

MBT BANCSHARES, INC. AND SUBSIDIARY

DECEMBER 31, 2018 AND 2017

METAIRIE, LOUISIANA

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2322 Tremont Drive • Baton Rouge, LA 70809
178 Del Orleans Avenue, Suite C • Denham Springs, LA 70726
650 Poydras Street, Suite 1200 • New Orleans, LA 70130
Phone: 225.928.4770 • Fax: 225.926.0945
www.htbcpa.com

Independent Auditor's Report

To the Board of Directors and Stockholders
MBT Bancshares, Inc. and Subsidiary
Metairie, Louisiana

We have audited the accompanying consolidated financial statements of MBT Bancshares, (a Corporation) and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Respectfully submitted,

Hannis J Bourgeois, LLP

New Orleans, Louisiana
March 22, 2019

MBT BANCSHARES, INC. AND SUBSIDIARY**CONSOLIDATED BALANCE SHEETS**

AS OF DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and Due From Banks	\$ 7,795,812	\$ 10,291,568
Federal Funds Sold	375,000	325,000
Total Cash and Cash Equivalents	8,170,812	10,616,568
Interest Bearing Deposits with other Banks	1,224,783	1,224,528
Securities Available-for-Sale	47,818,742	49,827,202
Mortgage Loans Available-for Sale	-	208,745
Loans, Less Allowance for Loan Losses of \$2,588,301 for 2018 and \$2,541,809 for 2017	310,516,389	309,007,662
Bank Premises and Equipment, Net	10,456,093	10,919,286
Accrued Interest Receivable	963,763	976,176
Investment in FNBB Stock	250,000	250,000
Investment in FHLB of Dallas Stock	1,012,800	993,600
Other Investments	735,000	660,000
Cash Surrender Value of Life Insurance	2,912,130	2,867,405
Other Assets	1,287,823	1,830,246
Total Assets	<u>\$ 385,348,335</u>	<u>\$ 389,381,418</u>

LIABILITIES

Deposits:		
Non-Interest Bearing	\$ 105,443,675	\$ 107,522,917
Interest Bearing	240,730,293	227,407,214
Total Deposits	346,173,968	334,930,131
Advances from the FHLB of Dallas	-	15,000,000
Accrued Interest Payable	48,311	35,175
Dividends Payable	-	1,021,772
Deferred Tax Liability	236,512	354,639
Other Liabilities	1,268,182	1,213,152
Total Liabilities	347,726,973	352,554,869

STOCKHOLDERS' EQUITY

Common Stock - \$1 Par Value, 2,100,000 Shares Authorized 2,043,543 Issued and Outstanding	2,043,543	2,043,543
Capital Surplus	9,956,457	9,956,457
Retained Earnings	27,747,775	26,347,969
Accumulated Other Comprehensive Income (Loss)	(2,126,413)	(1,521,420)
Total Stockholders' Equity	37,621,362	36,826,549
Total Liabilities and Stockholders' Equity	<u>\$ 385,348,335</u>	<u>\$ 389,381,418</u>

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

MBT BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Interest Income:		
Interest and Fees on Loans	\$ 15,497,875	\$ 13,991,760
Interest and Dividends on Securities-Taxable	786,503	857,077
Interest and Dividends on Securities-Non-taxable	219,741	234,706
Interest on Interest Bearing Deposits and Federal Funds Sold	87,543	63,483
Total Interest Income	16,591,662	15,147,026
Interest Expense:		
Interest Expense on Deposits	543,038	450,553
Interest on Borrowings	148,897	33,345
Total Interest Expense	691,935	483,898
Net Interest Income	15,899,727	14,663,128
Provision for Loan Losses	355,000	661,424
Net Interest Income after Provision for Loan Losses	15,544,727	14,001,704
Noninterest Income:		
Customer Service Fees	2,652,578	2,524,611
Gain on Sale of Loans	106,389	75,205
Gain (Loss) on Sale of Securities Available-for-Sale	(10,803)	53,764
Other	346,493	429,425
Total Noninterest Income	3,094,657	3,083,005
Noninterest Expense:		
Salaries and Employee Benefits	8,201,314	7,738,296
Occupancy Expense	2,218,490	2,344,969
Other Operating Expenses	3,819,650	3,942,969
Total Noninterest Expense	14,239,454	14,026,234
Income Before Income Taxes	4,399,930	3,058,475
Provision for Income Taxes	956,580	612,549
Net Income	\$ 3,443,350	\$ 2,445,926

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

MBT BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Net Income	\$ 3,443,350	\$ 2,445,926
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Investment Securities	(325,174)	(86,210)
Income Tax Effect	<u>68,286</u>	<u>29,311</u>
	<u>(256,888)</u>	<u>(56,899)</u>
Reclassification Adjustment for (Gains) Losses Realized	10,803	(53,764)
Income Tax Effect	<u>(2,269)</u>	<u>18,280</u>
	<u>8,534</u>	<u>(35,484)</u>
Unrecognized Pension Plan Gains (Losses)	(451,442)	(177,733)
Income Tax Effect	<u>94,803</u>	<u>60,429</u>
	<u>(356,639)</u>	<u>(117,304)</u>
Total Other Comprehensive Loss, Net of Taxes	<u>(604,993)</u>	<u>(209,687)</u>
Comprehensive Income	<u>\$ 2,838,357</u>	<u>\$ 2,236,239</u>

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

MBT BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, December 31, 2016	\$ 2,043,543	\$ 9,956,457	\$ 25,695,226	\$ (1,061,372)	\$ 36,633,854
Net Income	-	-	2,445,926	-	2,445,926
Other Comprehensive Income (Loss)	-	-	-	(209,687)	(209,687)
Cash Dividends (\$1.00 per Share)	-	-	(2,043,544)	-	(2,043,544)
Reclassification due to Tax Cuts and Jobs Act	-	-	250,361	(250,361)	-
Balances, December 31, 2017	2,043,543	9,956,457	26,347,969	(1,521,420)	36,826,549
Net Income	-	-	3,443,350	-	3,443,350
Shares Exchanged in the Formation of MBT Bancshares, Inc.	(2,043,543)	(9,956,457)	-	-	(12,000,000)
Shares Issued in the Formation of MBT Bancshares, Inc.	2,043,543	9,956,457	-	-	12,000,000
Other Comprehensive Income (Loss)	-	-	-	(604,993)	(604,993)
Cash Dividends (\$1.00 per Share)	-	-	(2,043,544)	-	(2,043,544)
Balances, December 31, 2018	<u>\$ 2,043,543</u>	<u>\$ 9,956,457</u>	<u>\$ 27,747,775</u>	<u>\$ (2,126,413)</u>	<u>\$ 37,621,362</u>

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

MBT BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Net Income	\$ 3,443,350	\$ 2,445,926
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Net Amortization on Securities Available-for-Sale	147,546	185,855
Net (Gain) Loss on Sale of Securities Available-for-Sale	10,803	(53,764)
Net (Gain) Loss on Sale of Foreclosed Assets	-	(4,950)
Provision for Loan Losses	355,000	661,424
Provision (Benefit) for Deferred Income Taxes	42,693	(369,830)
Depreciation and Amortization	723,595	839,098
Stock Dividend on FHLB of Dallas Stock	(19,200)	(500)
Changes in Assets and Liabilities:		
(Increase) Decrease in Loans Held for Sale	208,745	(8,745)
(Increase) Decrease in Accrued Interest Receivable	12,413	(40,309)
(Increase) Decrease in Cash Surrender Value of Life Insurance	(44,725)	(46,528)
(Increase) Decrease in Other Assets	90,981	(298,266)
Increase (Decrease) in Accrued Interest Payable	13,136	2,114
Increase (Decrease) in Dividends Payable	(1,021,772)	-
Increase (Decrease) in Other Liabilities	55,030	133,194
Net Cash Provided by Operating Activities	4,017,595	3,444,719
Cash Flows From Investing Activities:		
Purchases of Securities Available-for-Sale	(12,945,615)	(7,643,595)
Proceeds from Sales of Securities Available for Sale	4,511,394	16,800,349
Proceeds from Maturities, Calls and Paydowns of Securities Available-for-Sale	9,969,961	15,095,093
Purchase of Interest Bearing Deposits in Other Financial Institutions	(1,229,399)	(1,224,528)
Proceeds from Maturities of Interest Bearing Deposits in Other Financial Institutions	1,229,144	1,221,196
Purchase of FHLB of Dallas Stock	-	(836,100)
Proceeds from Sale of Foreclosed Assets	-	90,000
Purchase of Other Investments	(75,000)	-
Net (Increase) Decrease in Loans	(1,863,727)	(40,563,670)
Purchases of Premises and Equipment	(260,402)	(422,626)
Net Cash Used in Investing Activities	(663,644)	(17,483,881)

