2018

ANNUAL REPORT

LOUISIANA'S COMMUNITY BANK℠

JD BANK

EST. 1947

MEMBER FDIC • EQUAL HOUSING LENDER

President's Message to Shareholders:

Jeff Davis Bancshares' subsidiary, JD Bank had a great year in 2018. Executive Management continues to focus on our philosophy, ***"Get Better to Get Bigger."*** We continue to hone our back office operations in all areas of the Bank to create greater efficiencies which will result in higher profits and increased value to you, our Shareholders. We have seen some good returns as a result of this philosophy and this focus of our Executive Management Team will continue into 2019.

The strategy as approved by the Board of Directors continues to be three pronged; to grow organically, attempt to acquire another Community Bank with a like culture or hire an experienced Lending Team in our targeted markets. In 2017, the Holding Company raised $17.5 million in subordinated debt and sent $14 million of that down to the Bank to strengthen the capital level. Our strategy of growth will attempt to leverage this capital and create greater profits as well as value to our Shareholders.

The Bank is also spending a lot of resources to ensure that our products and services are those that our clients are looking for in their bank. We have formed a Technology Innovation Committee to do a complete assessment of these services and products with a focus on digital lending, on-line account opening and possibly partnering with a Fin-Tech Company to offer these services as well as others. We see our path in this area going forward down a "two-lane" approach. We will continue to offer and improve upon our products and services that our legacy clients like in our Community Bank and through innovation look at ways that clients who prefer doing business on their computer or smart phone can access those products and services also. One product that we will be rolling out in this area is "Zelle," a person to person immediate payment service that many of our younger generation of clients are using. We also expect to replace both our Consumer and Mortgage Loan Origination systems in 2019 or early 2020 with this end in mind.

The Bank will also upgrade its entire ATM network during 2019. Due to the sunset of a current software, all ATMs need to be upgraded and a decision has been made to partner with a third party provider and completely replace all ATMs with the latest and greatest models.

As mentioned earlier, as stated in our strategic plan, we will pursue growth organically in our existing market areas. The Lake Charles MSA, where we currently have 11 of our 23 branch offices, is one of the fastest growing MSAs in the entire country. The Petro-Chemical business is booming driven primarily as a result of the supply of natural gas and the extensive pipeline system that runs into many of the existing plants in the Lake Charles MSA. These existing plants are being enlarged and retrofitted and then several new liquefied natural gas export facilities are being built, with an average capital outlay of $20 billion to build one of these plants as well as upward of 5 to 10 thousand construction jobs generated for each plant. Two of these new plants are currently under construction, with one actually now shipping LNG to foreign markets. Two others recently have been granted Federal Energy Regulatory permits and there are at least two others seeking permits. We have seen opportunities for new business as our retail and commercial clients are feeling the positive effects of this growth. New homes sales have remained strong and our Secondary Market Mortgage Department had an outstanding year in 2018.

The Lafayette MSA which has seen a slow down over the past 5 years as a result of the downturn in the exploration offshore of oil and gas has seen a rebound in the fourth quarter of 2018. Sales tax revenue and home sales are higher than they have been before the downturn. Due to the diversification of the types of businesses and industry, the Lafayette MSA is projected to grow in the number of jobs as opposed to the decrease in job growth it has experienced since 2015. With only three branches in the Acadiana area, one in Lafayette, Opelousas and New Iberia, this is an area we are looking to possibly grow the bank either through an acquisition or hiring of an experienced team of Bankers. We have also looked closely at the Baton Rouge MSA and this is another area of potential growth for JD Bank. The Baton Rouge area has a relatively stable economic base with LSU, the State Capitol and one of the largest refining plants in the world, Exxon, located in the area. JD Bank has had the opportunity to do some lending in this market already and would welcome the opportunity to expand into the Baton Rouge market either through an acquisition or the hiring of a team of Bankers with similar credit and retail philosophy as we have currently.

As stated earlier, we had an outstanding year in 2018 from a financial performance standpoint. Even though total assets of the company were down by $7.5 million this was primarily to us paying off $35 million in high cost borrowed funds from the FHLB. We were able to do this because total deposits for the year grew from $733,148,034 at the end of 2017 to $758,829,792 or over $25 million at the end of 2018. Paying off high cost sources of funds has allowed the Bank to maintain a strong net interest margin and a low cost of funds. Total loan growth in 2018 was a little over $20 million, with net loan balances, which are less the allowance for loan losses being $619,775,136 for year end 2018 as opposed to $599,306,776 for 2017. The allowance for loan losses was $6,384,541 on December 31, 2018 and $6,691,316 at December 31, 2017. Net Income for 2018 was $9,391,054 as compared to $6,214,077 for 2017. The Bank did have an extraordinary gain on the recovery of lawsuit from an insurance company that was approximately $1.5 million after taxes in 2018. Earnings per share increased from $4.00 per share in 2017 to $6.04 per share in 2018.

Once again, our Company was able to continue its long history of paying dividends to our Shareholders in 2018. We returned $3,483,549 to our Shareholders which was an increase of $62,205 from the previous year. This dividend gives our Shareholders a strong return on their investment in our Company. Management's goal is to not only continue rewarding our Shareholders for their confidence they have shown in Jeff Davis Bancshares through the payment of dividends, but more importantly, increase the value of our Company which adds wealth to our Shareholders. The goal is best stated in our mission statement which is; ***"The mission of JD Bank is to create value for our customers, employees, stockholders and communities. Through our professional relationships with the people we serve, we encourage, facilitate and help to build and sustain strong communities."*** Of course, any future declarations and payments of dividends will be based on the required regulatory capital levels and the cash flow needs of the Company as well as future earnings.

Both Jeff Davis Bancshares and its subsidiary, JD Bank, are poised for continued conservative growth in 2019 and profits are budgeted to exceed the levels achieved in 2018. As we experience the benefits of the proper structure of our many years of managing our balance sheet for a rising rate environment, the positive benefits of the new corporate tax climate as well as the efficiencies Management has worked on, we fully expect profits to continue to grow.

This year, 2019 will begin our 72nd year of operations and I want to thank you, our Shareholders, once again for your continued confidence and monetary investment you have made in our Company. It is through this continued investment and confidence that you play a huge part in making our subsidiary; JD Bank, "Louisiana's Community Bank."

Boyd R Boudreaux

Boyd R. Boudreaux, President & CEO

JEFF DAVIS BANCSHARES, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS (in thousands)

	2018	2017	Change
Deposits and Repurchase Agreements	$ 759,281	$ 733,525	3.51%
Loans (Net)	619,775	599,307	3.42%
Net Income	9,391	6,214	51.13%
Equity Capital	81,001	76,490	5.90%
Dividends Declared	3,484	3,421	1.84%

FIVE YEAR FINANCIAL REVIEW (in thousands, except per share amounts)

