and due from banks	$ 11,539	$ 13,260
Interest bearing deposits in banks	21,290	11,601
Total cash and equivalents	32,829	24,861
Securities available for sale	124,607	146,324
Other securities	2,943	2,889
Mortgage loans held for sale	1,250	1,104
Loans, net	424,231	352,837
Premises and equipment, net	22,911	19,180
Accrued interest receivable	2,207	2,045
Goodwill	4,220	4,220
Cash surrender value of life insurance	16,286	11,651
Other assets	8,025	8,178
Total assets	$ 639,509	$ 573,289
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	$ 34,340	$ 31,856
Savings deposits	220,567	223,189
Money market and NOW accounts	189,043	101,070
Time certificates of deposit	91,140	97,587
Total deposits	535,090	453,702
Securities sold under agreements to repurchase	589	786
Other borrowings	20,000	40,000
Junior subordinated debentures	7,217	7,217
Accrued interest payable	114	86
Other liabilities	7,491	7,246
Total liabilities	570,501	509,037
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock (par value $2.50; 5,000,000, shares authorized, 2,321,360 issued and 2,272,360 outstanding at 2017 and 2016)	5,803	5,803
Surplus	18,473	18,473
Undivided profits	46,147	41,196
Treasury stock, at cost (49,000 shares)	(882)	(882)
Accumulated other comprehensive loss, net of tax benefit of ($142) in 2017 and ($174) in 2016	(533)	(338)
Total stockholders' equity	69,008	64,252
Total liabilities and stockholders' equity	$ 639,509	$ 573,289

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the Years Ended December 31, 2017 and 2016

(In thousands of dollars, except earnings per share)

	2017	2016
Interest income:		
Interest and fees on loans	$ 20,063	$ 16,251
Interest on investment securities		
Taxable	1,209	935
Nontaxable	1,855	1,679
Interest on interest bearing deposits in banks	112	75
Total interest income	23,239	18,940
Interest expense:		
Interest on deposits	2,884	1,024
Interest on repurchase agreements	4	3
Interest on other borrowed funds	301	155
Interest on junior subordinated debentures	210	175
Total interest expense	3,399	1,357
Net interest income	19,840	17,583
Provision for loan losses	180	-
Net interest income after provision for loan losses	19,660	17,583
Other operating income:		
Service charges on deposit accounts	765	870
Trust fee income	5,300	5,100
Gain on sale of mortgage loans	911	1,421
Gain on sale of other real estate owned	18	49
Gain on sale of securities available for sale	276	103
Rent income	796	877
Other	3,056	2,887
Total other operating income	11,122	11,307
Other operating expenses:		
Salaries and employee benefits	13,500	12,586
Premises and equipment	2,173	2,051
Data processing expense	1,215	1,129
Other	5,203	4,989
Total other operating expenses	22,091	20,755
Income before income taxes	8,691	8,135
Provision for income taxes	2,604	2,036
Net income	$ 6,087	$ 6,099
Earnings per share	$ 2.68	$ 2.68

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2017 and 2016

(In thousands of dollars)

	2017	2016
Net income	$ 6,087	$ 6,099
Other comprehensive loss, net of tax:		
Change in net unrealized gain (loss) on securities available for sale, net of tax expense (benefit) of $126 and ($377) for 2017 and 2016, respectively	(13)	(732)
Less reclassification adjustment for gains on sales of securities available for sale, net of tax expense of $94 and $35 for 2017 and 2016, respectively	(182)	(68)
Total other comprehensive loss	(195)	(800)
Total comprehensive income	$ 5,892	$ 5,299

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2017 and 2016

(In thousands of dollars)

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Unearned KSOP Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance January 1, 2016	$ 5,803	$ 18,442	$ 36,233	$ (882)	$ (217)	$ 462	$ 59,841
Net income	-	-	6,099	-	-	-	6,099
Other comprehensive loss	-	-	-	-	-	(800)	(800)
Unearned KSOP shares released	-	31	-	-	217	-	248
Dividends ($.50 per common share)	-	-	(1,136)	-	-	-	(1,136)
Balance December 31, 2016	5,803	18,473	41,196	(882)	-	(338)	64,252
Net income	-	-	6,087	-	-	-	6,087
Other comprehensive loss	-	-	-	-	-	(195)	(195)
Dividends ($.50 per common share)	-	-	(1,136)	-	-	-	(1,136)
Balance December 31, 2017	$ 5,803	$ 18,473	$ 46,147	$ (882)	$ -	$ (533)	$ 69,008

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

(In thousands of dollars)

	2017	2016
Cash flows from operating activities:		
Net income	$ 6,087	$ 6,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,408	1,442
Provision for loan losses	180	-
Provision for other real estate owned losses	-	17
Provision for (benefit from) deferred taxes	565	(81)
Gain on sale of securities available for sale	(276)	(103)
Gain on sale of mortgage loans	(911)	(1,421)
Gain on sale of other real estate owned	(18)	(49)
Gain on sale of premises and equipment	(33)	(7)
Amortization of premium on investment securities	599	676
Accretion of discount on investment securities	(100)	(46)
Increase in cash surrender of life insurance	(513)	(563)
Proceeds from sales of mortgage loans	49,562	60,537
Mortgage loans funded	(48,795)	(58,123)
Change in:		
Prepaid expenses	(117)	(211)
Accrued interest receivable	(162)	(258)
Income taxes receivable	(63)	194
Miscellaneous other assets	(4)	223
Accrued interest payable	28	41
Other taxes payable	(14)	(36)
Other accrued expenses	275	(58)
Net cash provided by operating activities	7,698	8,273
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of securities available for sale	257,389	15,818
Proceeds from sale of securities available for sale	14,018	10,109
Purchase of securities available for sale	(250,076)	(37,559)
Purchase of other securities	(54)	(1,551)
Purchase of cash value life insurance	(4,200)	-
Net increase in loans	(72,535)	(72,954)
Purchase of premises and equipment	(6,323)	(2,874)
Proceeds from sale of premises and equipment	1,371	737
Proceeds from sale of other real estate owned	625	1,575
Net cash used in investing activities	(59,785)	(86,699)
Cash flows from financing activities:		
Net increase in deposits	81,388	39,466
Net decrease in repurchase agreements	(197)	(134)
Net (decrease) increase in other borrowed funds	(20,000)	40,000
Dividends paid	(1,136)	(1,136)
Net cash provided by financing activities	60,055	78,196
Net increase (decrease) in cash and cash equivalents	7,968	(230)
Cash and cash equivalents at beginning of year	24,861	25,091
Cash and cash equivalents at end of year	$ 32,829	$ 24,861

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

The accounting and reporting policies of AmeriBancShares, Inc. and Subsidiaries (Company) conform to generally accepted accounting principles and prevailing practices within the banking industry. The Company carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Business

The Company provides a variety of financial services to individual and business customers through its locations in Wichita Falls, Iowa Park, Chillicothe, Quanah, Archer City, Fort Worth and Flower Mound, Texas. The Company's primary deposit products are demand deposits, savings deposits, and certificate of deposit, and the primary lending products are commercial, real estate mortgages, and installment loans. The Company also provides trust services, real estate title services and vehicle and equipment leasing services to individual and business customers through its various locations.

The accompanying consolidated financial statements include the accounts of AmeriBancShares, Inc. and its wholly-owned subsidiaries, ANB Realty Corp. and AmeriBancShares of Delaware, Inc. The financial statements also include American National Bank & Trust, which is a wholly-owned subsidiary of AmeriBancShares of Delaware Inc. (ABDI) and American National Leasing Company, Archer Title of Texas, Inc., and AmNat Insurance Services, Inc., which are wholly-owned subsidiaries of American National Bank & Trust (together referred to as Bank). All significant intercompany transactions have been eliminated. The consolidated statements of income, changes in stockholders' equity, and cash flows include operations for the year ended December 31, 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure on 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. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtor's ability to honor their contracts is dependent on local economic conditions in the real estate industry. 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.

Cash and Cash Equivalents

For purposes of recording cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve and other banks.

Securities

Investment securities may be classified into three categories: held-to-maturity (HTM), available-for-sale (AFS) and trading.

Securities classified as held-to-maturity, which are those the Company has the positive intent and ability to hold to maturity, are reported at amortized cost. Securities classified as available-for-sale may be sold in response to changes in interest rates, liquidity needs, and for other purposes. Available-for-sale securities are reported at fair value and include securities not classified as held-to-maturity or trading. Trading securities are those held principally for the purpose of selling in the near future and are carried at fair value. The Company currently has no trading securities or held-to-maturity securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported, net of any income tax effect, as a separate component of stockholders' equity. Realized gains and losses are reported in earnings based on the adjusted cost of the specific security sold.