(CONTINUED)

METAIRIE BANK AND TRUST COMPANY

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Financing Activities:		
Net (Decrease) Increase in Advances from FHLB of Dallas	(15,000,000)	15,000,000
Net Increase (Decrease) in Deposits	11,243,837	(4,250,215)
Dividends Declared	(2,043,544)	(2,043,544)
	(5,799,707)	8,706,241
Net Decrease in Cash and Cash Equivalents	(2,445,756)	(5,332,921)
Cash and Cash Equivalents - Beginning of Year	10,616,528	15,949,449
Cash and Cash Equivalents - End of Year	\$ 8,170,772	\$ 10,616,528
Supplemental Disclosures of Cash Flow Information:		
Cash Payments for:		
Interest on Deposits	\$ 529,902	\$ 448,439
Interest Paid on Advances from FHLB of Dallas	\$ 148,897	\$ 33,345
Income Taxes	\$ 797,500	\$ 944,000
Supplemental Schedule of Noncash Investing Activities:		
Change in Unrealized (Loss) Gain on Securities Available-for-Sale	\$ (314,371)	\$ (139,974)
Change in Deferred Tax Effect on the Unrealized Gain (Loss) on Securities Available-for-Sale	\$ (68,104)	\$ (8,809)
Foreclosed Real Estate Acquired in Settlement of Loans	\$ -	\$ 85,050

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

MBT BANCSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1 - Summary of Significant Accounting Policies -

Nature of Operations

On September 29, 2017, MBT Bancshares, Inc. (the “Company”) was incorporated as a Louisiana corporation to facilitate the reorganization of Metairie Bank and Trust Company (the “Bank”) into a holding company structure by means of a statutory share exchange in accordance with Section 1-1101 *et seq.* of the Louisiana Business Corporation Act and Section 352.1 of the Louisiana Banking Law. As a result of the share exchange, the Company acquired all of the issued and outstanding shares of the Bank as of March 29, 2018 in exchange for all of the issued and outstanding shares of the Company, thereby becoming a registered bank holding company under the Bank Holding Company Act of 1956, as amended, with respect to the Bank.

MBT Bancshares, Inc. (OTC – MBKL) operates pursuant to section 3(a) (1) of the Bank Holding Company Act.

Metairie Bank and Trust Company operates under a state bank charter and provides full banking services. The Bank is subject to regulation of the Federal Deposit Insurance Corporation and the Office of Financial Institutions of the State of Louisiana. The Bank serves the immediate and surrounding geographic areas from its various offices located in Metairie, Mandeville, and Covington, Louisiana, and generates commercial, mortgage and consumer loans to and receives deposits from individual and business customers located in these and surrounding areas. In addition, the Bank operates a full service insurance agency, MB Insurance, and an investment advisory firm, MB Investments.

The Bank’s loan portfolio consists mainly of permanent and construction mortgage loans collateralized by residential and commercial real estate. These loans are structured as traditional closed-end mortgage loans, as well as revolving lines of credit. The loans are expected to be repaid from cash flows of the borrowers. Some of the activities that the economy of the region of Louisiana in which the Bank operates is dependent upon include the petrochemical industry, port activity along that region of the Mississippi River, healthcare and tourism. Significant declines in these activities and the general economic conditions in the Bank's market areas could affect borrowers’ abilities to repay loans and cause a decline in value of the assets securing the loan portfolio.

The Bank’s operations are subject to customary business risks associated with activities of a financial institution. Some of those risks include competition from other institutions and changes in economic conditions, interest rates and regulatory requirements.

Principles of Consolidation

The consolidated financial statements as of and for the year ended December 31, 2018, include MBT Bancshares, Inc. and its wholly-owned subsidiary the Bank, together referred to as the Company. Intercompany transactions and balances have been eliminated in consolidation. The financial statements as of and for the year ended December 31, 2017 represent the Bank only, as the reorganization into holding company structure, including the formation of MBT Bancshares, Inc., was completed on March 29, 2018. References herein to the Company for periods prior to the completion of the stock exchange should be deemed to refer to the Bank.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for losses on loans, the valuation of foreclosed real estate, the valuation of deferred tax assets, other than temporary impairments of securities and the fair value of financial instruments. 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 Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that these estimates may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The accounting and reporting policies of the Bank are in accordance with U.S. generally accepted accounting principles and conform to general practices within the banking industry. The more significant of the principles used in preparing the financial statements are briefly described below:

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and due from banks, interest bearing deposits with maturities of less than 90 days and federal funds sold.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates this classification periodically. Trading account securities are held for resale in anticipation of short-term market movements. Debt securities are classified as held to maturity when the Bank has the positive intent and ability to hold the securities to maturity. Securities not classified as held to maturity or trading are classified as available for sale.

Trading account securities are carried at market value. Gains and losses, both realized and unrealized, are reflected in earnings. Held to maturity securities are stated at amortized cost. Available for sale securities are stated at fair value, with unrealized gains and losses, net of tax, reported in a separate component of other comprehensive income.

The amortized cost of debt securities classified as held to maturity or available for sale is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of mortgage-backed securities, over the estimated life of the security. Amortization, accretion and accrued interest are included in interest income on securities.

Realized gains and losses, and declines in value judged to be other than temporary, are included in net securities gains and losses. The cost of securities sold is determined based on the specific identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The written down amount then becomes the security's new cost basis. The related write-downs are included in earnings as realized losses. In estimating whether to recognize other-than-temporary impairment losses on a security, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Current guidance replaced the "intent and ability" indication in prior guidance by specifying that (a) if management does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss identified within the security. When management does not intend to sell the security, and it is more likely than not management will not have to sell the security before recovery of its cost basis, it will recognize the credit component of any other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of any other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Mortgage Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value under fair value option accounting guidance for financial instruments. For these loans, gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for loan losses and any unamortized deferred fee or costs on originated loans, and premiums or discounts on purchased loans. Unearned income relates principally to consumer installment loans. Interest income on these loans is recognized using the interest method over the life of the loan.

When the payment of principal or interest on a loan is delinquent for 90 days, or earlier in some cases, the loan is placed on non-accrual status, unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan. When a loan is placed on a non-accrual basis, interest accrued during the current year prior to the judgment of uncollectability is charged to operations. Interest accrued during prior periods is charged to allowance for loan losses. Generally, any payments received on non-accrual loans are applied first to outstanding loan amounts and next to the recovery of charged-off loan amounts. Any excess is treated as recovery of lost interest.

The Bank considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Bank's impaired loans include non-performing troubled debt restructurings and loans in which full payment of principal or interest is not expected. The Bank calculates a reserve required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or the fair value of its collateral.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which is considered adequate to reflect estimated probable credit losses inherent in the loan portfolio that have been incurred as of the balance sheet date as well as estimated credit losses associated with specifically identified loans. A formal review of the allowance for loan losses is prepared periodically to assess the risk of loss in the loan portfolio and to determine the adequacy of the allowance for loan losses. For purposes of the periodic review, loans are aggregated into pools based on various characteristics. Some of those characteristics include payment status, concentrations, risk rating, loan to collateral value and the financial status of borrowers.

The allowance allocated to each of these pools is based on historical charge-off rates, adjusted for changes in the credit risk characteristics within these pools, as determined from current information and analyses. Management also ensures that the overall allowance appropriately reflects current macroeconomic conditions, industry exposure and a margin for the imprecision inherent in most estimates of expected credit losses.