	2018	2017	2016	2015	2014
Assets and Liabilities at Year End					
Total Assets	$ 864,688	$ 869,364	$ 806,277	$ 799,068	$ 777,403
Loans (Net)	619,775	599,307	598,521	582,606	495,469
Investments Available-for-Sale (AFS) (Fair Value)	126,408	141,512	77,368	104,277	148,305
Investments Held-to-Maturity (HTM) (at Amortized Cost)	22,408	24,048	26,512	23,540	27,452
Other Stocks, at Cost	8,313	8,260	6,273	7,510	5,880
Stockholders' Equity					
Common Stock	$ 9,720	$ 9,720	$ 9,720	$ 9,750	$ 9,750
Surplus	3,598	3,598	3,598	3,598	3,598
Undivided Profits	69,073	63,166	60,375	59,749	57,398
Accumulated Other Comprehensive Income (Loss)	(1,390)	6	139	2,762	3,060
Note Receivable on Commmon Stock	-	-	-	-	-
Treasury Stock	-	-	-	(223)	(223)
Total Stockholders' Equity	$ 81,001	$ 76,490	$ 73,832	$ 75,636	$ 73,583
Earnings for the Year					
Consolidated Net Income	$ 9,391	$ 6,214	$ 4,240	$ 5,773	$ 7,040
Net Interest Income	33,213	32,135	32,208	31,156	28,151
Non Interest Income	11,150	9,024	8,019	9,902	10,730
Non Interest Expense	32,824	31,952	32,559	31,716	29,299
Cash Dividends	3,484	3,421	3,421	3,421	3,395
Per Share Data					
Net Income	$ 6.04	$ 4.00	$ 2.73	$ 3.71	$ 4.52
Cash Dividends	2.24	2.20	2.20	2.20	2.18
Book Value at Year-end	52.09	49.19	47.48	48.48	47.17
Return on Average Assets	1.09 %	0.72 %	0.52 %	0.73 %	0.93 %
Return on Equity	11.59 %	8.12 %	5.74 %	7.63 %	9.57 %

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Postlethwaite & Netterville

8550 United Plaza Blvd., Ste. 1001 – Baton Rouge, LA 70809
225-922-4600 Phone – 225-922-4611 Fax – pncpa.com

A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
Jeff Davis Bancshares, Inc. and Subsidiaries
Jennings, Louisiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Jeff Davis Bancshares, Inc. and its Subsidiaries which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years during the three year period ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Postlethwaite & Netterville

Opinion

In our opinion, the consolidated financial statements referred to on the previous page present fairly, in all material respects, the consolidated financial position of Jeff Davis Bancshares, Inc. and its Subsidiaries as of December 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for each of the years during the three year period ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Postlethwaite & Netterville

Baton Rouge, Louisiana
March 11, 2019

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

A S S E T S

	2018	2017
ASSETS		
Cash and due from banks	$ 29,683,956	$ 25,813,353
Interest bearing deposits in other banks	9,593,917	20,499,239
Securities available-for-sale	126,407,972	141,511,731
Securities held to maturity	22,407,606	24,047,885
Other stocks, at cost	8,313,337	8,259,637
Loans, less allowances for loan losses of $6,384,541 and $6,691,316 at December 31, 2018 and 2017, respectively	619,775,136	599,306,776
Accrued interest receivable	2,910,149	2,892,462
Bank premises and equipment, net	25,371,073	25,802,498
Other real estate owned	631,862	1,455,803
Goodwill and other intangibles	4,340,107	4,500,703
Life insurance contracts	13,375,172	13,083,324
Other assets	1,877,891	2,190,850
Total Assets	$ 864,688,178	$ 869,364,261

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	2018	2017
LIABILITIES		
Deposits		
Deposit accounts, non-interest bearing	$ 273,454,493	$ 261,538,348
Deposit accounts, interest bearing	485,375,299	471,609,686
	758,829,792	733,148,034
Securities sold under repurchase agreements	451,471	377,255
Other borrowed funds	3,253,314	38,489,416
Accrued interest payable	643,191	578,077
Accrued expenses and other liabilities	2,478,541	2,361,800
Subordinated debentures	17,112,781	17,064,384
Dividends payable	917,542	855,336
Total liabilities	783,686,632	792,874,302
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Common stock; $6.25 par value; 3,072,000 shares authorized; 1,555,156 shares issued and outstanding at December 31, 2018 and 2017	9,719,725	9,719,725
Additional paid-in-capital	3,598,000	3,598,000
Retained earnings	69,073,330	63,165,825
Accumulated other comprehensive (loss) income	(1,389,509)	6,409
	81,001,546	76,489,959
Total stockholders' equity	81,001,546	76,489,959
Total Liabilities and Stockholders' Equity	$ 864,688,178	$ 869,364,261

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

	2018	2017	2016
INTEREST INCOME			
Interest and fees on loans	$ 32,866,699	$ 31,553,206	$ 31,327,917
Investment securities:			
Taxable	2,390,282	2,341,114	1,365,465
Non-taxable	1,885,809	2,060,119	2,149,761
Federal funds sold and interest bearing deposits in other banks	326,487	70,529	39,716
Total interest income	37,469,277	36,024,968	34,882,859
INTEREST EXPENSE			
Interest on deposits	3,012,014	2,742,465	2,664,348
Interest on subordinated notes	1,229,652	1,142,076	-
Interest on federal funds purchased and securities sold under repurchase agreement	14,112	5,495	10,810
Total interest expense	4,255,778	3,890,036	2,675,158
NET INTEREST INCOME	33,213,499	32,134,932	32,207,701
Provision for loan losses	189,000	942,000	2,454,100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	33,024,499	31,192,932	29,753,601
NONINTEREST INCOME			
Service charges and fees on deposit accounts	7,981,324	8,118,480	7,997,171
Trust department income	477,817	440,457	707,951
Realized gains on sale of investments	5,386	13,910	1,781,871
Other income (loss)	2,685,395	451,421	(2,468,344)
	11,149,922	9,024,268	8,018,649

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

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

	2018	2017	2016
NONINTEREST EXPENSES			
Salaries and employee benefits	$ 18,060,123	$ 16,770,806	$ 17,277,518
Occupancy expenses	2,432,267	2,533,037	2,523,067
Other operating expenses	12,331,896	12,648,450	12,758,773
	32,824,286	31,952,293	32,559,358
INCOME BEFORE INCOME TAX EXPENSE	11,350,135	8,264,907	5,212,892
Income tax expense	1,959,081	2,050,830	972,921
NET INCOME	$ 9,391,054	$ 6,214,077	$ 4,239,971
Per common share data:			
Earnings	$ 6.04	$ 4.00	$ 2.73
Weighted average number of shares outstanding	1,555,156	1,555,156	1,555,156

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

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

	2018	2017	2016
NET INCOME	$ 9,391,054	$ 6,214,077	$ 4,239,971
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gains on securities:			
Unrealized holdings losses arising during the period, net of tax of ($347,951), ($45,195), and ($724,492) respectively	(1,400,173)	(144,298)	(3,798,911)
Less: reclassification adjustments for gains included in net income, net of tax of $1,131, $4,729 and $605,836 respectively	4,255	9,181	1,176,035
Total other comprehensive income (loss)	(1,395,918)	(135,117)	(2,622,876)
TOTAL COMPREHENSIVE INCOME	$ 7,995,136	$ 6,078,960	$ 1,617,095

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

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

	Treasury Stock		Common Stock	
	Shares	Amount	Shares	Amount
Balance at December 31, 2015	(4,844)	$ (222,705)	1,560,000	$ 9,750,000
Net income	-	-	-	-
Reclassification of Treasury Stock	4,844	222,705	(4,844)	(30,275)
Other Comprehensive Loss	-	-	-	-
Dividends on common stock, $.55 per share	-	-	-	-
Balance at December 31, 2016	-	-	1,555,156	9,719,725
Net income	-	-	-	-
Reclassification to eliminate disproportionate tax effect (Note 9)	-	-	-	-
Other Comprehensive Income (Loss)	-	-	-	-
Dividends on common stock, $.55 per share	-	-	-	-
Balance at December 31, 2017	-	-	1,555,156	9,719,725
Net income	-	-	-	-
Other Comprehensive Income (Loss)	-	-	-	-
Dividends on common stock, $.55 per share Dividends on common stock, $.59 per share	-	-	-	-
Balance at December 31, 2018	-	$ -	1,555,156	$ 9,719,725