Mortgage Loans Held for Sale

The mortgage loans held for sale are stated at the lower of cost or market. Such mortgage loans are aggregated by type for the purpose of valuation. Allowances which are necessary to reflect a reduction of the portfolio to the lower of cost or market are charged against income in the current period.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Fees associated with originating loans, to the extent they exceed the direct origination costs are generally deferred and recognized over the life of the loan as an adjustment of yield.

Impaired loans are generally placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. 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 and are accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. A troubled debt restructured loan (TDR) is a loan which the Company, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms, which have been modified or restructured due to a borrower's financial difficulty, include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or reaging, extensions, deferrals, renewals, and rewrites. A TDR loan is considered impaired in the year of modification and will be assessed periodically for further impairment.

The allowance for loan losses is established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to provide for estimated loan losses inherent in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with ASC Topic 310, *Receivables* and allowance allocations calculated in accordance with ASC Topic 450, *Contingencies*. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of three elements: (i) specific valuation allowances established for probable losses on specific loans; (ii) historical valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends adjusted for general economic conditions and other qualitative risk factors both internal and external to the Company; and (iii) unallocated general valuation.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated life of the underlying loan portfolio.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. At least annually or more frequently if circumstances dictate, management assesses qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that goodwill is impaired. If, after assessing the totality of events and circumstances, management concludes that it is not more likely than not that goodwill is impaired, then no further action is taken. If, however, management concludes otherwise, then the fair value of goodwill is determined and tested for impairment by comparing the fair value with the carrying amount in accordance with ASC Topic 350, Intangibles-Goodwill and Other.

Income Taxes

AmeriBancshares, Inc. files a consolidated income tax return with its subsidiaries. Federal income tax expense or benefit has been allocated on a separate return basis.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Accounting principles generally accepted in the United States of America require Company management to evaluate tax positions taken by the Company. Management evaluated the Company’s tax positions and concluded that the Company had taken no uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Therefore, no liability for tax penalties has been included in the consolidated financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2014.

Enactment of the Tax Cuts and Jobs Act of 2017

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the "Act"). The Act includes several changes which impact the Company's income taxes including the permanent reduction in the maximum U.S. corporate income tax rate from 35% to 21% for years beginning after December 31, 2017. Under generally accepted accounting principles, deferred tax assets and liabilities are required to be adjusted for the Act’s effect through income from continuing operations in the reporting period that includes the enactment date. Accordingly, the Company has adjusted certain deferred tax assets and liabilities in the accompanying 2017 consolidated financial statements to record the effect of the decrease in the corporate income tax rate in the years the temporary differences are expected to reverse. The corresponding expense of approximately $535,000 has been included as a component of deferred income tax expense in the accompanying consolidated statement of income and consolidated comprehensive income for the year ended December 31, 2017.

The Act’s effect on the adjustment of the deferred tax asset related to the unrealized loss on securities available for sale has been adjusted through other comprehensive income in the accompanying consolidated financial statements. Under generally accepted accounting principles, the deferred tax asset related to the unrealized loss on securities available for sale is required to be adjusted through continuing operations with an offsetting reclassification from accumulated other comprehensive income to retained earnings. For the year ending December 31, 2017, management believes that not adjusting the deferred tax asset related to the unrealized loss on securities through operations does not materially affect the financial position or results of operations of the Company.

Derivative Financial Instruments

Derivative financial instruments are recognized as assets and liabilities on the consolidated balance sheet and measured at fair value. From time to time, the Company uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notational amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and generally convert a portion of the Company's variable rate debt to a fixed rate (cash flow hedge). At December 31, 2017 and 2016, the Company had no outstanding interest rate swap agreements.

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments. Loan commitments that are derivatives are recognized at fair value on the consolidated balance sheet in other assets and other liabilities with changes in their fair values recorded in noninterest income. The fair value of those commitments was insignificant at December 31, 2017 and 2016.

Net Income Per Common Share

Net income per common share is based on the weighted average number of common shares outstanding during the period.

Comprehensive Income

Comprehensive income includes both net income and other comprehensive income (loss), which includes the change in unrealized gains and losses on securities available for sale.

Fair Values of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Subsequent Events

The Company has evaluated subsequent events and transactions for potential recognition or disclosure through February 28, 2018, the date these financial statements were available to be issued.

Reclassification

For comparability, certain amounts in the 2016 financial statements have been reclassified, where appropriate, to conform with the financial presentation used in 2017.

2. Investment Securities

The amortized cost and estimated market values of investments in debt and equity securities are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Available for Sale				
December 31, 2017:				
U.S. Treasury securities	$ 15,010	$ -	$ (76)	$ 14,934
U.S. Government Agency securities	40,365	-	(191)	40,174
Municipal securities	68,433	346	(736)	68,043
Mortgage-backed securities	1,474	-	(18)	1,456
	$ 125,282	$ 346	$ (1,021)	$ 124,607
December 31, 2016:				
U.S. Treasury securities	$ 10,059	$ -	$ (10)	$ 10,049
U.S. Government Agency securities	59,871	19	(104)	59,786
Municipal securities	74,522	605	(1,008)	74,119
Mortgage-backed securities	2,311	2	(16)	2,297
Equity securities	73	-	-	73
	$ 146,836	$ 626	$ (1,138)	$ 146,324
Other Securities				
December 31, 2017	$ 2,943	$ -	$ -	$ 2,943
December 31, 2016	$ 2,889	$ -	$ -	$ 2,889

Other securities consist of common stock in the Federal Reserve Bank, Federal Home Loan Bank, Independent Bankers Financial Corporation, Bankers Bancorp and an investment in a Special Purpose Entity (see Note 9).

The amortized cost and estimated market value of debt and equity securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale	
	Amortized Cost	Estimated Market Value
Due in one year or less	$ 19,193	$ 19,162
Due after one year through five years	56,549	56,229
Due after five years through ten years	30,043	29,758
Due after ten years	18,023	18,002
	123,808	123,151
Mortgage-backed securities	1,474	1,456
	$ 125,282	$ 124,607

Proceeds from sales of available for sale securities for the years ended December 31, 2017 and 2016 were approximately $14,018,000 and $10,109,000, respectively. Gross gains of approximately $282,000 and $103,000 were realized on sales of available for sale securities during 2017 and 2016, respectively. Gross losses of $6,000 were realized on sales of available for sale securities during 2017. No gross losses were realized on sales of available for sale securities during 2016.

Investment securities with a recorded value of approximately $88,624,000 and $98,414,000 at December 31, 2017 and 2016, respectively, were pledged to secure deposits and for other purposes as required by law.

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2017 and 2016 are summarized as follows (in thousands):

	Less than 12 Months		12 Months or More	
Securities Available for Sale	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2017:				
U.S. Treasury securities	$ 9,962	$ (76)	$ -	$ -
U.S. Government Agency securities	29,769	(191)	-	-
Municipal securities	31,609	(362)	8,371	(374)
Mortgage-backed securities	1,456	(18)	-	-
	$ 72,796	$ (647)	$ 8,371	$ (374)
December 31, 2016:				
U.S. Treasury securities	$ 10,049	$ (10)	$ -	$ -
U.S. Government Agency securities	44,745	(104)	-	-
Municipal securities	40,493	(972)	4,413	(36)
Mortgage-backed securities	1,915	(12)	319	(4)
	$ 97,202	$ (1,098)	$ 4,732	$ (40)

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 (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) 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.

As of December 31, 2017, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2017 and 2016, management believes the impairments detailed in the table above are temporary and no impairment loss has been recorded in the Company's consolidated income statement.