As a result, such amount is reflected in a portion of the allowance that is included to provide for probable losses incurred but unidentified within the loan portfolio as of the balance sheet date and not to provide for possible or future losses beyond the balance sheet date. This portion of the allowance, which is judgmentally determined, generally serves to compensate for the uncertainty in estimating loan losses, particularly in times of changing economic conditions, and considers the possibility of improper risk rating and possible over or under allocation of specific allowances.

The allowance considers trends in delinquencies and non-accrual loans, concentrations, the volatility of risk ratings and the evolving portfolio mix in terms of collateral, relative loan size and the degree of seasoning within the various loan products. Changes in underwriting standards, credit administration and collection policies, regulation and other factors which affect the credit

quality and collectability of the loan portfolio also impact this portion of the allowance level. The allowance also consists of amounts provided for each loan that is reviewed for impairment or for which a probable loss has been identified.

The allowance related to loans that are identified as impaired is based on discounted expected future cash flows (using the loan's initial effective interest rate), the observable market value of the loan or the estimated fair value of the collateral for certain collateral dependent loans. Factors contributing to the determination of specific allowances include the financial condition of the borrower, changes in the value of pledged collateral and general economic conditions.

The allowance for loan losses is based on management's estimate of probable credit losses inherent in the loan portfolio and represents an estimate in the financial statements. As such, the actual level of allowance required could vary from the amount estimated by management at the balance sheet date and actual credit losses could vary from the current estimate. As adjustments to the allowance for loan losses become necessary, they are reflected as a provision for loan losses in current-period earnings. Actual loan charge-offs are deducted from and subsequent recoveries of previously charged-off loans are added to the allowance.

Impaired Loans

A loan is considered impaired, in accordance with the impairment accounting guidance of FASB ASC 310-10-35-16, Receivables, when based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance. This valuation allowance is recorded in the allowance for loan losses on the balance sheet.

Interest payments received on impaired loans are recorded as interest income unless collection of the remaining recorded investment is doubtful, at which time payments received are recorded as reductions of principal. Changes in the present value due to the passage of time are recorded as interest income, while changes in estimated cash flows are recorded in the provision for loan losses.

Bank Premises and Equipment

Bank premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is computed using the straight-line method for bank premises and leaseholds over estimated useful lives of those assets of 39 years and the straight-line method for equipment, furniture and fixtures over their estimated useful lives ranging from 3 to 7 years.

Foreclosed Assets

Properties acquired through foreclosure or deed taken in lieu of foreclosure are recorded at fair value at the time of foreclosure, net of disposal costs. Write-downs from cost to fair value at the time of foreclosure are charged to the allowance for loan losses. Subsequent write-downs and gains and losses recognized on the sales of such properties are included in the statements of income. Determinations of fair value are based on periodic appraisals, which are subject to significant fluctuations as economic conditions change.

Other Investments

Investments in entities such as a partnership or a limited liability company are accounted for under the cost method in which the original investment is recorded at its historical cost.

Income Taxes

The Bank accounts for income taxes in accordance with income tax guidance of FASB ASC 740, Income Taxes, and has adopted the recent accounting guidance related to accounting for uncertainty in income taxes, which sets forth a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The income tax guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of enacted tax law to the taxable income or excess deductions over revenues. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the difference between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2018 and 2017, the Bank does not believe that it has taken any positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

The Bank files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Bank is no longer subject to federal tax examinations by the federal tax authorities for years before 2015. The Bank recognizes interest and penalties on income taxes, if incurred, as a component of income tax expense.

The Bank is not currently subject to state or local income taxes. The Bank is subject to the Louisiana Shares Tax which is an ad valorem tax imposed on the assessed value of the Bank's stock.

Comprehensive Income

The Bank reports comprehensive income in accordance with the accounting guidance related to FASB ASC 220, Comprehensive Income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes net unrealized gains and (losses) on securities and net unrecognized pension plan gains and (losses) and is presented in the statements of stockholders' equity and comprehensive income. FASB ASC 220 requires only additional disclosures in the financial statements and does not affect the Bank's financial position or results of operations.

Statement of Cash Flows

The statement of cash flows was prepared in accordance with the accounting guidance of FASB ASC 230, Statement of Cash Flows, which permits certain financial institutions to report, in a statement of cash flows, net receipts and payments for deposits placed, time deposits accepted and repaid and loans made and collected.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimate.

Advertising

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was \$325,249 and \$369,859 for the years ended December 31, 2018 and 2017, respectively, and is included in other operating expenses.

Recent Accounting Pronouncements

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU implements a common revenue standard and clarifies the principles used for recognizing revenue. The amendments of the ASU clarify that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, which comprises a significant portion of the Company's revenue stream. The ASU was effective on January 1, 2018. The Company did not identify any material changes to the timing of revenue recognition.

The FASB issued Accounting Standards Update (“ASU”) 2016-01, *Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment. This ASU also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. It also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities, and eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. ASU No. 2016-16 requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU requires separate presentation of financial assets and financial liabilities by category and form on the balance sheet or the accompanying notes to the financial statements. In addition, this ASU clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. For public business entities, the amendments in the update are effective for fiscal years beginning after December 15, 2017, including interim periods. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements at December 31, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842), Conforming Amendments Related to Leases*. This ASU amends the codification regarding leases in order to increase transparency and comparability. The ASU requires companies to recognize leased assets and liabilities on the statement of condition and disclose key information about leasing arrangements. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. The ASU is effective for the Company on January 1, 2019.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. ASU 2016-13, requires an entity to utilize a new impairment model known as the current expected credit loss (CECL) model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. ASU 2016-13 will be effective for the Company on January 1, 2020. The Company has begun evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and disclosures.

Subsequent Events

Management has evaluated subsequent events and transactions for any potential recognition or disclosure in the financial statements through March 22, 2019 the date which the financial statements were available to be issued.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the presentation in the current year financial statements. Such reclassifications had no effect on previously reported net income.

Note 2 - Investment Securities -

At December 31, 2018 and 2017 the Company had no securities classified as trading or held to maturity.

A summary of investment securities classified as available for sale is presented below.

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available for Sale:				
U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$ 16,500,481	\$ -	\$ (122,453)	\$ 16,378,028
Mortgage Backed Securities Securities Issued by States and Political Subdivisions in the U. S.	17,635,144	15,202	(171,150)	17,479,196
	14,295,809	3,291	(337,582)	13,961,518
	<u>\$ 48,431,434</u>	<u>\$ 18,493</u>	<u>\$ (631,185)</u>	<u>\$ 47,818,742</u>

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available for Sale:				
U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$ 28,562,096	\$ 3,478	\$ (123,627)	\$ 28,441,947
Mortgage Backed Securities Securities Issued by States and Political Subdivisions in the U. S.	7,654,779	-	(61,983)	7,592,796
	<u>13,908,648</u>	<u>47,686</u>	<u>(163,875)</u>	<u>13,792,459</u>
	<u>\$ 50,125,523</u>	<u>\$ 51,164</u>	<u>\$ (349,485)</u>	<u>\$ 49,827,202</u>

The carrying value and estimated fair value of securities at December 31, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Amounts Maturing in:		
One Year or Less	\$ 14,503,115	\$ 14,412,317
After One Year through Five Years	5,364,113	5,300,947
After Five Years through Ten Years	13,525,752	13,343,029
Over Ten Years	<u>15,038,454</u>	<u>14,762,449</u>
	<u>\$ 48,431,434</u>	<u>\$ 47,818,742</u>

Estimated fair values for securities are determined from quoted prices or quoted market prices of similar securities of comparable risk and maturity where no quoted market price exists. Management does not anticipate a requirement to sell any of the Bank's investment securities for liquidity or other operating purposes.