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

Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
$ 3,598,000	$ 59,749,150	$ 2,762,147	$ 75,636,592
-	4,239,971	-	4,239,971
	(192,430)		-
-	-	(2,622,876)	(2,622,876)
-	(3,421,344)	-	(3,421,344)
3,598,000	60,375,347	139,271	73,832,343
-	6,214,077	-	6,214,077
-	(2,255)	2,255	-
-	-	(135,117)	(135,117)
-	(3,421,344)	-	(3,421,344)
3,598,000	63,165,825	6,409	76,489,959
-	9,391,054	-	9,391,054
-	-	(1,395,918)	(1,395,918)
	(2,566,007)		(2,566,007)
-	(917,542)	-	(917,542)
$ 3,598,000	$ 69,073,330	$ (1,389,509)	$ 81,001,546

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 9,391,054	$ 6,214,077	$ 4,239,971
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,432,267	2,533,037	2,523,067
Provision for loan losses	189,000	942,000	2,454,100
Non-cash change in cash surrender value of life insurance	(291,848)	(303,797)	(324,745)
Write-down of other real estate	468,562	201,374	33,052
Premium amortization, net	1,176,103	1,472,827	732,752
Amortization of goodwill and core deposit intangible	160,596	160,596	160,596
Deferred income taxes	49,359	(384,542)	53,723
(Gain) loss on sales of other real estate and property	(122,810)	(18,307)	23,758
Gain on sales of bank premises and equipment	(33,480)	(328,495)	-
Gain on the sale of securities	(5,386)	(13,910)	(1,781,871)
Net change in operating assets and liabilities:			
Other operating assets and liabilities	729,423	214,030	(584,201)
Interest receivable	(17,687)	(149,456)	343,906
Interest payable	65,114	515,069	(21,101)
Net cash provided by operating activities	14,190,267	11,054,503	7,853,007
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities/sales of available-for-sale securities	23,943,385	30,285,692	79,437,205
Maturities of held to maturity securities	2,445,015	3,292,970	4,466,512
Purchases of available-for-sale securities	(11,627,382)	(97,854,304)	(54,234,880)
Purchases of held to maturity securities	(938,000)	(987,000)	(7,500,000)
Loan originations, net of principal repayment	(21,453,326)	(2,855,263)	(19,159,490)
Net decrease (increase) in inerest bearing deposits in other banks	10,905,322	(8,949,239)	(10,375,000)
Purchases of bank premises and equipment	(2,060,822)	(1,550,501)	(2,924,294)
Proceeds from sales of bank premises and equipment	93,460	1,318,246	-
Proceeds from sales of other real estate and property	1,274,155	416,545	110,022
Net cash provided by (used in) investing activities	2,581,807	(76,882,854)	(10,179,925)

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

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	25,681,758	8,386,377	17,317,504
Net (decrease) increase in other borrowed funds and repurchase agreements	(35,161,886)	34,329,992	(6,227,715)
Net increase in dividends payable	62,206	-	-
Payment of dividends	(3,483,549)	(3,421,344)	(3,421,344)
Proceeds from issuance of subordinate debentures	-	17,500,000	-
Payment of debenture costs	-	(481,754)	-
Net cash (used in) provided by financing activities	(12,901,471)	56,313,271	7,668,445
Net increase (decrease) in cash and cash equivalents	3,870,603	(9,515,080)	5,341,527
Cash and cash equivalents - beginning of year	25,813,353	35,328,433	29,986,906
Cash and cash equivalents - end of year	$ 29,683,956	$ 25,813,353	$ 35,328,433

Supplemental disclosures of cash flow information:

	2018	2017	2016
Cash paid for interest	$ 4,139,037	$ 3,374,967	$ 2,696,259
Cash paid for income taxes	$ 1,789,900	$ 2,462,417	$ 1,450,605

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

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The accounting and reporting policies of Jeff Davis Bancshares, Inc. (the Company) and its Subsidiaries conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the banking industry. A summary of significant accounting policies is as follows:

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, JD Bank (the "Bank") and JD Bank Insurance, LLC (formerly JD Prime Financial Services, LLC), the owner of an insurance agency. All significant intercompany accounts and transactions have been eliminated. Assets held in an agency or fiduciary capacity are not assets of the Bank and, accordingly, are not included in the accompanying consolidated financial statements. The Company operates as a community bank in southern Louisiana.

Nature of operations

The Bank provides a variety of banking services to individuals and businesses primarily in and around Southwest Louisiana. The Bank's primary deposit products are demand deposits, savings deposits, and certificates of deposits, and its primary lending products are commercial, business, real estate, and consumer loans.

Comprehensive income

Comprehensive income includes net earnings and other comprehensive income (loss) which, in the case of the Company, includes only unrealized gains and losses on securities available-for-sale, net of tax.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

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

1. Summary of significant accounting policies (continued)

Use of estimates (continued)

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 the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Other estimates that are susceptible to significant change in the near term relate to the determination of the valuation of deferred tax assets, other-than-temporary impairments of securities, and the fair value of financial instruments.

Interest bearing deposits in other banks

Interest bearing deposits in other banks mature within one year and are carried at cost, which approximates market.

Securities

Securities are accounted for in accordance with applicable guidance contained in the Accounting Standards Codification (ASC) which requires the classification of securities into one of three categories: trading, available-for-sale, or held-to-maturity.

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 Company 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. The Company had no significant trading account securities during the three years ended December 31, 2018. 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 income taxes, reported as other comprehensive income (loss) until realized.

The Financial Accounting Standards Board (FASB) issued accounting guidance related to the recognition and presentation of other-than-temporary impairment. The accounting guidance specifies that (a) if a Company 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. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an 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 an 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.

1. Summary of significant accounting policies (continued)

Securities (continued)

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 interest are included in interest income on securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

Derivative instruments

The Company recognizes all derivatives as either assets or liabilities in the Company's consolidated balance sheets and measures those instruments at fair value. If certain conditions are met, a derivative may be specially designated as a hedge. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company is not currently engaged in any activities with derivatives.

Loans

The Company grants commercial, real estate, and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in Southwest Louisiana. The ability of the Company's creditors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any unamortized deferred fees or costs on originated loans. Unearned discount relates principally to consumer installment loans. Interest on loans is credited to operations based on the unpaid principal amount outstanding using methods that approximate the interest method.

The Company follows the accounting guidance on sales of financial assets, which includes participating interests in loans. For loan participations that are structured in accordance with this guidance, the sold portions are recorded as a reduction of the loan portfolio. Loan participations that do not meet the criteria are accounted for as secured borrowings. Application of this guidance also delays the accounting recognition for sales of the guaranteed portions of SBA loans for 90 days.

Certain loan origination fees and certain direct origination costs are deferred and recognized as an adjustment to the yield on the related loan. Interest on loans is recorded to income as earned. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on the contractual terms of the loan. All unpaid accrued interest is reversed and payments subsequently received are applied first to principal. Interest income is recorded after principal has been satisfied and as payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

1. Summary of significant accounting policies (continued)

Loans (continued)

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Company will be unable to collect all amounts 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. The Company's impaired loans include troubled debt restructurings, and performing and non-performing major loans for which full payment of principal or interest is not expected. Non-major homogenous loans, which are evaluated on an overall basis, generally include all loans under $100,000. The Company calculates an allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of its collateral. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is required as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

Allowance for loan losses

The allowance for loan losses is a valuation allowance available for losses incurred on loans. All losses are charged to the allowance for loan losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries are credited to the allowance at the time of recovery. Periodically, during the year, management estimates the likely level of existing losses to determine whether the allowance for loan losses is adequate to absorb reasonably anticipated losses in the existing portfolio. Management also evaluates the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Based on these estimates, an amount is charged to the provision for loan losses and credited to the allowance for loan losses in order to adjust the allowance to a level determined to be adequate to absorb existing losses. It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses reflected in the consolidated balance sheets is adequate to absorb probable losses in the existing loan portfolio.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For these loans that are impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

1. Summary of significant accounting policies (continued)

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession for other than an insignificant period of time to the borrower that the Bank would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Bank strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Bank grants the borrower new terms that provide for a reduction of either interest or principal, the Bank measures and records any impairment on the restructuring as previously noted for impaired loans.