3. Loans and Allowance for Loan Losses

A summary of loan categories is as follows (in thousands):

	2017	2016
Real estate:		
1-4 family construction	$ 4,935	$ 5,834
Construction, land development and other land	42,057	26,620
Revolving 1-4 family residential	388	455
1-4 family residential	65,722	54,689
Multi-family residential	12,055	9,649
Nonfarm nonresidential - owner occupied	56,624	49,235
Nonfarm nonresidential - nonowner occupied	108,975	92,167
Farmland	10,313	10,154
Total real estate	301,069	248,803
Agriculture	1,109	1,514
Commercial and industrial	51,857	37,306
Consumer	25,543	25,109
Municipal	1,130	800
Nondepository financial institutions	21,400	15,142
Lease financing receivables	16,670	15,621
Overdrafts	57	67
All other loans	11,418	14,415
	430,253	358,777
Unearned discount	(947)	(811)
Allowance for loan losses	(5,075)	(5,129)
	$ 424,231	$ 352,837

At December 31, 2017 and 2016, the Company had total commercial real estate loans of approximately $224,646,000 and $183,505,000 respectively. Included in these amounts, the Company had construction, land development, and other land loans representing 60% and 44%, respectively, of total risk-based capital at December 31, 2017 and 2016. The Company had non-owner occupied commercial real estate loans representing 215% and 182%, respectively, of total risk-based capital at December 31, 2017 and 2016. Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program (CRE). Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on CRE concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk based capital, or total non-owner occupied commercial real estate loans representing 300% or more of the institutions total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration.

The Company extends commercial and consumer credit primarily to customers in the state of Texas. At December 31, 2017 and 2016, the majority of the Company's loans were collateralized with real estate. The real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. The weakening of real estate markets may have an adverse effect on the Company's profitability and asset quality. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, earnings and capital could be adversely affected. Additionally, the Company has loans secured by inventory, accounts receivable, equipment, marketable securities, or other assets. The debtors' ability to honor their contracts on all loans is substantially dependent upon the general economic conditions of the region.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others was approximately $234,554,000 and $237,123,000 at December 31, 2017 and 2016, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $1,352,000 and $1,254,000 at December 31, 2017 and 2016, respectively.

Originated mortgage servicing rights capitalized at December 31, 2017 and 2016, are approximately $1,859,000 and $1,894,000, respectively, and are included in other assets. The fair values of these rights were approximately $2,315,000 and $2,341,000 at December 31, 2017 and 2016, respectively. The fair value of servicing rights was determined using a weighted average discount rate of 10.52% for both 2017 and 2016, respectively, and a weighted average prepayment speed of 7.37% and 7.68% for 2017 and 2016, respectively.

A summary of the changes in servicing rights is as follows (in thousands):

	2017	2016
Balance at beginning of year	$ 1,894	$ 1,871
Origination	261	344
Amortization	(296)	(321)
Impairments	-	-
Balance at end of year	$ 1,859	$ 1,894

Loan maturities and rate sensitivity of the loan portfolio at December 31, 2017 and 2016, including mortgage loans held for sale less loans on nonaccrual, are as follows (in thousands):

	2017	2016
Fixed rate loans with a remaining maturity of:		
Three months or less	$ 65,478	$ 22,734
Over three months through twelve months	32,688	35,197
Over one year through five years	149,921	142,333
Over five years	76,138	72,171
Total fixed rate loans	$ 324,225	$ 272,435
Variable rate loans with a repricing frequency of:		
Quarterly or more frequently	$ 82,359	$ 70,726
Annually or more frequently, but less frequently than quarterly	10,563	11,376
Every five years or more frequently, but less frequently than annually	9,091	2,775
Less frequently than every five years	4	663
Total variable rate loans	$ 102,017	$ 85,540

Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2017 and 2016 is as follows (in thousands):

	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
December 31, 2017:					
Real estate:					
1-4 family construction	$ 65	$ (5)	$ -	$ -	$ 60
Construction, land development and other land	776	(95)	-	-	681
Revolving 1-4 family residential	1	-	-	-	1
1-4 family residential	607	174	(56)	-	725
Multi-family residential	77	18	-	-	95
Nonfarm nonresidential - owner occupied	566	73	-	-	639
Nonfarm nonresidential - nonowner occupied	1,740	24	-	-	1,764
Farmland	51	(2)	-	-	49
Total real estate	3,883	187	(56)	-	4,014
Agriculture	2	(1)	-	-	1
Commercial and industrial	370	326	(83)	3	616
Consumer	170	129	(108)	9	200
Municipal	1	-	-	-	1
Nondepository financial institutions	91	35	-	-	126
Lease financing receivable	75	2	-	1	78
Overdrafts	-	-	-	-	-
All other loans	50	(11)	-	-	39
Unallocated	487	(487)	-	-	-
	$ 5,129	$ 180	$ (247)	$ 13	$ 5,075
December 31, 2016:					
Real estate:					
1-4 family construction	$ 157	$ (92)	$ -	$ -	$ 65
Construction, land development and other land	361	415	-	-	776
Revolving 1-4 family residential	2	(1)	-	-	1
1-4 family residential	564	93	(115)	65	607
Multi-family residential	62	15	-	-	77
Nonfarm nonresidential - owner occupied	708	(142)	-	-	566
Nonfarm nonresidential - nonowner occupied	1,690	50	-	-	1,740
Farmland	66	(15)	-	-	51
Total real estate	3,610	323	(115)	65	3,883
Agriculture	-	2	-	-	2
Commercial and industrial	461	(91)	-	-	370
Consumer	184	12	(41)	15	170
Municipal	-	1	-	-	1
Nondepository financial institutions	-	91	-	-	91
Lease financing receivable	103	(28)	-	-	75
Overdrafts	-	-	-	-	-
All other loans	37	13	-	-	50
Unallocated	810	(323)	-	-	487
	$ 5,205	$ -	$ (156)	$ 80	$ 5,129

The Company's individual ALLL allocations are established for probable losses on specific loans. The Company's collective ALLL allocations are established based upon historical loss experience for similar loans with similar characteristics and on economic conditions and other qualitative risk factors both internal and external to the Company. The allocation of a portion of the allowance for loan losses to one category does not preclude its availability to absorb losses in other categories. Further information pertaining to the allowance for loan losses (ALLL) at December 31, 2017 and 2016 is as follows (in thousands):

	Loan Evaluation			ALLL Allocations		
	Individually	Collectively	Total	Individually	Collectively	Total ALLL
December 31, 2017:						
Real estate:						
1-4 family construction	$ -	$ 4,935	$ 4,935	$ -	$ 60	$ 60
Construction, land development and other land	-	42,057	42,057	-	681	681
Revolving 1-4 family residential	-	388	388	-	1	1
1-4 family residential	1,401	64,321	65,722	4	721	725
Multi-family residential	-	12,055	12,055	-	95	95
Nonfarm nonresidential - owner occupied	-	56,624	56,624	-	639	639
Nonfarm nonresidential - nonowner occupied	-	108,975	108,975	-	1,764	1,764
Farmland	396	9,917	10,313	-	49	49
Total real estate	1,797	299,272	301,069	4	4,010	4,014
Agriculture	84	1,025	1,109	-	1	1
Commercial and industrial	3,339	48,518	51,857	156	460	616
Consumer	131	25,412	25,543	-	200	200
Municipal	-	1,130	1,130	-	1	1
Nondepository financial institutions	-	21,400	21,400	-	126	126
Lease financing receivable	-	16,670	16,670	-	78	78
Overdrafts	-	57	57	-	-	-
All other loans	-	11,418	11,418	-	39	39
Unallocated	-	-	-	-	-	-
	$ 5,351	$ 424,902	$ 430,253	$ 160	$ 4,915	$ 5,075
December 31, 2016:						
Real estate:						
1-4 family construction	$ -	$ 5,834	$ 5,834	$ -	$ 65	$ 65
Construction, land development and other land	175	26,445	26,620	-	776	776
Revolving 1-4 family residential	-	455	455	-	1	1
1-4 family residential	1,000	53,689	54,689	2	605	607
Multi-family residential	-	9,649	9,649	-	77	77
Nonfarm nonresidential - owner occupied	-	49,235	49,235	-	566	566
Nonfarm nonresidential - nonowner occupied	587	91,580	92,167	-	1,740	1,740
Farmland	-	10,154	10,154	-	51	51
Total real estate	1,762	247,041	248,803	2	3,881	3,883
Agriculture	-	1,514	1,514	-	2	2
Commercial and industrial	-	37,306	37,306	-	370	370
Consumer	209	24,900	25,109	-	170	170
Municipal	-	800	800	-	1	1
Nondepository financial institutions	-	15,142	15,142	-	91	91
Lease financing receivable	-	15,621	15,621	-	75	75
Overdrafts	-	67	67	-	-	-
All other loans	-	14,415	14,415	-	50	50
Unallocated	-	-	-	-	487	487
	$ 1,971	$ 356,806	$ 358,777	$ 2	$ 5,127	$ 5,129

Past Due and Nonaccrual Loans

The following is a summary of past due and non-accrual loans at December 31, 2017 and 2016 (in thousands):