For the year ended December 31, 2018, there were no realized gains and realized losses \$10,803 from the sales of securities. For the year ended December 31, 2017, there were realized gains of \$64,689 and realized losses \$10,925 from the sales and calls of securities. Investment securities with amortized costs of \$6,013,409 and \$5,083,980 and estimated market values of \$5,953,758 and \$5,074,897 at December 31, 2018 and 2017, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Fair values of investment securities measured on a recurring basis at December 31, 2018 and 2017 are as follows:

	Fair Value	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2018</u>				
Available for Sale:				
U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$ 16,378,028	\$ -	\$ 16,378,028	\$ -
Mortgage Backed Securities Securities Issued by States and Political Subdivisions in the U. S.	17,479,196	-	17,479,196	-
	13,961,518	-	13,961,518	-
	<u>\$ 47,818,742</u>	<u>\$ -</u>	<u>\$ 47,818,742</u>	<u>\$ -</u>

	Fair Value	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2017</u>				
Available for Sale:				
U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$ 28,441,947	\$ -	\$ 28,441,947	\$ -
Mortgage Backed Securities Securities Issued by States and Political Subdivisions in the U. S.	7,592,796	-	7,592,796	-
	13,792,459	-	13,792,459	-
	<u>\$ 49,827,202</u>	<u>\$ -</u>	<u>\$ 49,827,202</u>	<u>\$ -</u>

Gross unrealized losses in investment securities at December 31, 2018 and 2017 existing for continuous periods of less than 12 months and for continuous periods of 12 months or more are required financial statement disclosures and are as follows:

<u>Security Description</u>	December 31, 2018					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
Available for Sale:						
U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$ 7,819,005	\$ (44,610)	\$ 7,950,022	\$ (77,843)	\$ 15,769,027	\$ (122,453)
Mortgage Backed Securities	6,992,139	(38,668)	6,025,311	(132,482)	13,017,450	(171,150)
Securities Issued by States and Political Subdivisions in the U. S.	2,454,232	(18,280)	10,462,037	(319,302)	12,916,269	(337,582)
Totals	\$17,265,376	\$ (101,558)	\$ 24,437,370	\$ (529,627)	\$ 41,702,746	\$ (631,185)
<u>Security Description</u>	December 31, 2017					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
Available for Sale:						
U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$18,450,837	\$ (57,219)	\$ 5,914,834	\$ (66,409)	\$ 24,365,671	\$ (123,627)
Mortgage Backed Securities	7,592,796	(61,983)	-	-	7,592,796	(61,983)
Securities Issued by States and Political Subdivisions in the U. S.	6,726,146	(24,395)	3,470,582	(139,479)	10,196,728	(163,875)
Totals	\$32,769,779	\$ (143,597)	\$ 9,385,416	\$ (205,888)	\$ 42,155,195	\$ (349,485)

Management evaluates securities for other-than-temporary impairment on a periodic and regular basis, as well as when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2018 and 2017, these unrealized losses related principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As the Bank has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 3 - Loans -

The loan portfolio consists of loans classified by major types at December 31, 2018 and 2017 as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Real Estate Loans:		
Residential	\$ 160,858	\$ 154,198
Non-Residential	109,617	110,115
Commercial Loans	19,182	15,118
Consumer and Credit Cards	5,677	7,246
Construction and Land Development	<u>17,771</u>	<u>25,082</u>
	313,105	311,759
Allowance for Loan Losses	<u>(2,588)</u>	<u>(2,542)</u>
	<u>\$ 310,517</u>	<u>\$ 309,217</u>

Loans held for sale in the amount of \$-0- and \$208,745 at December 31, 2018 and 2017, respectively, are included in the above table.

The Bank has entered into transactions with certain directors, executive officers, significant stockholders and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

An analysis of the aggregate of these loans at December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Balance, January 1	\$ 4,649,465	\$ 4,072,175
Advances	-	984,821
Payments	<u>(385,053)</u>	<u>(407,531)</u>
Balance, December 31	<u>\$ 4,264,412</u>	<u>\$ 4,649,465</u>

Management segregates the loan portfolio into portfolio segments which is defined as the level at which the Bank develops and documents a systematic method for determining its allowance for loan losses. The portfolio segments are segregated based on loan types and the underlying risk factors present in each loan type. Such risk factors are periodically reviewed by management and revised as deemed appropriate. The following tables set forth, as of December 31, 2018 and 2017, the balance of the allowance for loan losses by portfolio segment, disaggregated by impairment methodology, which is then further segregated by amounts evaluated for impairment collectively and individually. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

Allowance for Loan Losses and Recorded Investment in Loans Receivable for the year ended December 31, 2018 and 2017 (in thousands):

<u>2018</u>	<u>Real Estate- Residential</u>	<u>Real Estate- Non Residential</u>	<u>Commercial</u>	<u>Consumer & Credit Card</u>	<u>Construction & Land Development</u>	<u>Total</u>
Allowance for Loan Losses:						
Beginning Balance	\$ 1,259	\$ 897	\$ 123	\$ 59	\$ 204	\$ 2,542
Charge-Offs	(7)	-	(168)	(263)	-	(438)
Recoveries	-	-	-	129	-	129
Provision	78	9	204	122	(58)	355
Ending Balance	<u>\$ 1,330</u>	<u>\$ 906</u>	<u>\$ 159</u>	<u>\$ 47</u>	<u>\$ 146</u>	<u>\$ 2,588</u>
Ending Balance of Allowance for Loan Losses Allocated to:						
Loans Individually Evaluated for Impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans Collectively Evaluated for Impairment	<u>\$ 1,330</u>	<u>\$ 906</u>	<u>\$ 159</u>	<u>\$ 47</u>	<u>\$ 146</u>	<u>\$ 2,588</u>
Loans Receivable:						
Total Loans Receivable	<u>\$ 160,858</u>	<u>\$ 109,617</u>	<u>\$ 19,182</u>	<u>\$ 5,677</u>	<u>\$ 17,771</u>	<u>\$ 313,105</u>
Loans Individually Evaluated for Impairment	<u>\$ 181</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181</u>
Loans Collectively Evaluated for Impairment	<u>\$ 160,677</u>	<u>\$ 109,617</u>	<u>\$ 19,182</u>	<u>\$ 5,677</u>	<u>\$ 17,771</u>	<u>\$ 312,924</u>

<u>2017</u>	Real Estate- Residential	Real Estate- Non Residential	Commercial	Consumer & Credit Card	Construction & Land Development	Total
Allowance for Loan Losses:						
Beginning Balance	\$ 1,163	\$ 711	\$ 102	\$ 172	\$ 61	\$ 2,209
Charge-offs	(3)	-	-	(444)	-	(447)
Recoveries	9	-	-	110	-	119
Provision	90	186	21	221	143	661
Ending Balance	<u>\$ 1,259</u>	<u>\$ 897</u>	<u>\$ 123</u>	<u>\$ 59</u>	<u>\$ 204</u>	<u>\$ 2,542</u>
Ending Balance of Allowance for Loan Losses Allocated to:						
Loans Individually Evaluated for Impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans Collectively Evaluated for Impairment	<u>\$ 1,259</u>	<u>\$ 897</u>	<u>\$ 123</u>	<u>\$ 59</u>	<u>\$ 204</u>	<u>\$ 2,542</u>
Loans Receivable:						
Total Loans Receivable	<u>\$ 154,198</u>	<u>\$ 110,115</u>	<u>\$ 15,118</u>	<u>\$ 7,246</u>	<u>\$ 25,082</u>	<u>\$ 311,759</u>
Loans Individually Evaluated for Impairment	<u>\$ 390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390</u>
Loans Collectively Evaluated for Impairment	<u>\$ 153,808</u>	<u>\$ 110,115</u>	<u>\$ 15,118</u>	<u>\$ 7,246</u>	<u>\$ 25,082</u>	<u>\$ 311,369</u>

Management further disaggregates the loan portfolio segments into classes of loans, which are based on the initial measurement of the loan, risk characteristics of the loan and the method for monitoring and assessing the credit risk of the loan.

As of December 31, 2018 and 2017, loan balances outstanding more than 90 days and still accruing interest were \$-0- and \$74,000, respectively.

At December 31, 2018 and 2017, the credit quality indicators (performing and non-performing loans), disaggregated by class of loan, are as follows (in thousands):

<u>2018</u>	<u>Unclassified*</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Real Estate Loans:					
Residential	\$ 159,577	\$ 1,281	\$ -	\$ -	\$ 160,858
Non-Residential	107,409	2,208	-	-	109,617
Commercial Loans	18,620	562	-	-	19,182
Consumer and Credit Cards	5,623	51	3	-	5,677
Construction and Land Development	17,771	-	-	-	17,771
	<u>\$ 309,000</u>	<u>\$ 4,102</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 313,105</u>
<u>2017</u>	<u>Unclassified*</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Real Estate Loans:					
Residential	\$ 152,572	\$ 1,626	\$ -	\$ -	\$ 154,198
Non-Residential	107,377	2,738	-	-	110,115
Commercial Loans	14,663	455	-	-	15,118
Consumer and Credit Cards	7,157	89	-	-	7,246
Construction and Land Development	25,082	-	-	-	25,082
	<u>\$ 306,851</u>	<u>\$ 4,908</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 311,759</u>

*Includes loans classified as pass and watch.