Bank premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation, which is computed using straight-line and accelerated methods over the estimated useful lives of the assets, which range from 3 to 39 years.

Other real estate owned

Other real estate owned is reported at the lower of cost or fair value at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Real estate and other property acquired in lieu of loan balances, net of an appropriate reserve for possible losses, are included in the accompanying consolidated balance sheet. Operating expenses of such properties, net of related income, are included in other operating expenses. Gains and losses on their disposition are included in other operating income.

Intangible Assets

The Company has no intangible assets having indefinite lives other than goodwill. Intangible assets, such as core deposit intangibles, with determinable useful lives are amortized over their respective useful lives. Goodwill does not require amortization, but it is subject to a periodic impairment test. The Company has performed impairment tests on its goodwill and determined that the there is no impairment at December 31, 2018 or 2017.

Credit related financial information

In the ordinary course of business, the Company has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

1. Summary of significant accounting policies (continued)

Statements of cash flows

The Company has defined cash equivalents as the amount in the consolidated balance sheet caption "Cash and Due from Banks" and "Federal Funds Sold," if any exist at year-end.

Life insurance contracts

Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the owner of these policies, which were purchased in 2003 for $4,000,000, 2007 for $1,725,000, 2010 for $1,000,000 and in 2014 for $4,000,000 as a vehicle to fund split dollar endorsement plans. These contracts are reported at their cash surrender value and changes in the cash surrender value are included in other income and amounted to $291,848, $303,797, and $324,745 in 2018, 2017, and 2016, respectively.

Income taxes

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income as part of income tax expense or benefit for the period that includes the enactment date. As a result of the enactment in 2017 of Tax Cuts and Jobs Act ("Act"), deferred tax assets and liabilities have been measured as of December 31, 2018 and 2017 using the 21% corporate rate set forth in the Act. The impact on net income is set forth in Note 9, Income Taxes.

In accordance with current accounting guidance contained in ASC 740, the impact of the remeasurement of the deferred tax effects of items reported in accumulated other comprehensive income ("AOCI") is recorded through income tax expense, not through other comprehensive income ("OCI"). This creates a disproportionate tax effect in AOCI as the recorded deferred tax assets or liabilities related to an item reported in AOCI no longer equals the tax effect included in AOCI for that item. Accordingly, in February of 2018, the FASB issued a narrow-scope amendment to the FASB Codification that eliminates the disproportionate tax effect by requiring such effect to be reclassified from AOCI to retained earnings in financial statements that have not yet been issued. The amount of reclassification is the difference between the amount initially charged or credited directly to OCI at the previously enacted tax rate and the amount that would have been charged or credited using the newly enacted 21% rate. The Company has chosen to reflect the reclassification in the accompanying December 31, 2018 and 2017 consolidated financial statements.

The Company follows the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

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.

1. Summary of significant accounting policies (continued)

Income taxes (continued)

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-than-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 deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Earnings per share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period.

Postretirement Benefits

The Company adopted accounting guidance related to postretirement benefits for certain employees. The Company has effectively agreed to maintain a life insurance policy during the employees' retirement.

Reclassification

Certain amounts in the prior year consolidated financial statements have been reclassified to conform with the current year presentation.

Accounting pronouncements issued but not yet adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, and subsequently issued amendments to the ASU (collectively, "ASC 606"). ASC 606 (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope, (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other foreclosed assets, and (iii) clarifies certain implementation issues relating to principal-versus-agent reporting. A substantial portion of the Company's revenues come from interest income and other sources, including loans and securities, which are outside the scope of ASC 606. The Company's revenue sources that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include deposit service charges on deposits and income derived from services provided to customers. The standard may be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. This standard will be effective for the Company for annual periods beginning after December 31, 2018, and interim periods beginning after December 15, 2019.

1. Summary of significant accounting policies (continued)

Accounting pronouncements issued but not yet adopted (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the consolidated balance sheets as well as additional disclosures. The updated guidance is effective for annual periods beginning after December 15, 2019.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The revised accounting guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses of available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for annual periods beginning after December 15, 2021.

The Company is currently assessing the impact of these pronouncements on its financial statements.

2. Cash and due from banks

The Bank is required to maintain certain cash balances relating to its deposit liabilities. This requirement is ordinarily satisfied by cash on hand.

3. Investment securities

Debt and equity securities have been classified in the balance sheets according to management's intent. The amortized cost and estimated fair value of securities classified as available-for-sale at December 31, 2018, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 92,950,088	$ 212,849	$ (2,220,884)	$ 90,942,053
States and political subdivisions	30,511,972	362,339	(131,648)	30,742,663
Corporate Bonds	4,703,218	26,259	(6,221)	4,723,256
Totals	$ 128,165,278	$ 601,447	$ (2,358,753)	$ 126,407,972

At December 31, 2018, the Company held no securities of any single issuer (excluding the U.S. government and federal agencies) with a book value that exceeded 10% of stockholders' equity.

3. Investment securities (continued)

Securities classified as held-to-maturity at December 31, 2018, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
States and political subdivisions	$ 22,407,606	$ 53,515	$ (39,948)	$ 22,421,173

Securities classified as available-for-sale at December 31, 2017, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 106,077,663	$ 410,384	$ (1,289,994)	$ 105,198,053
States and political subdivisions	33,512,381	838,558	(66,113)	34,284,826
Corporate Bonds	2,016,697	17,602	(5,447)	2,028,852
Totals	$ 141,606,741	$ 1,266,544	$ (1,361,554)	$ 141,511,731

During 2014, the Company transferred securities with a fair value of approximately $27,452,000 from the available-for-sale category to the held-to-maturity category. As of December 31, 2018 and 2017, approximately $13,600 and $93,700, respectively, of unrealized gains are included in other comprehensive income and will be amortized over the remaining life of the security as an adjustment of yield.

Securities classified as held-to-maturity at December 31, 2017, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
States and political subdivisions	$ 24,047,885	$ 130,527	$ (36,846)	$ 24,141,566

The amortized costs and estimated market values of debt securities at December 31, 2018, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Available-for-Sale:	Amortized Cost	Fair Value
Within one year	$ 15,206	$ 15,206
Greater than one but within five years	4,137,271	4,114,627
Greater than five but within ten years	16,008,328	16,153,727
Greater than ten years	108,004,473	106,124,412
	$ 128,165,278	$ 126,407,972

3. Investment securities (continued)

Held-to-Maturity:

	Amortized Cost
Within one year	$ 1,788,890
Greater than one but within five years	7,847,650
Greater than five but within ten years	7,002,714
Greater than ten years	5,768,352
	$ 22,407,606

Investment securities with carrying values of approximately $2,197,000 and $2,484,000 at December 31, 2018 and 2017, respectively, were pledged to secure public deposits and securities sold under repurchase agreements and for other purposes as required or permitted by law. At December 31, 2018, JD Bank also has a $80,000,000 fluctuating balance letter of credit with Federal Home Loan Bank of Dallas for the purpose of securing public funds, of which, $74,930,000 was pledged.