	30-89 Days Past Due	Past Due 90 Days or More Still Accruing	Past Due 90 Days or More Non-accrual	Total Past Due and Non-accrual
December 31, 2017:				
Real estate:				
1-4 family construction	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	-	-
Revolving 1-4 family residential	-	-	-	-
1-4 family residential	1,256	-	1,337	2,593
Multi-family residential	-	-	-	-
Nonfarm nonresidential - owner occupied	572	-	-	572
Nonfarm nonresidential - nonowner occupied	-	-	-	-
Farmland	-	-	396	396
Total real estate	1,828	-	1,733	3,561
Agriculture	-	-	84	84
Commercial and industrial	51	-	3,313	3,364
Consumer	2,000	-	131	2,131
Municipal	-	-	-	-
Nondepository financial institutions	-	-	-	-
Lease financing receivable	33	-	-	33
Overdrafts	-	-	-	-
All other loans	-	-	-	-
	$ 3,912	$ -	$ 5,261	$ 9,173
December 31, 2016:				
Real estate:				
1-4 family construction	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	175	175
Revolving 1-4 family residential	-	-	-	-
1-4 family residential	1,544	-	935	2,479
Multi-family residential	-	-	-	-
Nonfarm nonresidential - owner occupied	15	-	-	15
Nonfarm nonresidential - nonowner occupied	-	-	587	587
Farmland	448	-	-	448
Total real estate	2,007	-	1,697	3,704
Agriculture	56	-	-	56
Commercial and industrial	126	-	-	126
Consumer	2,169	-	209	2,378
Municipal	-	-	-	-
Nondepository financial institutions	-	-	-	-
Lease financing receivable	-	-	-	-
Overdrafts	-	-	-	-
All other loans	-	-	-	-
	$ 4,358	$ -	$ 1,906	$ 6,264

Approximately $77,000 and $39,000 of additional interest would have been recognized if the loans had been on accrual status during 2017 and 2016, respectively.

Impaired Loans

Impaired loans may include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. Average impaired loans during 2017 and 2016 were approximately $2,595,000 and $2,422,000, respectively. Approximately $8,000 and $176,000 of interest income was recognized on impaired loans in 2017 and 2016, respectively. The following is a summary of information pertaining to impaired loans at December 31, 2017 and 2016 is as follows (in thousands):

	Impaired Loans with a Valuation Allowance			Impaired Loans without a Valuation Allowance		
	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal	Related Allowance
December 31, 2017:						
Real estate:						
1-4 family construction	$ -	$ -	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	-	-	-	-
Revolving 1-4 family residential	-	-	-	-	-	-
1-4 family residential	250	250	4	1,151	1,151	-
Multi-family residential	-	-	-	-	-	-
Nonfarm nonresidential - owner occupied	-	-	-	-	-	-
Nonfarm nonresidential - nonowner occupied	-	-	-	-	-	-
Farmland	-	-	-	396	396	-
Total real estate	250	250	4	1,547	1,547	-
Agriculture	-	-	-	84	84	-
Commercial and industrial	3,131	3,131	156	208	208	-
Consumer	-	-	-	131	131	-
Municipal	-	-	-	-	-	-
Nondepository financial institutions	-	-	-	-	-	-
Lease financing receivable	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
All other loans	-	-	-	-	-	-
	$ 3,381	$ 3,381	$ 160	$ 1,970	$ 1,970	$ -
December 31, 2016:						
Real estate:						
1-4 family construction	$ -	$ -	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	-	175	175	-
Revolving 1-4 family residential	-	-	-	-	-	-
1-4 family residential	65	65	2	935	935	-
Multi-family residential	-	-	-	-	-	-
Nonfarm nonresidential - owner occupied	-	-	-	-	-	-
Nonfarm nonresidential - nonowner occupied	-	-	-	587	587	-
Farmland	-	-	-	-	-	-
Total real estate	65	65	2	1,697	1,697	-
Agriculture	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Consumer	-	-	-	209	209	-
Municipal	-	-	-	-	-	-
Nondepository financial institutions	-	-	-	-	-	-
Lease financing receivable	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
All other loans	-	-	-	-	-	-
	$ 65	$ 65	$ 2	$ 1,906	$ 1,906	$ -

Troubled Debt Restructuring

Impaired loans include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. The restructuring of a loan is considered a troubled debt restructuring if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. At December 31, 2017 and 2016, the Company had TDRs totaling approximately $213,000 and $805,000, respectively. The Company had approximately $90,000 and $65,000 of performing TDRs at December 31, 2017 and 2016, respectively. During the years ended December 31, 2017 and 2016, the Company had approximately $35,000 and $75,000 in loans modified as TDRs. These restructuring did not significantly impact the Company's determination of the allowance for loan losses. During the years ended December 31, 2017 and 2016, the Company had no significant TDRs that subsequently defaulted within twelve months following their modification.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on an ongoing basis. The Company uses the following definitions for risk ratings:

PASS: Loans classified as pass are loans with low to average risk.

SPECIAL MENTION: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

SUBSTANDARD: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

DOUBTFUL: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The risk category of loans by class of loans at December 31, 2017 and 2016 is as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2017:					
Real estate:					
1-4 family construction	$ 4,935	$ -	$ -	$ -	$ 4,935
Construction, land development and other land	42,057	-	-	-	42,057
Revolving 1-4 family residential	388	-	-	-	388
1-4 family residential	63,842	110	1,770	-	65,722
Multi-family residential	12,055	-	-	-	12,055
Nonfarm nonresidential - owner occupied	56,624	-	-	-	56,624
Nonfarm nonresidential - nonowner occupied	108,975	-	-	-	108,975
Farmland	9,917	-	396	-	10,313
Total real estate	298,793	110	2,166	-	301,069
Agriculture	1,025	-	84	-	1,109
Commercial and industrial	48,518	-	3,339	-	51,857
Consumer	25,397	-	146	-	25,543
Municipal	1,130	-	-	-	1,130
Nondepository financial institutions	21,400	-	-	-	21,400
Lease financing receivable	16,670	-	-	-	16,670
Overdrafts	57	-	-	-	57
All other loans	11,418	-	-	-	11,418
	$ 424,408	$ 110	$ 5,735	$ -	$ 430,253
December 31, 2016:					
Real estate:					
1-4 family construction	$ 5,834	$ -	$ -	$ -	$ 5,834
Construction, land development and other land	26,445	-	175	-	26,620
Revolving 1-4 family residential	455	-	-	-	455
1-4 family residential	53,372	48	1,269	-	54,689
Multi-family residential	9,649	-	-	-	9,649
Nonfarm nonresidential - owner occupied	49,235	-	-	-	49,235
Nonfarm nonresidential - nonowner occupied	91,580	-	587	-	92,167
Farmland	9,706	448	-	-	10,154
Total real estate	246,276	496	2,031	-	248,803
Agriculture	1,333	181	-	-	1,514
Commercial and industrial	35,995	1,311	-	-	37,306
Consumer	24,856	-	253	-	25,109
Municipal	800	-	-	-	800
Nondepository financial institutions	15,142	-	-	-	15,142
Lease financing receivable	15,621	-	-	-	15,621
Overdrafts	67	-	-	-	67
All other loans	14,415	-	-	-	14,415
	$ 354,505	$ 1,988	$ 2,284	$ -	$ 358,777

4. Premises and Equipment

A summary of premises, equipment and land improvements and related accumulated depreciation at December 31, 2017 and 2016 is as follows (in thousands):

	Estimated Useful Lives	2017	2016
Land		$ 4,737	$ 4,737
Premises	5-40 years	17,320	13,848
Furniture, fixtures and equipment	3-10 years	9,905	8,931
Land improvements	5-20 years	635	486
Lease equipment	3-5 years	4,222	4,486
		36,819	32,488
Less accumulated depreciation		13,908	13,308
Totals		$ 22,911	$ 19,180

Depreciation expense amounted to approximately $1,408,000 and $1,442,000 in 2017 and 2016, respectively.

5. Goodwill

Goodwill in the amount of approximately $4,220,000 at December 31, 2017 and 2016, is included in the accompanying consolidated financial statements. At December 31, 2017 and 2016, management has determined that it is not more likely than not that goodwill is impaired. Prior to the year ended December 31, 2002, goodwill was amortized over its estimated useful life. Accordingly, the amounts reflected for goodwill in the accompanying financial statements have been reduced by the relating accumulated amortization of approximately $507,000.