The following table reflects certain information with respect to the loan portfolio delinquencies by loan class and amount as of December 31, 2018 and 2017 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded investment Over 90 Days and Still Accruing
<u>2018</u>							
Real Estate Loans:							
Residential	\$ 366	\$ -	\$ 181	\$ 547	\$ 160,311	\$ 160,858	\$ -
Non-Residential	-	-	-	-	109,617	109,617	-
Commercial Loans	-	-	-	-	19,182	19,182	-
Consumer and Credit Cards	151	-	-	151	5,526	5,677	-
Construction and Land Development	-	-	-	-	17,771	17,771	-
	<u>\$ 517</u>	<u>\$ -</u>	<u>\$ 181</u>	<u>\$ 698</u>	<u>\$ 312,407</u>	<u>\$ 313,105</u>	<u>\$ -</u>
<u>2017</u>							
Real Estate Loans:							
Residential	\$ 278	\$ -	\$ 464	\$ 742	\$ 153,456	\$ 154,198	\$ 74
Non-Residential	-	-	-	-	110,115	110,115	-
Commercial Loans	-	-	-	-	15,118	15,118	-
Consumer and Credit Cards	229	-	-	229	7,017	7,246	-
Construction and Land Development	-	-	-	-	25,082	25,082	-
	<u>\$ 507</u>	<u>\$ -</u>	<u>\$ 464</u>	<u>\$ 971</u>	<u>\$ 310,788</u>	<u>\$ 311,759</u>	<u>\$ 74</u>

All impaired loans by class of loans as of December 31, 2018 and 2017 are as follows (in thousands):

<u>2018</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Impaired Loans with no Related Allowance Recorded:					
Real Estate Loans:					
Residential	\$ 181	\$ 181	\$ -	\$ 286	\$ -
Non-Residential	-	-	-	-	-
Commercial Loans	-	-	-	-	-
Construction and Land Development	-	-	-	-	-
Consumer and Credit Cards	-	-	-	-	-
	<u>\$ 181</u>	<u>\$ 181</u>	<u>\$ -</u>	<u>\$ 286</u>	<u>\$ -</u>
With an Allowance Recorded:					
Real Estate Loans:					
Residential	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Residential	-	-	-	-	-
Commercial Loans	-	-	-	-	-
Construction and Land Development	-	-	-	-	-
Consumer and Credit Cards	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Impaired Loans:					
Real Estate Loans:					
Residential	\$ 181	\$ 181	\$ -	\$ 286	\$ -
Non-Residential	-	-	-	-	-
Commercial Loans	-	-	-	-	-
Construction and Land Development	-	-	-	-	-
Consumer and Credit Cards	-	-	-	-	-
	<u>\$ 181</u>	<u>\$ 181</u>	<u>\$ -</u>	<u>\$ 286</u>	<u>\$ -</u>

<u>2017</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Impaired Loans with no Related Allowance Recorded:					
Real Estate Loans:					
Residential	\$ 390	\$ 390	\$ -	\$ 367	\$ -
Non-Residential	-	-	-	-	-
Commercial Loans	-	-	-	-	-
Construction and Land Development	-	-	-	-	-
Consumer and Credit Cards	-	-	-	-	-
	<u>\$ 390</u>	<u>\$ 390</u>	<u>\$ -</u>	<u>\$ 367</u>	<u>\$ -</u>
With an Allowance Recorded:					
Real Estate Loans:					
Residential	\$ -	\$ -	\$ -	\$ 9	\$ -
Non-Residential	-	-	-	-	-
Commercial Loans	-	-	-	-	-
Construction and Land Development	-	-	-	-	-
Consumer and Credit Cards	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9</u>	<u>\$ -</u>
Total Impaired Loans:					
Real Estate Loans:					
Residential	\$ 390	\$ 390	\$ -	\$ 376	\$ -
Non-Residential	-	-	-	-	-
Commercial Loans	-	-	-	-	-
Construction and Land Development	-	-	-	-	-
Consumer and Credit Cards	-	-	-	-	-
	<u>\$ 390</u>	<u>\$ 390</u>	<u>\$ -</u>	<u>\$ 376</u>	<u>\$ -</u>

The fair value of impaired loans is measured at the fair value of the collateral for collateral-dependent loans. Impaired loans are level 2 assets measured on a non-recurring basis using appraisals from external parties of the collateral less any prior liens. In addition, repossessed assets are initially recorded at fair value less estimated costs to sell. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, repossessed assets are also level 2 assets measured on a nonrecurring basis.

Loans receivable on non-accrual status (which are those past due greater than 90 days) by loan class at December 31, 2018 and 2017 are as follows (in thousands):

2018

Real Estate Loans:	
Residential	\$ 181
Non-Residential	-
Commercial Loans	-
Construction and Land Development	-
Consumer and Credit Cards	-
	<u>\$ 181</u>

2017

Real Estate Loans:	
Residential	\$ 390
Non-Residential	-
Commercial Loans	-
Construction and Land Development	-
Consumer and Credit Cards	-
	<u>\$ 390</u>

The following tables summarize information relative to loan modifications determined to be Troubled Debt Restructurings as of December 31, 2018 and 2017 (dollars in thousands). At December 31, 2018 and 2017, four of the troubled debt restructurings defaulted subsequent to the restructuring through the date the financial statements were available to be issued.

	<u>Number of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investments</u>	<u>Post-Modification Outstanding Recorded Investments</u>
<u>2018</u>			
Real Estate Loans:			
Residential	4	\$ 372	\$ 312
Non-Residential	-	-	-
Commercial Loans	-	-	-
Construction and Land Development	-	-	-
Consumer and Credit Cards	-	-	-
	<u>4</u>	<u>\$ 372</u>	<u>\$ 312</u>

	<u>Number of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investments</u>	<u>Post-Modification Outstanding Recorded Investments</u>
<u>2017</u>			
Real Estate Loans:			
Residential	4	\$ 372	\$ 318
Non-Residential	-	-	-
Commercial Loans	-	-	-
Construction and Land Development	-	-	-
Consumer and Credit Cards	-	-	-
	<u>4</u>	<u>\$ 372</u>	<u>\$ 318</u>
Totals	<u>4</u>	<u>\$ 372</u>	<u>\$ 318</u>

The following provides information about the Bank's non-performing assets at December 31, 2018 and 2017 (dollars in thousands):

	<u>2018</u>	<u>2017</u>
Non-Accrual Loans	\$ 181	\$ 390
Loans Past Due 90 or More Days and Still Accruing Interest	-	74
Total Non-Performing Loans	<u>181</u>	<u>464</u>
Foreclosed Real Estate	-	-
Total Non-Performing Assets	<u>\$ 181</u>	<u>\$ 464</u>
Allowance for Loan Losses	<u>\$ 2,588</u>	<u>\$ 2,542</u>
Non-Performing Loans to Year-End Loans, Excluding Loans Held for Sale	<u>0.06%</u>	<u>0.15%</u>
Allowance for Loan Losses to Year-End Loans, Excluding Loans Held for Sale	<u>0.83%</u>	<u>0.82%</u>
Non-Performing Assets as a Percentage of: Loans and Foreclosed Real Estate	<u>0.06%</u>	<u>0.15%</u>
Total Assets	<u>0.05%</u>	<u>0.12%</u>
Ratio of Allowance for Loan Losses to Non-Performing Loans	<u>1429.83%</u>	<u>547.84%</u>

Note 4 - Bank Premises and Equipment –

Bank premises and equipment at December 31, 2018 and 2017 are summarized below:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,257,203	\$ 2,272,424
Buildings	8,285,616	8,270,395
Leasehold Improvements	3,378,691	3,345,633
Furniture, Fixtures and Equipment	6,960,767	6,733,422
	<u>20,882,277</u>	<u>20,621,874</u>
Less: Accumulated Depreciation	(10,426,184)	(9,702,588)
	<u>\$ 10,456,093</u>	<u>\$ 10,919,286</u>

Depreciation and amortization amounted to \$723,595 and \$839,098 in 2018 and 2017, respectively.