Information pertaining to securities with gross unrealized losses at December 31, 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

Available-for-sale:

	Less than twelve months			Over twelve months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
Mortgage-backed Securities	2	$ (26,278)	$ 1,406,378	44	$ (2,194,606)	$ 83,367,603
State and political Subdivisions	5	(37,134)	4,529,256	7	(94,514)	3,646,312
Corporate Bonds	2	(6,221)	1,443,779	0	-	-
Totals	9	$ (69,633)	$ 7,379,413	51	$ (2,289,120)	$ 87,013,915

Held-to-maturity:

	Less than twelve months			Over twelve months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
State and political Subdivisions	7	$ (1,815)	$ 715,855	17	$ (38,133)	$ 2,949,849

3. Investment securities (continued)

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

Available-for-sale:

	Less than twelve months			Over twelve months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
Mortgage-backed Securities	12	$ (221,830)	$ 30,895,739	21	$ (1,068,164)	$ 29,499,899
State and political Subdivisions	8	(18,995)	2,584,927	2	(47,118)	884,274
Corporate Bonds	1	(5,447)	761,250	0	-	-
Totals	21	$ (246,272)	$ 34,241,916	23	$ (1,115,282)	$ 30,384,173

Held-to-maturity:

	Less than twelve months			Over twelve months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
State and political Subdivisions	15	$ (33,933)	$ 2,724,960	2	$ (2,913)	$ 214,926

Most of these unrealized losses result from securities which were purchased at a premium in anticipation of a more stable interest rate environment. Management and the Asset/Liability Committee are continually monitoring the securities portfolio. Accordingly, management is able to effectively measure and monitor the unrealized loss position on these securities and because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2018. Additionally, the Company believes that its premium amortization policies are appropriate and will result in a reasonable return on these investments being recorded in the statements of operations.

4. Loans and allowance for loan losses

The components of loans in the consolidated balance sheets at December 31, 2018 and 2017 were as follows (in thousands):

	2018	2017
Commercial loans	$ 85,199	$ 77,799
Commercial real estate loans	255,601	242,351
Consumer loans	33,877	37,138
Residential loans	251,483	248,710
	626,160	605,998
Allowances for loan losses	(6,385)	(6,691)
Loans, net	$ 619,775	$ 599,307

The Bank has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the Bank's portfolio. For purposes of determining the allowance for loan losses, the Bank segments loans in its portfolio by class code. The models and assumptions the Bank uses to determine the allowance are reviewed internally to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The Bank's Estimation Process

The Bank estimates loan losses using a 5 year weighted average historical loss percentage for all loans, which are based on historical loss percentage and estimated losses on individually evaluated impaired loans. Management then applies judgment to develop its own view of loss probability using external and internal parameters with the objective of establishing an allowance for the losses inherent for these portfolios as of the reporting date.

Substantially all of the Bank's consumer loans are secured by collateral. In order to track and measure the risk of nonperformance for these loans, the Bank periodically obtains updates of the credit scores for all loans and considers local economic factors which may affect collateral values.

Reflected in the portions of the allowance previously described is an amount for uncertainty inherent in estimates used for the allowance, which may change from period to period. This amount is the result of management's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Bank's view of risk in the loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

4. Loans and allowance for loan losses (continued)

Loans by Segment

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the consolidated balance sheet date. The Bank considers the allowance for loan losses of $6,384,541, $6,691,316, and $6,358,630 adequate to cover loan losses inherent in the loan portfolio at December 31, 2018, 2017 and 2016 respectively. The following table presents by loan segment, the changes in the allowance for loan losses and the recorded investment in loans.

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2018

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$ 988,958	$ 1,905,178	$ 1,125,674	$ 2,671,505	$ 6,691,315
Charge-offs	(314,373)	-	(368,598)	(284,260)	(967,231)
Recoveries	72,132	-	144,761	254,564	471,457
Provision	61,429	-	72,025	55,546	189,000
Ending balance	$ 808,146	$ 1,905,178	$ 973,862	$ 2,697,355	$ 6,384,541
Ending allowance balance, individually evaluated for impairment	$ 52,756	$ -	$ 37,421	$ 54,631	$ 144,808
Ending allowance balance, collectively evaluated for impairment	$ 755,390	$ 1,905,178	$ 936,441	$ 2,642,724	$ 6,239,733
Loans (in thousands):					
Ending total loan balance	$ 85,199	$ 255,601	$ 33,877	$ 251,483	$ 626,160
Ending loan balance, individually evaluated for impairment	$ 2,094	$ 1,958	$ 546	$ 5,377	$ 9,975
Ending loan balance, collectively evaluated for impairment	$ 83,105	$ 253,643	$ 33,331	$ 246,106	$ 616,185

4. Loans and allowance for loan losses (continued)

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2017

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$ 903,688	$ 1,895,918	$ 969,025	$ 2,589,999	$ 6,358,630
Charge-offs	(76,125)	(55,184)	(465,741)	(276,232)	(873,282)
Recoveries	79,280	4,918	120,000	59,770	263,968
Provision	82,115	59,526	502,390	297,969	942,000
Ending balance	$ 988,958	$ 1,905,178	$ 1,125,674	$ 2,671,506	$ 6,691,316
Ending allowance balance, individually evaluated for impairment	$ 44,880	$ -	$ 141,935	$ 46,072	$ 232,887
Ending allowance balance, collectively evaluated for impairment	$ 944,078	$ 1,905,178	$ 983,739	$ 2,625,434	$ 6,458,429
Loans (in thousands):					
Ending total loan balance	$ 77,799	$ 242,351	$ 37,138	$ 248,710	$ 605,998
Ending loan balance, individually evaluated for impairment	$ 1,554	$ 678	$ 791	$ 5,612	$ 8,635
Ending loan balance, collectively evaluated for impairment	$ 76,245	$ 241,673	$ 36,347	$ 243,098	$ 597,363

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2016

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$ 493,351	$ 1,843,567	$ 146,152	$ 2,312,705	$ 4,795,775
Charge-offs	(252,199)	(41,383)	(573,259)	(216,630)	(1,083,471)
Recoveries	91,296	-	97,681	3,249	192,226
Provision	571,240	93,734	1,298,451	490,675	2,454,100
Ending balance	$ 903,688	$ 1,895,918	$ 969,025	$ 2,589,999	$ 6,358,630
Ending allowance balance, individually evaluated for impairment	$ 189,314	$ 18,795	$ 115,165	$ 119,342	$ 442,616
Ending allowance balance, collectively evaluated for impairment	$ 714,374	$ 1,877,123	$ 853,860	$ 2,470,657	$ 5,916,014
Loans (in thousands):					
Ending total loan balance	$ 85,285	$ 240,050	$ 40,227	$ 239,318	$ 604,880
Ending loan balance, individually evaluated for impairment	$ 2,169	$ 160	$ 782	$ 5,257	$ 8,368
Ending loan balance, collectively evaluated for impairment	$ 83,116	$ 239,890	$ 39,445	$ 234,061	$ 596,512

4. Loans and allowance for loan losses (continued)

Credit Quality Information

All loans are subject to individual risk assessments using the following factors: ability of borrower to pay, financial condition of borrower, management ability of the borrower, collateral and guarantors, loan structure, and industry and economics. The Bank uses the following risk rating definitions to assess risk within the loan portfolio.

a) Loans Not Adversely Classified:

1 – High Quality – High quality loans are characterized by liquid collateral adequately margined and/or supported by a strong financial statement of recent date that is unquestionably reliable. Character of endorsers or guarantors is unquestionable. The business or individual is consistently above its peers. The borrower is characterized by liquidity, minimum risks, significant earning capacity and low handling costs (reflect no loss under any conceivable situation).

2 - Desirable – Reflects strong, current financial statements and/or secured by collateral that is adequately margined to cover total debt plus any collection costs incurred in foreclosure if necessary. Primary, as well as secondary, source of repayment is evident. A defined agreed upon repayment schedule over a reasonable period exists.