6. Deposits

Included in time deposits are certificates of deposit in amounts of $250,000 or more. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $250,000, was approximately $6,439,000 and $5,700,000 at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the scheduled maturities of certificates of deposit are as follows (in thousands):

	2017	2016
Less than three months	$ 14,712	$ 15,923
Four to twelve months	31,230	33,925
One to five years	45,050	47,707
Over five years	148	32
	$ 91,140	$ 97,587

During 2006, the Company entered into a program in which certain eligible transaction deposits could be reclassed to savings deposits for regulatory reporting purposes and therefore reduce its reserve requirement with the Federal Reserve Bank. At December 31, 2017 the Company has reclassed $109,999,000 demand deposits and $81,973,000 NOW and Money Market deposits to savings deposits for regulatory reporting in connection with this program. At December 31, 2016 the Company has reclassed approximately $100,177,000 demand deposits and $86,268,000 NOW and Money Market deposits to savings deposits.

7. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to approximately $589,000 and $786,000 at December 31, 2017 and 2016, respectively. The agreements are secured by U.S. Government Agency securities with a fair value of approximately $602,000 at 2017 and $803,000 at 2016. The weighted average interest rate on these agreements was 0.10% at both December 31, 2017 and 2016. The agreements of approximately $589,000 at December 31, 2017 mature on January 2, 2018 and are renewed daily as necessary under normal operations.

8. Other Borrowings

Federal Home Loan Bank

Advances from the Federal Home Loan Bank (FHLB) amounted to approximately $20,000,000 and $40,000,000 at December 31, 2017 and 2016, respectively. The borrowings are collateralized by a security agreement, which requires the borrowing bank to maintain a certain level of qualified first mortgage collateral in relation to the amount of outstanding debt. As of December 31, 2017, the borrowing included a single advance which bears interest at a rate of 1.46% and is scheduled to mature on March 21, 2018. As of December 31, 2016, the borrowings included various advances, which bore interest at rates ranging from 3.31% to 5.90% and were scheduled to mature on February 27, 2017. At December 31, 2017 the Bank has additional unused borrowing capacity with the FHLB of approximately $135,976,000.

Other

Additionally, the Bank has unused federal funds lines available from commercial banks of approximately $25,000,000 at December 31, 2017.

9. Junior Subordinated Debentures

The junior subordinated debentures of approximately $7,217,000 at December 31, 2017 and 2016 represent amounts payable to a Special Purpose Entity (SPE) in conjunction with the Company's sponsorship of the SPE. The SPE has one issuance outstanding totaling $7,000,000 in trust preferred securities and $217,000 in common stock (wholly-owned by the Company) at December 31, 2017 and 2016. Both the junior subordinated debentures and the related trust preferred securities yield an annual distribution rate of 3-month LIBOR plus l.80% (3.39% at December 31, 2017 and 2.76% at December 31, 2016), are redeemable at various dates beginning in June, 2010 and mature in June, 2035.

The trust preferred securities are tax-advantaged issues that currently qualify as Tier I capital for the Company. Distributions on these securities are included as interest expense on other borrowed funds. The underlying trust is a statutory business trust organized for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The preferred trust securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust’s obligations under the trust preferred securities issued by the trust.

The Dodd-Frank Act eliminated the use of trust preferred securities issued after May 19, 2010 as a component of Tier I capital for depository institution holding companies, such as the Company. However, because the Company had less than $15 billion of consolidated assets as June 30, 2011, the Company will be permitted to include any trust preferred securities issued before May 19, 2010 as an element of Tier I capital, but not be able to include any trust preferred securities issued after May 19, 2010 as a component of Tier I capital. Further, the Board of Governors of the Federal Reserve System (Board) has determined that trust preferred securities are restrictive core capital elements in computing Tier I capital of bank holding companies. The Board has limited restrictive core capital elements (as defined) to 25% of core capital elements. Accordingly, the Company is limited on the trust preferred securities which it can include in its Tier I capital.

10. Income Taxes

The provision for income taxes consists of the following (in thousands):

	2017	2016
Current income tax expense:		
Federal and state	$ 2,039	$ 2,117
Deferred income tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	(256)	22
Accounting for bad debt expense	531	1
Nonaccrual loan interest	29	21
Federal Home Loan Bank stock dividends	(9)	3
Deferred compensation benefits	803	(46)
Deferred loan fee income	7	(38)
Goodwill amortization	(544)	(59)
Write down of other real estate owned	4	15
Net deferred income tax expense (benefit)	565	(81)
Total income tax expense	$ 2,604	$ 2,036

The difference between the consolidated financial statement income tax expense and amounts computed by applying the statutory federal income tax rate of 34% to consolidated income before taxes for the year ended December 31, 2017 is primarily attributable to investments in tax-exempt securities and tax-exempt increases in cash surrender value of life insurance partially offset by the additional tax resulting from the Tax Cuts and Jobs Act discussed in Note 1. The difference between the consolidated financial statement income tax expense and amounts computed by applying the statutory federal income tax rate of 34% to consolidated income before taxes for the year ended December 31, 2016 is primarily attributable to investments in tax-exempt securities, tax-exempt increases in cash surrender value of life insurance, and certain other transactions.

A net deferred federal income tax asset of approximately $1,007,000 and $1,604,000 at December 31, 2017 and 2016, respectively, is included in other assets. The income tax rates used to determine the deferred tax assets and liabilities at December 31, 2017 and 2016 are 21% and 34%, respectively. The accumulated tax effect of each type of income and expense item that gave rise to deferred taxes are as follows (in thousands):

	2017	2016
Deferred tax assets		
Excess of tax over financial cost for fixed assets	$ -	$ 142
Allowance for loan and lease losses	963	1,495
Deferred compensation benefits	1,441	2,243
Deferred loan fee income	83	90
Write down of other real estate owned	-	4
Nonaccrual loan interest	31	60
Net unrealized depreciation on securities available for sale	142	174
Total deferred tax assets	2,660	4,208
Deferred tax liabilities		
Depreciation	(728)	(1,135)
Federal Home Loan Bank stock dividends	(36)	(45)
Amortization	(880)	(1,424)
Excess of tax over financial cost for fixed assets	(9)	-
Total deferred tax liabilities	(1,653)	(2,604)
Total net deferred tax asset	$ 1,007	$ 1,604

Federal income taxes currently receivable of approximately $87,000 and $24,000 at December 31, 2017 and 2016, respectively, are included in other assets.

11. <u>Employee Benefits</u>

KSOP Plan

The Company maintains a leveraged employee stock ownership 401(k) plan (KSOP). The KSOP periodically borrows from unrelated lenders to acquire stock for future allocation to KSOP participants. The KSOP provides for voluntary employee salary reduction contributions, voluntary employee after-tax contributions, discretionary employer salary reduction matching contributions, and additional discretionary employer contributions which the Company uses to pay interest on KSOP debt and KSOP debt principal reductions as the Company desires to release unallocated KSOP shares to the KSOP participants.

As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares. KSOP expense for 2017 and 2016 was approximately $446,000 and $364,000, respectively. Employee salary reduction contributions of approximately $550,000 and $518,000 were made in 2017 and 2016, respectively.

Deferred Compensation Plans

The Company maintains individually designed supplemental income plan agreements (agreements) with certain designated employees and directors. The agreements provide a deferred compensation benefit payable at retirement or death.

The liability under the agreements is recorded based upon the present value of the deferred compensation benefits. Other liabilities at December 31, 2017 and 2016, include the Company's accrued liability under the agreements of approximately $6,817,000 and $6,559,000, respectively.

In connection with the funding of the agreements, the Company has purchased life insurance policies that it believes will fund the benefits payable pursuant to the agreements. The Company is owner and beneficiary of the life insurance policies. At December 31, 2017 and 2016, respectively, The Company had approximately $16,286,000 and $11,651,000 in cash value of these life insurance policies.

12. <u>Related Party Transactions</u>

At December 31, 2017 and 2016, certain officers and directors, and companies in which they have a 10 percent or more beneficial ownership, were indebted to the Company in the aggregate amount of approximately $9,641,000 and $10,842,000, respectively. During 2017, $752,000 of new loans were originated and repayments totaled approximately $1,953,000. All such loans were made in the ordinary course of business. All loans included in such transactions were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of loss or present other unfavorable features.

13. Commitments and Contingent Liabilities

The Company's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. A summary of the Company's commitments and contingent liabilities at December 31, 2017 and 2016, are as follows (in thousands):

	2017	2016
Commitments to extend credit	$ 50,412	$ 53,608
Standby letters of credit	3,229	3,557
Total	$ 53,641	$ 57,165

Commitments to extend credit, and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. The Company has not incurred any significant losses on its commitments in either 2017 or 2016.