Note 5 - Investments in Membership Stocks -

The Bank maintains investments in membership stocks of First National Bankers' Bank (FNBB) and the Federal Home Loan Bank (FHLB) of Dallas. The carrying amounts of these investments are stated at cost.

Note 6 - Other Investment -

The Bank has invested in Community Financial Insurance Center, L.L.C., a limited liability company organized to engage in the insurance agency business, including the acquisition of existing insurance agencies and such other related activities, but only to the extent such activities are permissible for banks, either directly or through their affiliates. The Bank's initial investment of \$400,000 amounted to approximately 2.5% of the limited liability company's contributed capital at inception. The Bank accounts for its investment in the company by the cost method. The carrying amount of the investment approximates the Bank's investment in the amount of underlying equity in the company's net assets.

The Bank has committed to invest \$500,000 into Route 2 Capital Partners, a Small Business Investment Company ("SBIC"). SBIC's are privately owned and managed investments funds that are licensed and regulated by the Small Business Administration ("SBA"), to make investment in qualifying small business, as defined by SBA regulations. At December 31, 2018, the Bank had invested \$75,000 into this SBIC.

Note 7 - Deposits -

Deposit account balances at December 31, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Non-Interest Bearing Demand	\$ 105,443,675	\$ 107,522,917
Interest Bearing Demand	82,155,292	75,163,925
Savings	120,361,780	119,421,155
Certificates of Deposit	38,213,221	32,822,134
	<u>\$ 346,173,968</u>	<u>\$ 334,930,131</u>

The aggregate amount of certificates of deposit with denominations in excess of \$250,000 was approximately \$5,280,000 and \$3,336,000 at December 31, 2018 and 2017, respectively. The Bank has no brokered deposits and there are no major concentrations of deposits.

Maturity data for all certificates of deposit as of December 31, 2018 is presented as follows (in thousands):

Three Months or Less	\$ 6,523
Over Three Months Through Twelve Months	8,717
Over One Year Through Three Years	19,391
Over Three Years	<u>3,582</u>
	<u>\$ 38,213</u>

Note 8 - Line of Credit -

The Bank has an available line of credit with the FHLB with a borrowing capacity at December 31, 2018 of approximately \$139,000,000 which is secured by a blanket lien on the Bank's mortgage loans. The outstanding balance of those borrowings from the FHLB at December 31, 2018 and 2017 was \$0- and \$15,000,000, respectively.

At December 31, 2018 and 2017, the amount of FHLB stock required to be owned by the bank was \$155,800 and \$766,500, respectively. At December 31, 2018 and 2017, the bank owns \$857,000 and \$993,600, respectively of FHLB stock.

The Bank has an unsecured \$14,000,000 federal funds line of credit with First National Banker's Bank. This line of credit expires June 30, 2019 and has a variable interest rate based on the prevailing federal funds rate. This line of credit was unfunded at December 31, 2018. The previous line of credit was unfunded at December 31, 2017.

The Company has a \$5,000,000 line of credit with First National Banker's Bank. This line of credit expires September 28, 2019 and has a variable interest rate based on the prevailing prime rate. This line of credit is secured by a pledge of and a first and prior security interest in the common stock of the Bank. This line of credit is subject to certain affirmative covenants, which the Company was in compliance with at December 31, 2018. This line of credit was unfunded at December 31, 2018.

Note 9 - Income Taxes -

The Tax Cut and Jobs Act (the "Tax Act") enacted in December 2017 reduced the federal corporate income tax rate from 34% to 21% effective January 1, 2018. As a result of the Tax Act, the Bank recorded a reduction of the net deferred tax liability, which lowered income tax expense during 2017.

The provision (credit) for income taxes for the years ended December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Current	\$ 913,885	\$ 982,379
Deferred	<u>42,695</u>	<u>(369,830)</u>
	<u>\$ 956,580</u>	<u>\$ 612,549</u>

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

	<u>2018</u>	<u>2017</u>
Federal Statutory Income Tax - 21% for 2018 and 34% for 2017	\$ 923,985	\$ 1,039,882
Nontaxable Income	(51,967)	(95,620)
Nondeductible Expenses	7,405	10,578
Reclassification due to Tax Cuts and Jobs Act	-	(338,074)
Other	<u>77,157</u>	<u>(4,217)</u>
	<u>\$ 956,580</u>	<u>\$ 612,549</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities were computed using currently enacted corporate tax rates of 21% at December 31, 2018 and 2017. Significant components of the Bank's deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Deferred Tax Assets:		
Allowance for Loan Losses	\$ 363,098	\$ 363,098
Deferred Compensation Payable	<u>157,233</u>	<u>157,233</u>
	520,331	520,331
Deferred Tax (Liabilities):		
Pension Costs	(614,171)	(571,476)
Depreciation	<u>(707,923)</u>	<u>(707,923)</u>
	(1,322,094)	(1,279,399)
Subtotal	(801,763)	(759,068)
Unrealized (Gains) Losses - Available for Sale Securities	128,666	62,647
Unrecognized Pension Plan (Gains) Losses	<u>436,585</u>	<u>341,782</u>
Net Deferred Tax Asset (Liability)	<u>\$ (236,512)</u>	<u>\$ (354,639)</u>

Note 10 - Noninterest Income -

The components of other noninterest income for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Insurance Commissions	\$ 296,047	\$ 367,827
Increase in Cash Surrender of Life Insurance	44,735	46,528
Other Income	<u>5,711</u>	<u>15,070</u>
	<u>\$ 346,493</u>	<u>\$ 429,425</u>

Note 11 - Noninterest Expense -

The components of other noninterest expense for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Data Processing Services	237,963	301,304
Directors' Fees	196,050	197,400
Telephone	313,077	324,989
Dues and Subscriptions	143,028	173,259
Postage	131,477	124,447
Software Maintenance	315,860	267,603
ATM Interchange Expense	167,738	194,836
Advertising	325,249	369,859
Insurance - Bank Other	126,816	130,423
Supplies	164,094	143,616
Professional Fees	135,737	177,155
FDIC and OFI Assessments	173,600	177,682
Other	1,388,961	1,360,396
	<u>\$ 3,819,650</u>	<u>\$ 3,942,969</u>

Note 12 - Employee Benefits -

Defined Benefit Plan

The Bank has a defined benefit retirement plan that covers eligible employees that entered the plan prior to September 30, 2012. Prior to that date, eligible employees entered the plan when they attained the age of 21 and had 18 months of service. Effective September 30, 2012, the Bank amended the plan to freeze benefit accruals and anyone who was not a participant in the plan as of that date will not be eligible to enter the plan. Participants are 100% vested upon entry into the plan. The defined benefit plan pays benefits to employees at retirement using formulas based on years of service and compensation rates near retirement. The Bank's funding policy is generally to make the maximum annual contributions required by applicable regulations. Contributions are intended to provide not only for benefits attributable to service to date but also for those expected to be earned in the future. The amount of the unrecognized net loss amount that will be amortized from accumulated other comprehensive income into pension expense in 2019 is estimated to be \$83,663.

Accounting for defined benefit retirement plans is subject to the accounting guidance of FASB ASC 715, Compensation - Retirement Benefits.