3 - Satisfactory – Satisfactory loans of average strength, having some deficiency or vulnerability to changing economics or industry conditions but currently collectible. Secured loan lacking in margin and/or liquidity. Assets supporting loans are generally non liquid and/or some form of documentation of support and/or repayment ability may be deficient or lacking.

4 – Pass/Watch – This is a warning classification which portrays one or more deficiencies that has potential weakness that may result in deterioration of repayment prospects for the asset or in the Bank's credit position at some future date. This is not adversely classified. Apparent deterioration in financial condition of credit is evident and deserves immediate attention and correction of its causes by the lending staff in order to prevent further deterioration of the Bank's position.

5 - Special Mention – loans which are superior in quality to those classified substandard, doubtful, or loss but which are believed to warrant more than usual management attention. Loans in this category are not considered to be classified because they are currently protected but are potentially weak. They constitute an undue and unwarranted credit risk. Economic or market conditions may affect the borrower in the future. Adverse trends or an unbalanced financial position have not reached a point where liquidation of the debt is jeopardized, but that point could be reached in the future if trends continue.

4. Loans and allowance for loan losses (continued)

Credit Quality Information (continued)

b) Loans Adversely Classified:

Classified loans in this group are comprised of loans that have undue and unwarranted credit risk, may be inadequately protected by current sound worth and/or collection or liquidation in full is questionable, but because of certain reasonably specific pending factors which may strengthen the credit, its classification of a loss is deferred until a more exact status can be determined. The Bank uses the following risk rating definitions to assess risk within the loan portfolio. "Classified" categories are:

6 - Substandard – loans that are inadequately protected by current sound worth and paying capacity of the borrower, or pledged collateral, if any, or represents a protracted workout. These loans must have well defined weaknesses that are characterized by the distinct possibility that the Bank will sustain a loss if the deficiencies are not corrected.

7 - Doubtful – loans that have all the weaknesses inherent in a substandard loan plus their collection or liquidation in full is highly questionable. The possibility of loss is extremely high, but because of certain reasonably specific pending factors which may strengthen the credit, its classification as a loss is deferred until a more exact status can be determined.

8 - Loss – loans that are considered uncollectible in full within a reasonable length of time and are of such little value that their continuance as an active asset is not warranted. This classification does not mean that there is no possibility of recovery or salvage value, but rather it is not practical to defer writing off the asset even though a partial recovery may be made in the future.

The Bank uses the following risk rating definitions to assess risk within the consumer and residential loan portfolio.

Pass – loans not meeting the special mention, doubtful, and substandard ratings are considered to be pass rated loans.

Special Mention – loans which are superior in quality to those classified substandard, doubtful, or loss but which are believed to warrant more than usual management attention. Loans in this category are not considered to be classified because they are currently protected but are potentially weak. They constitute an undue and unwarranted credit risk. Economic or market conditions may affect the borrower in the future. Adverse trends or an unbalanced financial position have not reached a point where liquidation of the debt is jeopardized, but that point could be reached in the future if trends continue.

Substandard – loans that are inadequately protected by current sound worth and paying capacity of the borrower, or pledged collateral, if any, or represents a protracted workout. These loans must have well defined weaknesses that are characterized by the distinct possibility that the Bank will sustain a loss if the deficiencies are not corrected.

4. Loans and allowance for loan losses (continued)

Credit Quality Information (continued)

Doubtful – loans that have all the weaknesses inherent in a substandard loan plus their collection or liquidation in full is highly questionable. The possibility of loss is extremely high, but because of certain reasonably specific pending factors which may strengthen the credit, its classification as a loss is deferred until a more exact status can be determined.

Loss – loans that are considered uncollectible in full within a reasonable length of time and are of such little value that their continuance as an active asset is not warranted. This classification does not mean that there is no possibility of recovery or salvage value, but rather it is not practical to defer writing off the asset even though a partial recovery may be made in the future.

Performing – loans not meeting the non-performing criteria are considered to be performing.

Non-performing – loans which are past due greater than 90 days and still accruing interest and loans on nonaccrual.

The table below presents classes of outstanding loans by risk category (in thousands):

Credit Quality Indicators
Credit Risk Profile by Creditworthiness Category by Class of Loan
December 31, 2018

	Commercial Loans	Commercial Real Estate	Residential Loans	Consumer Loans
Risk Rating 1	$ 783	$ 1,938	$ -	$ -
Risk Rating 2	32,543	116,367	-	-
Risk Rating 3	44,670	109,636	-	-
Risk Rating 4	1,026	7,561	-	-
Risk Rating 5	4,228	10,623	-	-
Risk Rating 6	1,241	8,500	-	-
Risk Rating 7	708	976	-	-
Risk Rating 8	-	-	-	-
Pass	-	-	243,407	-
Special Mention	-	-	189	-
Substandard	-	-	7,887	-
Doubtful	-	-	-	-
Performing	-	-	-	33,499
Non-performing	-	-	-	378
Total	$ 85,199	$ 255,601	$ 251,483	$ 33,877

4. Loans and allowance for loan losses (continued)

Credit Quality Information (continued)

Credit Quality Indicators
Credit Risk Profile by Creditworthiness Category by Class of Loan
December 31, 2017

	Commercial Loans	Commercial Real Estate	Residential Loans	Consumer Loans
Risk Rating 1	$ 1,448	$ 2,737	$ -	$ -
Risk Rating 2	37,802	140,015	-	-
Risk Rating 3	29,079	67,587	-	-
Risk Rating 4	2,081	26,157	-	-
Risk Rating 5	1,253	-	-	-
Risk Rating 6	6,136	5,855	-	-
Risk Rating 7	-	-	-	-
Risk Rating 8	-	-	-	-
Pass	-	-	241,227	-
Special Mention	-	-	245	-
Substandard	-	-	7,238	-
Doubtful	-	-	-	-
Performing	-	-	-	36,523
Non-performing	-	-	-	615
Total	$ 77,799	$ 242,351	$ 248,710	$ 37,138

Troubled Debt Restructurings

The following table includes loans modified as TDRs by portfolio class at December 31, 2018:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Consumer - real estate	9	$ 1,074,632	$ 1,090,567
Consumer - other	2	84,748	64,297
Commercial - real estate	2	1,704,557	1,684,829
Commercial - C&I	3	1,710,904	1,654,653
Total	16	$ 4,574,841	$ 4,494,346

4. Loans and allowance for loan losses (continued)

Troubled Debt Restructurings (continued)

The following table includes loans modified as TDRs by portfolio class at December 31, 2017:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Consumer - real estate	7	$ 923,591	$ 941,607
Commercial - real estate	2	226,602	202,104
Commercial - C&I	12	1,430,775	1,257,829
Total	21	$ 2,580,968	$ 2,401,540

The modification of the terms of such commercial C&I loans performed during the year ended December 31, 2018 and 2017 included an extension to the maturity of the loans. The modification of the commercial real estate loans performed during the year ended December 31, 2018 and 2017 included an extension of the maturity date at a stated rate of interest lower than the current market rate and a permanent reduction of the recorded investment in the loans. The modification of the consumer real estate loans during the year ended December 31, 2018 and 2017 included a permanent reduction of the recorded investment in the loans and a stated rate of interest lower than the current market rate. The modification of the consumer-other loans during the year ended December 31, 2018 included an extension to the maturity of the loans. There were no TDRs modified within the previous twelve months that subsequently redefaulted during the year ended December 31, 2018. The loans are performing in accordance with the modified terms.

4. Loans and allowance for loan losses (continued)

Age Analysis of Past Due Loans by Class

Following is a table which includes an aging analysis of the recorded investment of past due loans as of December 31, 2018.