The Company is a party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

14. Concentrations of Credit

Substantially all of the Company's loans, commitments, credit card arrangements and standby letters of credit have been granted to customers in the Company's market area. Most customers are depositors of the Company. Investments in state and municipal securities also involve governmental entities within the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. 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 occasionally maintains deposits and federal funds sold in excess of federally insured limits.

At December 31, 2017 and 2016, the Company had approximately $16,653,000 and $7,684,000, respectively, in due from banks and federal funds sold in excess of federally insured amounts. The risk is managed by maintaining all deposits in high quality financial institutions.

At December 31, 2017 and 2016, total deposits include approximately $62,424,000 and $61,423,000, respectively, from the five largest deposit customers. The customers' deposits are under no contractual obligation to the Company other than the maturity durations for various time certificates of deposit.

15. <u>Fair Value Disclosure</u>

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Bank utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Bank's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Bank's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016 were as follows (in thousands):

	Level 1	Level 2	Level 3
December 31, 2017:			
Available for sale securities	$ -	$ 124,607	$ -
December 31, 2016:			
Available for sale securities	$ -	$ 146,324	$ -

(1) Securities are measured at fair value on a recurring basis, generally monthly.

Certain financial and non-financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table summarizes financial assets and non-financial assets, measured at fair value on a non-recurring basis as of December 31, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2017:				
Financial assets - impaired loans	$ -	$ -	$ 5,191	$ 5,191
Other real estate owned	-	1,128	-	1,128
December 31, 2016:				
Financial assets - impaired loans	$ -	$ -	$ 1,969	$ 1,969
Other real estate owned	-	776	-	776

During the years ended December 31, 2017 and 2016, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. For the years ended December 31, 2017 and 2016, impaired loans with a carrying value of approximately $5,351,000 and $1,971,000, respectively, were reduced by specific valuation allowance allocations totaling approximately $160,000 and $2,000, respectively, to a total reported fair value of approximately $5,191,000 and $1,969,000, respectively, based on collateral valuations utilizing Level 3 valuation inputs.

Foreclosed assets are valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third-party appraisals, less estimated costs to sell. Appraisals based upon comparable sales result in a Level 2 classification while appraisals based upon expected cash flows of the property result in a Level 3 classification. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the customer and customer's business. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above. The Company had no write-downs of other real estate owned for the year ended December 31, 2017. The Company had write-downs of other real estate owned of approximately $17,000, for the year ended December 31, 2016.

Those financial instruments not subject to the initial implementation of this guidance, are required to have their fair value disclosed, both assets and liabilities recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Following is a table that summarizes the carrying values and estimated fair values of all financial instruments of the Company at December 31, 2017 and 2016, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments not covered by FASB ASC Topic 820 (in thousands):

		Total Estimated Fair Value		
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2017:				
Financial Assets:				
Cash and cash equivalents	$ 32,829	$ 32,819	$ -	$ -
Securities available for sale	124,607	-	124,607	-
Other securities	2,943	-	-	2,943
Mortgage loans held for sale	1,250	-	1,250	-
Loans, net	424,231	-	-	415,318
Mortgage servicing rights	1,859	-	2,315	-
Accrued interest receivable	2,207	2,207	-	-
Financial Liabilities:				
Deposits	535,090	-	-	535,593
Repurchase agreements	589	-	589	-
Other borrowings	20,000	-	20,000	-
Junior subordinated debentures	7,217	-	7,217	-
Accrued interest payable	114	114	-	-
On-Balance Sheet Derivative Financial Instruments:				
Assets	-	-	-	-
Liabilities	-	-	-	-
Off-Balance Sheet Credit Related Financial Instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit	-	-	-	-
December 31, 2016:				
Financial Assets:				
Cash and cash equivalents	$ 24,861	$ 24,861	$ -	$ -
Securities available for sale	146,324	-	146,324	-
Other securities	2,889	-	-	2,889
Mortgage loans held for sale	1,104	-	1,104	-
Loans, net	352,837	-	-	346,222
Mortgage servicing rights	1,894	-	2,341	-
Accrued interest receivable	2,045	2,045	-	-
Financial Liabilities:				
Deposits	453,702	-	-	454,536
Repurchase agreements	786	-	786	-
Other borrowings	40,000	-	40,000	-
Junior subordinated debentures	7,217	-	7,217	-
Accrued interest payable	86	86	-	-
On-Balance Sheet Derivative Financial Instruments:				
Assets	-	-	-	-
Liabilities	-	-	-	-
Off-Balance Sheet Credit Related Financial Instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit	-	-	-	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as disclosed herein. The values are for disclosure purposes only and have not affected the carrying values of the assets and liabilities on the balance sheet.

Cash and Cash Equivalents

For those short-term investments, the carrying amount is a reasonable estimate of fair value.

Securities Available for Sale and Other Securities

For debt securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Mortgage Loans Held for Sale and Loans, net

For certain homogeneous categories of loans, such as some residential mortgages, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Mortgage Servicing Rights

Fair values of mortgage servicing rights are estimated based on their respective present values of future expected cash flows, which are projected using management's best estimate of certain key assumptions, such as credit losses, prepayment speeds, forward yield curves, and discount rates with the risks involved.

Deposits

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Repurchase Agreements, Junior Subordinated Debentures and Other 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. Fair values of other borrowings are estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximates their fair values.

On-Balance Sheet Derivative Financial Instruments and Off-Balance Sheet Credit Related Financial Instruments

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between the current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

16. <u>Stockholders' Equity and Regulatory Matters</u>

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. 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 Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. 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 and 2016, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations for banking institutions 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 December 31, 2017, 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 Bank's category.

Additionally, Basel III added a 2.5% "capital conservation buffer" which was designed for banking institutions to absorb losses during periods of economic stress. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). Banking institutions with capital ratios below the minimum for capital adequacy purposes plus the capital conservation buffer will face constraints on dividends, equity repurchases and executive compensation relative to the amount of the shortfall.

Actual and required capital amounts and ratios of the Bank at December 31, 2017 and 2016 are presented below (in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum for Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum to be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017:								
Total capital to risk weighted assets	$ 78,252	15.850%	$ 39,506	8.000%	$ 45,678	9.250%	$ 49,382	10.000%
Tier 1 (core) capital to risk weighted assets	73,167	14.820%	29,629	6.000%	35,802	7.250%	39,506	8.000%
Common Tier 1 (CET1)	73,167	14.820%	22,222	4.500%	28,395	5.750%	32,098	6.500%
Tier 1 (core) capital to average assets	73,167	11.200%	26,123	4.000%	26,123	4.000%	32,653	5.000%
December 31, 2016:								
Total capital to risk weighted assets	$ 73,760	17.579%	$ 33,568	8.000%	$ 36,191	8.625%	$ 41,960	10.000%
Tier 1 (core) capital to risk weighted assets	68,621	16.354%	25,176	6.000%	27,799	6.625%	33,568	8.000%
Common Tier 1 (CET1)	68,621	16.354%	18,882	4.500%	21,505	5.125%	27,274	6.500%
Tier 1 (core) capital to average assets	68,621	12.112%	22,662	4.000%	22,662	4.000%	28,328	5.000%

17. Statement of Cash Flows

The Company reports on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, loans made to customers and principal collections on those loans.

The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information for the years ended December 31, 2017 and 2016 is presented as follows (in thousands):

	2017	2016
Cash transactions:		
Interest expense paid	$ 3,371	$ 1,316
Federal income taxes paid	$ 2,100	$ 1,922
Noncash transactions:		
Net unrealized depreciation on securities available for sale	$ (163)	$ (1,212)

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

On Additional Information

The Board of Directors
AmeriBancShares, Inc. and Subsidiaries

We have audited the consolidated financial statements of AmeriBancShares, Inc. and Subsidiaries as of and for the year ended December 31, 2017, and have issued our report thereon dated February 28, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 33, 34 and 35 is presented for the purpose 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.