At December 31, 2018 and 2017, the net periodic pension cost for each fiscal year was as follows:

	<u>2018</u>	<u>2017</u>
Service Cost	\$ -	\$ -
Interest Cost	180,981	186,053
Expected Return on Assets	(304,575)	(290,200)
Net Amortization Amounts (Gain) or Loss Recognized	<u>116,319</u>	<u>80,345</u>
Net Periodic Pension Cost (Credit)	<u>\$ (7,275)</u>	<u>\$ (23,802)</u>

At December 31, 2018 and 2017, the funded status of the plan was as follows:

	<u>2018</u>	<u>2017</u>
Fair Value of Plan Assets at December 31	\$ 5,935,764	\$ 6,198,652
Benefit Obligation at December 31	<u>(4,734,342)</u>	<u>(5,352,998)</u>
Funded Status	1,201,422	845,654
Unrecognized Net Loss	<u>1,603,813</u>	<u>2,078,971</u>
Prepaid Pension Cost	<u>\$ 2,805,235</u>	<u>\$ 2,924,625</u>

Weighted Average Assumptions as of December 31:

Discount Rate	4.10%	3.45%
Expected Return on Plan Assets	5.00%	5.00%
Rate of Compensation Increase	0.00%	0.00%

The plan's weighted-average asset allocations at December 31, by asset category, are as follows:

Guaranteed Fixed Income Single Group Annuity Contract	<u>100%</u>	<u>100%</u>
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The underlying portfolio backing this group annuity contract is a segment of the General Account of Metropolitan Life Insurance Company. The portfolio is primarily invested in bonds and mortgages and seeks to maintain the highest possible quality consistent with attractive long-term investment returns. Fair value of these type of investments are generally based on level 2 inputs.

There are no Bank securities in the plan assets.

The Bank's is not expected to make a contribution to the plan in 2019.

The following estimated future benefit payments are expected to be made over the following periods:

	<u>Amount</u>
2019	\$ 214,094
2020	216,230
2021	219,966
2022	225,465
2023	227,676
Thereafter	<u>1,255,048</u>
	<u>\$ 2,358,479</u>

The reconciliation of the fair value of plan assets for 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Fair Value of Plan Assets - Beginning	\$ 6,198,652	\$ 5,885,083
Actual Contributions	29,263	179,509
Actual Distributions	(454,890)	(54,329)
Expected Return on Assets	304,575	290,200
Gain or (Loss)	<u>(141,836)</u>	<u>(101,811)</u>
Fair Value of Plan Assets - Ending	<u>\$ 5,935,764</u>	<u>\$ 6,198,652</u>

The reconciliation of the projected benefit obligation (PBO) for 2018 and 2017 are as follows:

PBO - Beginning	\$ 5,352,998	\$ 4,791,296
Interest Cost	180,981	186,053
Actual Distributions	(454,890)	(54,329)
Liability (Gain) or Loss	<u>(344,747)</u>	<u>429,978</u>
PBO - Ending	<u>\$ 4,734,342</u>	<u>\$ 5,352,998</u>

The plan allows lump sum payments. The above estimated benefit payments represent amounts payable as participants reach normal retirement age during the specified years. The lump sums were based on the plan's actuarial assumptions and do not reflect the governmentally prescribed assumptions, which are subject to change each year, and often provide for a higher amount.

Defined Contribution Plan

The Bank offers a 401(k) Employee Savings Plan that covers employees who are over 21 years of age. These employees are automatically enrolled in the Plan. Employees are 100% vested in the funds they have contributed. The matching and discretionary funds contributed by the employer are partially vested after three years and fully vested after seven years of service. In 2018, participants may make contributions in the form of salary deferrals up to 15% of their compensation, up to a maximum of \$18,000, and, participants who have reached the age of 50 may make an additional \$6,000 "catch-up" contribution annually without regard to the above limitations. Effective

February 1, 2016, the Bank matches 100% of each employee's contributions, up to 5% of each employee's compensation. There was no change in the percentage of the Bank's matching contributions for 2018. The Bank's matching contribution for 2018 and 2017 amounted to \$223,789 and \$222,731, respectively.

Deferred Compensation Agreement

The Bank entered into a deferred compensation agreement covering one of its former officers. The total deferred compensation payable under the agreement is \$1,275,000, payable \$85,000 annually for fifteen years commencing upon the officer's retirement. In accordance with accounting principles generally accepted in the United States of America, the deferred compensation was accrued and charged to earnings as the related employee's services were rendered. The annual charge to earnings for 2018 and 2017 was approximately \$48,000, and the amount of accrued deferred compensation at December 31, 2018 and 2017 was approximately \$712,000 and \$749,700, respectively. The agreement is unfunded and is payable from the general assets of the Bank.

Note 13 - Leases -

The Bank has long-term operating leases on certain buildings and land it occupies as branch offices in Metairie, Louisiana, which expire at various times through December 2057. Rent relating to these leases charged to expense was \$408,122 in 2018 and \$395,546 in 2017.

At December 31, 2018 the minimum rental commitments under these non-cancellable leases were as follows:

2019	\$ 358,554
2020	358,554
2021	365,245
2022	286,644
2023	286,644
Thereafter	<u>2,589,805</u>
	<u><u>\$ 4,245,446</u></u>

Note 14 - Financial Instruments with Off-Balance-Sheet Risk -

In the normal course of business, the bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the Balance Sheet.

Financial instruments whose contract amount represents credit risk were as follows:

	<u>2018</u>	<u>2017</u>
Commitments to Extend Credit	\$ 45,173,000	\$ 44,732,000
Standby Letters of Credit	\$ 513,000	\$ 461,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

Note 15 - Significant Concentrations of Credit Risk -

As discussed previously, the Bank generates loans to individual and business customers within its immediate and surrounding geographic areas, and the majority of those loans, which are secured, are collateralized by area real estate and automobiles. Likewise, the Bank receives a majority of its deposits from substantially the same customers.

The Bank is required to maintain average cash reserve balances. The amount of these reserves at December 31, 2018 and 2017 was approximately \$2,335,000 and \$1,646,000, respectively. The Bank also had funds on deposit with the Federal Reserve Bank at December 31, 2018 and 2017 of approximately \$1,524,000 and \$1,914,000, respectively. Also included in cash and due from banks and federal funds sold are deposit balances in other financial institutions that may periodically exceed federally insured limits.

Note 16 - Regulatory Matters -

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation (FDIC). Failure to meet minimum regulatory capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory reporting requirements. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total capital, Tier 1 capital, Common Equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and Leverage capital, which is Tier 1 capital to adjusted average total assets (as defined). Management believes, as of December 31, 2018 and 2017, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2018 and 2017, the most recent notifications from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum Total Capital, Common Equity Tier 1 capital, Tier 1 Capital, and Leveraged Capital ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category. The Bank's actual and required capital amounts and ratios are as follows:

	Actual		Required for Capital Adequacy Purposes		Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018:						
Tier I Leverage Capital (to Average Assets)	\$39,672,681	10.00%	\$15,798,760	4.00%	\$19,748,450	5.00%
Tier I Capital (to Risk Weighted Assets)	\$39,672,681	13.88%	\$17,153,820	6.00%	\$22,871,760	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$39,672,681	13.88%	\$12,865,365	4.50%	\$18,583,305	6.50%
Total Capital (to Risk Weighted Assets)	\$40,889,778	14.78%	\$22,871,760	8.00%	\$28,589,700	10.00%
As of December 31, 2017:						
Tier I Leverage Capital (to Average Assets)	\$38,347,969	9.97%	\$15,436,480	4.00%	\$19,295,600	5.00%
Tier I Capital (to Risk Weighted Assets)	\$38,347,969	13.18%	\$17,457,960	6.00%	\$23,277,280	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$38,347,969	13.18%	\$13,093,470	4.50%	\$18,912,790	6.50%
Total Capital (to Risk Weighted Assets)	\$40,889,778	14.05%	\$23,277,280	8.00%	\$29,096,600	10.00%

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

On November 27, 2018, the Company declared a \$0.50 per share dividend to shareholders of record on December 14, 2018, payable on January 2, 2019. In December of 2018, the amount of this dividend, \$1,021,772 was paid to the Company's third party transfer agent to facilitate the timely completion of this dividend payment. As such, this amount is not reflected as a payable on the Company's financial statements as of December 31, 2018.

Note 17 - Accumulated Other Comprehensive Income (Loss) -

The Company has adopted ASU 2018-02 Topic 220: *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* which was issued by the FASB on February 14, 2018. Under the provisions of this ASU, the Company has reclassified the stranded income tax effects associated with the Tax Cut and Jobs Act from accumulated other comprehensive income to retained earnings. The stranded income tax effects were associated with unrealized losses on securities available for sale and unrecognized losses on pension plan assets at December 31, 2017.