Credit Quality Information
Age Analysis of Past Due Loans by Class of Loan
As of December 31, 2018
(in thousands)

	30-89 Days Past Due	Greater than 90 Days & still accruing	Total Past Due	Nonaccruals	Current	Total Receivables
Commercial	$ 448	$ 104	$ 552	$ 387	$ 84,260	$ 85,199
Commercial Real Estate	358	61	419	273	254,909	255,601
Consumer	246	122	368	379	33,130	33,877
Consumer Real Estate	2,909	2,135	5,044	4,095	242,344	251,483
Ending balance	$ 3,961	$ 2,422	$ 6,383	$ 5,134	$ 614,643	$ 626,160

Following is a table which includes an aging analysis of the recorded investment of past due loans as of December 31, 2017.

Credit Quality Information
Age Analysis of Past Due Loans by Class of Loan
As of December 31, 2017
(in thousands)

	30-89 Days Past Due	Greater than 90 Days & still accruing	Total Past Due	Nonaccruals	Current	Total Receivables
Commercial	$ 715	$ -	$ 715	$ 252	$ 76,832	$ 77,799
Commercial Real Estate	202	-	202	476	241,673	242,351
Consumer	503	14	517	386	36,235	37,138
Consumer Real Estate	3,659	117	3,776	4,253	240,681	248,710
Ending balance	$ 5,079	$ 131	$ 5,210	$ 5,367	$ 595,421	$ 605,998

4. Loans and allowance for loan losses (continued)

Nonaccrual Loans

Generally, consumer loans not secured by real estate or autos are placed on nonaccrual status only when part of the principal has been charged off. These loans are charged off or charged down to the net realizable value of the collateral when deemed uncollectible, due to bankruptcy or other factors.

The Bank places a loan on nonaccrual status, until it qualifies for return to accrual status. Generally, the Bank returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Bank has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the borrower's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

Impaired Loans

The Bank considers a loan to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Bank identifies a loan as impaired, the Bank measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Bank uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows.

If the Bank determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Bank recognizes impairment through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The amount of interest not accrued on impaired loans did not have a significant effect on earnings in 2018, 2017 or 2016. The Bank is not committed to lend additional funds to debtors whose loans have been modified.

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. The Bank determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded.

4. Loans and allowance for loan losses (continued)

Impaired Loans (continued)

Impaired loans information
Impaired loans by class with no related allowance recorded
As of December 31, 2018
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial Loans	$ 2,022	$ 2,022	$ -	$ 36	$ 1,766
Commercial R/E Loans	1,958	1,958	-	97	1,318
Consumer Loans	399	399	-	33	459
Residential Loans	5,185	5,185	-	256	5,102
	$ 9,564	$ 9,564	$ -	$ 422	$ 8,645

Impaired loans information
Impaired loans by class with an allowance recorded
As of December 31, 2018
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial Loans	$ 72	$ 72	$ 53	$ 5	$ 59
Commercial R/E Loans	-	-	-	-	-
Consumer Loans	147	147	37	12	333
Residential Loans	192	192	55	12	393
	$ 411	$ 411	$ 145	$ 29	$ 785

Impaired loans information
Impaired loans by class with no related allowance recorded
As of December 31, 2017
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial Loans	$ 1,510	$ 1,510	$ -	$ 85	$ 1,739
Commercial R/E Loans	678	678	-	26	380
Consumer Loans	272	272	-	25	399
Residential Loans	5,018	5,018	-	256	4,811
	$ 7,478	$ 7,478	$ -	$ 392	$ 7,329

4. Loans and allowance for loan losses (continued)

Impaired Loans (continued)

Impaired loans information
Impaired loans by class with an allowance recorded
As of December 31, 2017
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial Loans	$ 44	$ 44	$ 44	$ 3	$ 124
Commercial R/E Loans	-	-	-	-	40
Consumer Loans	519	519	142	36	388
Residential Loans	594	594	46	33	624
	$ 1,157	$ 1,157	$ 232	$ 72	$ 1,176

Impaired loans information
Impaired loans by class with no related allowance recorded
As of December 31, 2016
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial Loans	$ 1,967	$ 1,967	$ -	$ 96	$ 1,126
Commercial R/E Loans	81	81	-	10	176
Consumer Loans	525	525	-	33	379
Residential Loans	4,603	4,603	-	212	3,883
	$ 7,176	$ 7,176	$ -	$ 351	$ 5,564

Impaired loans information
Impaired loans by class with an allowance recorded
As of December 31, 2016
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial Loans	$ 202	$ 202	$ 189	$ 5	$ 246
Commercial R/E Loans	79	79	19	9	81
Consumer Loans	257	257	115	15	302
Residential Loans	654	654	119	33	704
	$ 1,192	$ 1,192	$ 442	$ 62	$ 1,333

5. Core deposit intangibles

At December 31, 2018 and 2017, the Bank had core deposit intangibles of $160,562 and $321,158, respectively related to the acquisition of Guaranty Bank in 2012. Intangible assets with a determinable useful life are amortized over their useful lives. The Bank's core deposit intangibles have a 7-year life. Estimated amortization expense for the seven succeeding years beginning with December 31, 2013 is $160,596 in each year, with a final amortization of $160,562 in the last year.

6. Bank premises and equipment

Components of Bank premises and equipment included in the consolidated balance sheets at December 31, 2018 and 2017, were as follows:

	2018	2017
Buildings and leasehold improvements	$ 25,763,659	$ 24,681,535
Equipment	19,312,975	18,429,714
Land	5,406,406	5,406,406
Construction-in-progress	-	697,035
	50,483,040	49,214,690
Less: accumulated depreciation and amortization	(25,111,967)	(23,412,192)
	$ 25,371,073	$ 25,802,498

Depreciation expense amounted to $2,432,267, $2,533,037, and $2,523,067, during the years ended December 31, 2018, 2017 and 2016, respectively.

7. Time deposits

At December 31, 2018, the scheduled maturities of all outstanding certificates of deposit and IRA's were as follows:

Year ending December 31st	Amount
2019	$ 76,475,539
2020	18,852,053
2021	2,847,423
2022	9,920,802
2023	948,877
Thereafter	7,238,665
	$ 116,283,359

Included in deposits are $42,944,457 and $36,461,626 of certificates of deposit and IRA accounts greater than or equal to $250,000 at December 31, 2018 and 2017, respectively.

Total interest expense on certificates of deposit and IRA accounts was $1,025,349, $792,075, and $795,936 for the years ended December 31, 2018, 2017, and 2016, respectively.