Payne & Smith, LLC

February 28, 2018

5952 Royal Lane • Suite 158 • Dallas, TX 75230 • 214 / 363-9927 • Fax 214 / 363-9980

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

December 31, 2017

(In thousands of dollars)

	American National Leasing Co	Archer Title of Texas	AMNAT Insurance Services	American National Bank & Trust	Ameri-BancShares of Delaware, Inc.	ANB Realty Corp.	Ameri-BancShares Inc.	Reclassification and Eliminations Entries	Consolidated
ASSETS									
Cash and due from banks	$ 392	$ 473	$ 32	$ 11,538	$ 1	$ 1	$ 34	$ (932)	$ 11,539
Interest bearing deposits in banks	-	-	-	21,290	-	-	-	-	21,290
Total cash and equivalents	392	473	32	32,828	1	1	34	(932)	32,829
Securities available for sale	-	-	-	124,607	-	-	-	-	124,607
Other securities	-	-	-	7,027	75,974	-	76,193	(156,251)	2,943
Mortgage loans held for sale	-	-	-	1,250	-	-	-	-	1,250
Loans, net	15,606	-	-	422,680	-	-	-	(14,055)	424,231
Premises and equipment, net	3,195	1,360	-	18,356	-	-	-	-	22,911
Accrued interest receivable	-	-	-	4,437	-	-	-	(2,230)	2,207
Goodwill	-	21	-	4,199	-	-	-	-	4,220
Cash value of life insurance	-	-	-	16,286	-	-	-	-	16,286
Other assets	173	15	-	6,745	-	-	2	1,090	8,025
Total assets	$ 19,366	$ 1,869	$ 32	$ 638,415	$ 75,975	$ 1	$ 76,229	$ (172,378)	$ 639,509
LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	$ -	$ -	$ -	$ 35,272	$ -	$ -	$ -	$ (932)	$ 34,340
Savings deposits	-	-	-	220,567	-	-	-	-	220,567
Money market and NOW accounts	-	-	-	189,043	-	-	-	-	189,043
Time certificates of deposit	-	-	-	91,140	-	-	-	-	91,140
Total deposits	-	-	-	536,022	-	-	-	(932)	535,090
Securities sold under agreements to repurchase		-	-	589	-	-	-	-	589
Other borrowings	13,700	315	40	20,000	-	-	-	(14,055)	20,000
Junior subordinated debentures	-	-	-	-	-	-	7,217	-	7,217
Accrued interest payable	2,103	126	1	114	-	-	-	(2,230)	114
Other liabilities	647	34	-	5,716	-	-	4	1,090	7,491
Total liabilities	16,450	475	41	562,441	-	-	7,221	(16,127)	570,501
Commitments and contingencies	-	-	-	-	-	-	-	-	-
Stockholders' equity:									
Common stock	1	1	1	1,680	8	1	5,803	(1,692)	5,803
Surplus	-	-	-	12,995	26,815	256	18,473	(40,066)	18,473
Undivided profits	2,915	1,393	(10)	61,832	49,685	(256)	46,147	(115,559)	46,147
Treasury stock	-	-	-	-	-	-	(882)	-	(882)
Accumulated other comprehensive loss, net of tax benefit	-	-	-	(533)	(533)	-	(533)	1,066	(533)
Total stockholders' equity	2,916	1,394	(9)	75,974	75,975	1	69,008	(156,251)	69,008
Total liabilities and stockholders' equity	$ 19,366	$ 1,869	$ 32	$ 638,415	$ 75,975	$ 1	$ 76,229	$ (172,378)	$ 639,509

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Income and Comprehensive Income

For the Year ended December 31, 2017

(In thousands of dollars)

	American National Leasing Co	Archer Title of Texas	AMNAT Insurance Services	American National Bank & Trust	Ameri-BancShares of Delaware, Inc.	ANB Realty Corp.	Ameri-BancShares Inc.	Reclassification and Eliminations Entries	Consolidated
Interest income:									
Interest and fees on loans	$ 515	$ -	$ -	$ 19,653	$ -	$ -	$ -	$ (105)	$ 20,063
Interest on investment securities									
Taxable	-	-	-	1,209	-	-	-	-	1,209
Nontaxable	-	-	-	1,855	-	-	-	-	1,855
Interest on interest bearing deposits in banks	-	-	-	112	-	-	-	-	112
Total interest income	515	-	-	22,829	-	-	-	(105)	23,239
Interest expense:									
Interest on deposits	-	-	-	2,884	-	-	-	-	2,884
Interest on repurchase agreements	-	-	-	4	-	-	-	-	4
Interest on other borrowed funds	103	2	-	301	-	-	-	(105)	301
Interest on junior subordinated debentures	-	-	-	-	-	-	210	-	210
Total interest expense	103	2	-	3,189	-	-	210	(105)	3,399
Net interest income	412	(2)	-	19,640	-	-	(210)	-	19,840
Provision for loan losses	-	-	-	180	-	-	-	-	180
Net interest income after provision for loan losses	412	(2)	-	19,460	-	-	(210)	-	19,660
Other operating income:									
Service charges on deposit accounts	-	-	-	765	-	-	-	-	765
Trust fee income	-	-	-	5,300	-	-	-	-	5,300
Gain on sale of mortgage loans	-	-	-	911	-	-	-	-	911
Gain on sale of other real estate owned	-	-	-	18	-	-	-	-	18
Gain on sale of securities	-	-	-	276	-	-	-	-	276
Rent income	796	-	-	-	-	-	-	-	796
Earning from subsidiary	-	-	-	646	6,226	-	6,226	(13,098)	-
Other	99	1,295	3	1,731	-	-	-	(72)	3,056
Total other operating income	895	1,295	3	9,647	6,226	-	6,226	(13,170)	11,122
Other operating expenses									
Salaries and employee benefits	352	586	-	12,562	-	-	-	-	13,500
Premises and equipment	22	74	-	2,149	-	-	-	(72)	2,173
Data processing expense	-	-	-	1,215	-	-	-	-	1,215
Other	720	338	1	4,144	-	-	-	-	5,203
Total other operating expenses	1,094	998	1	20,070	-	-	-	(72)	22,091
Income before income taxes	213	295	2	9,037	6,226	-	6,016	(13,098)	8,691
Provision for (benefit from) income taxes	(235)	98	1	2,811	-	-	(71)	-	2,604
Net income	448	197	1	6,226	6,226	-	6,087	(13,098)	6,087
Other comprehensive loss:									
Change in net unrealized gain (loss) on securities available for sale, net of taxes	-	-	-	(12)	(12)	-	(12)	24	(12)
Less reclassification adjustment for gain on sales of securities available for sale, net of taxes	-	-	-	(183)	(183)	-	(183)	366	(183)
Total other comprehensive loss	-	-	-	(195)	(195)	-	(195)	390	(195)
Total comprehensive (loss) income	$ 448	$ 197	$ 1	$ 6,031	$ 6,031	$ -	$ 5,892	$ (12,708)	$ 5,892

See accompanying independent auditor’s report on additional information.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Cash Flows

For the Year ended December 31, 2017

(In thousands of dollars)