The following is a summary of the changes in the balances of each component of accumulated other comprehensive income (loss) for the years ended December 31, 2018 and 2017:

	Unrealized Gains (Losses) Securities Available for Sale	Defined Benefit Pension Plan Unrecognized Gains (Losses)	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2017	\$ (104,509)	\$ (956,863)	\$ (1,061,372)
Other Comprehensive Income (Loss) Before Reclassification Adjustments, Net of Tax	(56,899)	(117,304)	(174,203)
Reclassification Adjustments, Net of Tax	(35,484)	-	(35,484)
Total Other Comprehensive Income (Loss), Net of Tax	(92,383)	(117,304)	(209,687)
Reclassification due to Tax Cuts and Jobs Act	(38,782)	(211,579)	(250,361)
Balance, December 31, 2017	(235,674)	(1,285,746)	(1,521,420)
Other Comprehensive Income (Loss) Before Reclassification Adjustments, Net of Tax	(256,888)	(356,639)	(613,527)
Reclassification Adjustments, Net of Tax	8,534	-	8,534
Total Other Comprehensive Income (Loss), Net of Tax	(248,354)	(356,639)	(604,993)
Balance December 31, 2018	\$ (484,028)	\$ (1,642,385)	\$ (2,126,413)

Note 18 - Fair Value of Financial Statements -

Fair Value Disclosures

The Company groups its financial assets and liabilities measured at fair value in three levels. Fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets;
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market);
- c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates);
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 - Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset or owes the liability.

Recurring Basis

Fair values of investment securities available for sale were primarily measured using information from a third-party pricing service. This pricing service provides information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data from market research publications.

The following tables present the balance of assets measured on a recurring basis as of December 31, 2018 and 2017. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a recurring basis.

(in thousands)	Description	Fair Value Measurement Using			
		Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2018</u>					
	U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$ 16,378	\$ -	\$ 16,378	\$ -
	Mortgage Backed Securities	17,479	-	17,479	-
	Securities Issued by States and Political Subdivisions in the U. S.	13,962	-	13,962	-
		<u>\$ 47,819</u>	<u>\$ -</u>	<u>\$ 47,819</u>	<u>\$ -</u>
<u>December 31, 2017</u>					
	U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$ 28,442	\$ -	\$ 28,442	\$ -
	Mortgage Backed Securities	7,593	-	7,593	-
	Securities Issued by States and Political Subdivisions in the U. S.	13,792	-	13,792	-
		<u>\$ 49,827</u>	<u>\$ -</u>	<u>\$ 49,827</u>	<u>\$ -</u>
<u>Nonrecurring Basis</u>					

The Company has segregated all financial assets and liabilities that are measured at fair value on a nonrecurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a non-recurring basis.

The fair value of the impaired loans is measured at the fair value of the collateral for collateral-dependent loans. Impaired loans are Level 2 assets measured using appraisals from external parties of the collateral less any prior liens. Repossessed assets are initially recorded at fair value less estimated costs to sell. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, the Company records repossessed assets as Level 2.

(in thousands)	Fair Value Measurement Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 30, 2018</u>				
Assets				
Impaired Loans	\$ 181	\$ -	\$ 181	\$ -
Total	\$ 181	\$ -	\$ 181	\$ -
<u>December 31, 2017</u>				
Assets				
Impaired Loans	\$ 390	\$ -	\$ 390	\$ -
Total	\$ 390	\$ -	\$ 390	\$ -

Fair values of financial instruments

In cases where quoted market prices of financial instruments are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The fair values of certain financial instruments and all non-financial instruments are not required to be disclosed. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Cash, due from banks, federal funds sold and interest-earning deposits with banks - The carrying amount is a reasonable estimate of fair value.

Interest Bearing Deposits in other Banks - The carrying amount is a reasonable estimate of fair value.

Securities - Fair value is based on quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Receivable - Fair value 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.

Cash Value of Life Insurance - The carrying amount approximates its fair value.

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

Borrowings - The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other borrowings are estimated using discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements.

Commitments to extend credit and standby letters of credit - The fair values of commitments to extend credit and standby letters of credit do not differ significantly from the commitment amount and are therefore omitted from this disclosure.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, are as follows:

(in thousands)	Carrying Amount	Fair Value	Fair Value Measurement Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018					
Financial Assets:					
Cash, Short-Term Investments and Federal Funds Sold	\$ 8,171	\$ 8,171	\$ 8,171	\$ -	\$ -
Interest Bearing Deposits	1,225	1,225	1,225	-	-
Securities-Available for Sale	47,819	47,819	-	47,819	-
Other Equity Securities	1,998	1,998	-	-	1,998
Cash Value of Life Insurance	2,912	2,912	-	2,912	-
Loans-Net	310,516	309,400	-	-	309,400
	<u>\$ 372,641</u>	<u>\$ 371,525</u>	<u>\$ 9,396</u>	<u>\$ 50,731</u>	<u>\$ 311,398</u>
Financial Liabilities:					
Deposits	<u>\$ 346,174</u>	<u>\$ 345,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 345,635</u>
December 31, 2017					
Financial Assets:					
Cash, Short-Term Investments and Federal Funds Sold	\$ 10,617	\$ 10,617	\$ 10,617	\$ -	\$ -
Interest Bearing Deposits	1,225	1,225	1,225	-	-
Securities-Available for Sale	49,827	4,927	-	4,927	-
Other Equity Securities	1,904	1,904	-	-	1,904
Cash Value of Life Insurance	2,867	2,867	-	2,867	-
Mortgage Loans Available for Sale	209	209	-	209	-
Loans-Net	309,008	310,201	-	-	310,201
	<u>\$ 375,657</u>	<u>\$ 331,950</u>	<u>\$ 11,842</u>	<u>\$ 8,003</u>	<u>\$ 312,105</u>
Financial Liabilities:					
Deposits	\$ 334,930	\$ 334,493	\$ -	\$ -	\$ 334,493
Borrowed Funds	15,000	14,999	-	14,999	-
	<u>\$ 349,930</u>	<u>\$ 349,492</u>	<u>\$ -</u>	<u>\$ 14,999</u>	<u>\$ 334,493</u>

Note 19 - Condensed Financial Information (Parent Company Only) -

Presented below is the condensed balance sheet, condensed statement of income and the condensed statement of cash flows of the Parent Company:

MBT BANCSHARES, INC.
CONDENSED BALANCE SHEET
December 31, 2018

Assets:	
Cash	\$ 68,476
Due from Subsidiary Bank	6,620
Investments in Bank Subsidiary	37,546,266
Total Assets	<u>\$ 37,621,362</u>
Liabilities and Shareholders' Equity:	
Liabilities	\$ -
Total Shareholders Equity	<u>37,621,362</u>
Total Liabilities and Shareholders' Equity	<u>\$ 37,621,362</u>

MBT BANCSHARES, INC.
CONDENSED STATEMENT OF INCOME
For the Period Ended December 31, 2018*

Income:	
Undistributed Equity in Net Income of Bank Subsidiary	\$ 587,379
Dividends from Bank Subsidiary	2,143,543
Total Income	<u>2,730,922</u>
Expenses:	
Professional fees	30,383
Other Noninterest income	1,141
Total Expenses	<u>31,524</u>
Income before tax expense	2,699,398
Provision for tax	<u>(6,620)</u>
Net Income	<u>\$ 2,706,018</u>

*For the period of March 29, 2018 to December 31, 2018.

MBT BANCSHARES, INC.
CONDENSED STATEMENT OF CASH FLOWS
For the Period Ended December 31, 2018

Cash Flows From Operating Activities:	
Net Income	\$ 2,706,018
Increase in Due to Bank Subsidiary	(6,620)
Equity in Net Income of Bank Subsidiary	<u>(587,379)</u>
Net Cash Provided by Operating Activities	<u>2,112,019</u>
Cash Flows From Financing Activities:	
Dividends Declared	<u>(2,043,543)</u>
Net Cash Used in Financing Activities	(2,043,543)
Net Increase in Cash	68,476
Cash and Cash Equivalents - Beginning of Period	<u>-</u>
Cash and Cash Equivalents - End of Period	<u><u>\$ 68,476</u></u>