	American National Leasing Co	Archer Title of Texas	AMNAT Insurance Services	American National Bank & Trust	Ameri-BancShares of Delaware, Inc.	ANB Realty Corp.	Ameri-BancShares Inc.	Reclassification and Eliminations Entries	Consolidated
Cash flows from operating activities:									
Net income	$ 448	$ 197	$ 1	$ 6,226	$ 6,226	$ -	$ 6,087	$ (13,098)	$ 6,087
Adjustments to reconcile net income to net cash provide d by ope rating activities:									
Depreciation	641	6	-	761	-	-	-	-	1,408
Provision for loan losses	-	-	-	180	-	-	-	-	180
Benefit from deferred taxes	(234)	4	-	795	-	-	-	-	565
Gain on sale of securities available for sale	-	-	-	(276)	-	-	-	-	(276)
Gain on sale of mortgage loans	-	-	-	(911)	-	-	-	-	(911)
Gain on sale of other real estate owned	-	-	-	(18)	-	-	-	-	(18)
Gain on sale of premises and equipment	(22)	-	-	(11)	-	-	-	-	(33)
Amortization of premium on investment securities	-	-	-	599	-	-	-	-	599
Accretion of discount on investment securities	-	-	-	(100)	-	-	-	-	(100)
Increase in cash surrender value	-	-	-	(513)	-	-	-	-	(513)
Proceeds from sales of mortgage loans	-	-	-	49,562	-	-	-	-	49,562
Mortgage loans funded Unconsolidated	-	-	-	(48,795)	-	-	-	-	(48,795)
earnings from subsidiary Change in:	-	-	-	(646)	(6,226)	-	(6,226)	13,098	-
Prepaid expenses Accrued									
interest receivable Income	(24)	-	-	(93)	-	-	-	-	(117)
taxes receivable	-	-	-	(267)	-	-	-	105	(162)
Miscellaneous other assets	-	-	-	(62)	-	-	(1)	-	(63)
Accrued interest payable	(65)	3	-	73	-	-	(15)	-	(4)
O ther taxes payable	103	2	-	28	-	-	-	(105)	28
O ther accrued expenses	-	-	-	(14)	-	-	-	-	(14)
	(34)	8	1	301	(1)	-	-	-	275
Net cash provided by (used in) operating activit	813	220	2	6,819	(1)	-	(155)	-	7,698
Cash flows from investing activities:									
Proceeds from maturities, calls and paydowns of securities available for sale	-	-	-	257,389	-	-	-	-	257,389
Proceeds from sale of securities available for sale	-	-	-	13,945	-	-	73	-	14,018
Purchase of securities available for sale	-	-	-	(250,076)	-	-	-	-	(250,076)
Purchase of other securities	-	-	-	(54)	-	-	-	-	(54)
Purchase of cash value life insurance	-	-	-	(4,200)	-	-	-	-	(4,200)
Dividends received from subsidiaries	-	-	-	-	1,136	-	1,136	(2,272)	-
Net increase in loans	(913)	-	-	(72,072)	-	-	-	450	(72,535)
Purchase of premises and equipment	(1,728)	(20)	-	(4,575)	-	-	-	-	(6,323)
Proceeds from sale of premises and equipment	1,360	-	-	11	-	-	-	-	1,371
Proceeds from sale of other real estate owned	-	-	-	625	-	-	-	-	625
Net cash provided by (used in) investing activit	(1,281)	(20)	-	(59,007)	1,136	-	1,209	(1,822)	(59,785)
Cash flows from financing activities:									
Net increase in deposits	-	-	-	81,490	-	-	-	(102)	81,388
Net decrease in repurchase agreements	-	-	-	(197)	-	-	-	-	(197)
Net decrease in other borrowed funds	450	-	-	(20,000)	-	-	-	(450)	(20,000)
Divi de nds pai d	-	-	-	(1,136)	(1,136)	-	(1,136)	2,272	(1,136)
Net cash provided by (used in) financing activit	450	-	-	60,157	(1,136)	-	(1,136)	1,720	60,055
Net decrease in cash and cash equivalents	(18)	200	2	7,969	(1)	-	(82)	(102)	7,968
Cash and cash equivalents at beginning of period	410	273	30	24,859	2	1	116	(830)	24,861
Cash and cash equivalents at end of period	$ 392	$ 473	$ 32	$ 32,828	$ 1	$ 1	$ 34	$ (932)	$ 32,829

See accompanying independent auditor’s report on additional information.

American National Bank & Trust

OFFICERS & DIRECTORS

OFFICERS ADMINISTRATION

Dwight L. Berry
President & CEO
Blake Andrews
Wichita Falls Market President/CFO
Meagan Swenson
Assistant VP/Marketing Coordinator/
Merchant Services

LOAN DEPARTMENT

Don Whatley
Executive Vice President/Loans
Bob Elmore
Senior Vice President/Loans
Damon Whatley
Senior Vice President/Loans
Linda Musgrave
Vice President/Loans
Bill M. Patty
Vice President/Loans
Mark Veitenheimer
Vice President/Loans
Lacey Slack
Vice President/Credit Officer
Karyn Wainscott
Vice President/Loan Operations
Rhona Kelton
Assistant Vice President
Bryan Hines
Collections Officer
Jennifer "Nikki" Morrison
Banking Officer
Toni Neal
Banking Officer
Vera Simons
Banking Officer

OPERATIONS SUPPORT PERSONNEL

Roy T. Olsen
Executive Vice President/Cashier/Human
Resources
Nancy Vannucci
Senior Vice President/Internal Auditor
Kyle Turnipseede
Vice President/Director of Treasury
Management
Candace Stroud
Vice President/Teller Services
Andrew Walmer
Vice President/Information Security Officer
Patrick Martin
Vice President/Assistant Cashier
Kimberly Box
Vice President/Internal Audit
Gloria Garcia
Assistant Vice President/Account Services
Delores Scarber
Assistant Vice President/Data Processing
Raquel Gutierrez
Assistant Vice President/HR Assistant
Cheyenne Patnode
Assistant Vice President
Camilo Canales
Information Technology Officer
Jennifer Duncan
BSA Officer
Karen Baker
Banking Officer

TRUST & INVESTMENT SERVICES

Jeffrey Schultz, CFA, CTFA
Executive Vice President/Chief
Investment Officer
Managing Director
Randy R. Martin, JD
Executive Vice President
Director of Fiduciary Services
Michael W. Boyle, CFIRS
Senior Vice President
Director of Fiduciary Operations
& Compliance
Kelly J. Smith, CTFA
Senior Vice President/Trust Officer
J. Scott Tucker, CTFA
Senior Vice President/Trust Officer
Linda Wilson
Senior Vice President/Trust Officer
Kristin Morris, CTFA
Senior Vice President/Trust Officer
Kevin O'Connell
Senior Vice President/Trust Officer
Paula Walmer
Vice President/Operations Manager
Eric M. Reed
Assistant Vice President/
Investment Services
Belinda Blackwell
Trust Officer
Nancy Bukowski
Trust Officer
Carol Cox
Trust Officer
Melissa Miller
Trust Officer
Connie Shaw
Trust Officer
Jennifer Rea
Trust Compliance Officer
Curt Knobloch
Trust Officer
Donna Brumbalow
Trust Officer
Melody Taylor
Trust Officer

MORTGAGE LOAN DIVISION ELMWOOD OFFICE

J. Bradley Davidson
Executive Vice President
Natalie Eubanks
Vice President
Chris Rogers
Vice President
Micha Lambeth
Banking / Loan Officer
Caroline Groves
Banking / Loan Officer
Karen Hill
Banking Officer
Lynzee Price
Servicing Officer

PLATINUM CIRCLE

Donna Adams
Administrative Officer/Coordinator

OFFICERS & DIRECTORS

DOWNTOWN OFFICE
John Kable
Executive Vice President/Loans
Marva Pieratt
Vice President/Branch Manager
Amy Collier
Banking Officer

IOWA PARK OFFICE
Christy Potter
Banking Officer/Branch Manager

ARCHER CITY OFFICE
Patrick Martin
Vice President/Branch Manager

FLOWER MOUND OFFICE
Sam Wilson
Market President/Loans/Branch Manager
Joe D. Willard
Senior Vice President/Loans
Ryan Schroer
Vice President/Loans
Sara Van Hoff
Banking Officer
Rosie Torrence
Banking Officer
Olivia Bajaj
Vice President/Credit Officer

FLOWER MOUND TRUST & INVESTMENT SERVICES
Sharon D. Butler, CTFA
Senior Vice President/Trust Officer
Sheryl L. Kiser
Senior Vice President/Trust Officer

CHILLICOTHE OFFICE
Susan Madl
Vice President/Branch Manager
Cathy Young
Vice President/Assistant Cashier

QUANAH OFFICE
Niki Converse
Vice President/Branch Manager
Sandy McAllister
Banking Officer
Debra O'Neal
Banking/Loan Officer

FORT WORTH OFFICE
Michael Winfrey
Market President/Loans/Branch Manager
Ann Morris
Vice President/Loans
Lynnlee Maroney
Compliance Officer

FORT WORTH TRUST & INVESTMENT SERVICES
Darrin Salge, CFP, CTFA
Senior Vice President/Trust Officer

FORT WORTH MORTGAGE DIVISION
Jill Winfrey
Vice President

FORT WORTH CORRESPONDENT BANKING
Craig Berry
Executive Vice President
Paul Scheurer
Vice President

AMERICAN NATIONAL LEASING COMPANY
Mike Cuba
President
Alisha Bowers
Leasing Officer
Billy Hughes
Leasing Officer

ARCHER TITLE OF TEXAS INC.
Zachary Beck
President
Jean Taylor
Vice President

DIRECTORS
Juliana Hanes
Chairman of the Board
Mark Tucker
Vice Chairman of the Board
Dwight Berry
President and CEO

Hank Anderson
Blake Andrews*
Craig Berry*
Kenny Bryant
Mike Cuba*
Todd Davenport*
J. Bradley Davidson*
Charlie Gibson*
Ken Hogan*
Tommy Isbell
Randy R. Martin*
Richard Naylor
John Osborne*
Jeffrey Schultz*
Ty Thacker
Max Vordenbaum
Don Whatley
Michael Winfrey*
Sam Wilson*

Roy T. Olsen
Board Secretary

*Advisory Director

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