8. Other operating expenses

Other operating expenses for the years ended December 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Advertising and public relations	$ 1,178,386	$ 1,257,547	$ 1,574,668
Equipment and computer expenses	5,021,685	5,039,148	4,727,084
Professional fees and expenses	271,618	609,151	568,412
Regulatory assessments	467,072	614,144	617,019
Stationary and supplies	235,968	257,753	356,882
Other	5,157,167	4,870,707	4,914,708
	$ 12,331,896	$ 12,648,450	$ 12,758,773

9. Income taxes

The source and tax effect of items reconciling income tax expense to the amount computed by applying the federal income tax rates in effect to net income before income tax expense for the years ended December 31, 2018, 2017, and 2016, are as follows:

	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
Income before income taxes	$11,350,315	100.0%	$ 8,264,907	100.0%	$ 5,212,892	100.0%
U.S. Federal income tax expense	$2,383,528	21.0%	$ 2,810,067	34.0%	$ 1,772,382	34.0%
Enacted Rate Reduction			29,120	0.4%		
Municipal income	(381,379)	(3.4)	(683,576)	(8.3)	(714,028)	(13.7)
Other	(43,068)	(0.3)	(104,781)	(1.3)	(85,433)	(1.6)
Income tax expense	$ 1,959,081	17.3%	$ 2,050,830	24.8%	$ 972,921	18.7%

The components of income tax expense (benefit) during the years ended December 31, 2018, 2017 and 2016, were as follows:

	2018	2017	2016
Current tax expense	$ 1,909,722	$ 2,435,372	$ 1,755,322
Deferred tax expense (benefit) including $29,120 expense in 2017 from enacted tax rate reduction	49,359	(384,542)	(782,401)
	$ 1,959,081	$ 2,050,830	$ 972,921

9. Income taxes (continued)

The Company records deferred income taxes on the tax effect of changes in temporary differences. Deferred tax assets are subject to a valuation allowance if their realization is less than 50% probable. The deferred tax assets and liabilities were comprised of the following at December 31, 2018 and 2017:

	2018	2017
Depreciation and amortization	($ 1,011,296)	($ 990,228)
Unrealized gains on available-for-sale securities	(355,373)	(1,704)
Goodwill amortization	(356,169)	(356,169)
Purchase accounting-securities	(5,498)	(12,510)
Purchase accounting-deposits	(33,718)	(67,443)
Other items	(68,321)	(48,772)
Gross deferred tax liability	(1,830,375)	(1,476,826)
Allowance for loan losses	1,340,754	1,405,176
Deferred compensation	133,634	105,386
Other	-	13,305
Gross deferred tax asset	1,474,388	1,523,867
Net deferred tax asset (liability)	($ 355,987)	$ 47,041

10. Employee benefits

The Company offers a 401(k) Plan (the "Plan") to all employees who have completed three months of service and who have attained age 20. Plan assets are invested in the Company's securities or several other investment options. Contributions to the Plan are at the discretion of the Board of Directors, with limitations based on a percentage of the participants' compensation. Annual contributions are allocated to each participant's account in an amount equal to each participant's deferred compensation for the year. A participant's interest in his or her account balance becomes fully vested after completion of five years of service. The Company contributed $456,328, $413,349, and $431,524, to the Plan in 2018, 2017, and 2016, respectively. At December 31, 2018 and 2017, the Plan held 35,280 and 34,716 shares in common stock of the Company, respectively.

The Bank also offers a life insurance joint beneficiary plan with some of its executive officers. The Bank is the owner and beneficiary of split-dollar life insurance policies covering the lives of the officers. The plan provides for payment upon death of a calculated amount based primarily on the officer's salary to be paid from the proceeds of the policies to the officers' designated beneficiaries. The benefits have been accrued in the accompanying consolidated financial statements.

11. Contingencies

The Company is a party to various legal proceedings arising in the ordinary course of business. In the opinion of management, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

12. Financial instruments with off-balance-sheet risk

To meet the financing needs of its customers the Bank is a party to various financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement the Bank has in particular classes of financial instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and commercial letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments.

The following is a summary as of December 31, 2018 and 2017, of the various financial instruments entered into by the Bank:

	2018	2017
Commitments to extend credit	$ 130,512,084	$ 119,947,894
Standby letters of credit	1,620,475	2,894,540

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 fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements.

The Bank evaluates customers' creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit and commercial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers. The contractual amounts of credit-related financial instruments, such as commitments to extend credit and letters of credit, represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

13. Minimum regulatory capital requirements

Both the Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, both the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's and the Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors.

13. Minimum regulatory capital requirements (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018 and 2017, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

In 2014, FDIC adopted final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%; raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%; require a minimum ratio of Total capital to risk-weighted assets of 8.0%; and require a minimum Tier 1 leverage ratio of 4.0%. A new capital conservation buffer, comprised of common equity Tier 1 capital, is also established above the minimum regulatory capital requirements. This capital conservation buffer was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increases each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules.

The phase-in period for the final rules began for the Bank on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule and should be fully phased-in by January 1, 2019. Management believes that the Bank's capital levels will remain characterized as "well-capitalized" under the new rules.

The most recent examination by the Federal Deposit Insurance Corporation (as of December 31, 2017) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To remain as well capitalized the Bank must maintain the ratios as set forth in the tables below. There are no conditions or events since that notification that management believes have changed the institution's category. The Bank's actual capital amounts and ratios as of December 31, 2018 and 2017, are presented in the table below.

13. Minimum regulatory capital requirements (continued)

The Bank's actual capital amounts and ratios as of December 31, 2018 and 2017, are also presented in the table below:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018:						
Company:						
Total Regulatory Capital To risk weighted assets	$84,791,000	13.60%	$49,864,000	≥8.0%	N/A	N/A
Tier I Capital to risk weighted assets	78,407,000	12.58%	37,398,000	≥6.0%	N/A	N/A
Tier I Leverage Capital	78,407,000	9.21%	34,060,000	≥4.0%	N/A	N/A
Common Equity Tier 1 capital (to risk weighted assets):	78,407,000	12.58%	28,049,000	>4.5%	N/A	N/A
Bank:						
Total Regulatory Capital to risk weighted assets	$98,548,000	15.81%	$49,860,000	≥8.0%	$62,325,000	≥10.0%
Tier I Capital to risk weighted assets	92,164,000	14.79%	37,395,000	≥6.0%	49,860,000	≥8.0%
Tier I Leverage Capital	92,164,000	10.82%	34,057,000	≥4.0%	42,571,000	≥5.0%
Common Equity Tier 1 capital (to risk weighted assets):	92,164,000	14.79%	28,046,000	≥4.5%	40,511,000	≥6.50%

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017:						
Company:						
Total Regulatory Capital To risk weighted assets	$79,415,000	12.47%	$50,956,000	≥8.0%	N/A	N/A
Tier I Capital to risk weighted assets	72,724,000	11.42%	38,217,000	≥6.0%	N/A	N/A
Tier I Leverage Capital	72,724,000	9.09%	32,004,000	≥4.0%	N/A	N/A
Common Equity Tier 1 capital (to risk weighted assets):	72,724,000	11.42%	28,663,000	>4.5%	N/A	N/A
Bank:						
Total Regulatory Capital to risk weighted assets	$94,447,000	14.83%	$50,949,000	≥8.0%	$63,686,000	≥10.0%
Tier I Capital to risk weighted assets	87,756,000	13.78%	38,211,000	≥6.0%	50,949,000	≥8.0%
Tier I Leverage Capital	87,756,000	10.30%	34,076,000	≥4.0%	42,595,000	≥5.0%
Common Equity Tier 1 capital (to risk weighted assets):	87,756,000	13.78%	28,659,000	≥4.5%	41,396,000	≥6.50%

14. Disclosures about fair value of financial instruments

In accordance with the *Fair Value Measurements and Disclosure* topic of the Accounting Standards Codification, disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments. Therefore, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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

Fair Value Hierarchy

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

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement, determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

14. Disclosures about fair value of financial instruments (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following describes the hierarchy designations, valuation methodologies, and key inputs to measure fair value on a recurring basis for designated financial instruments.

Available for Sale Securities

Fair value estimates for investment securities are based on quoted market prices, where available (Level 1 inputs). If quoted market prices are not available, fair values are based on quoted market prices or comparable instruments (Level 2). The carrying amount of accrued interest on securities approximates its fair value.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3
December 31, 2018,			
Mortgage-backed securities	$ -	$ 90,942,053	$ -
State & political subdivisions	-	30,742,663	-
Corporate bonds	-	4,723,256	-
Securities available-for-sale	$ -	$ 126,407,972	$ -
December 31, 2017,			
Mortgage-backed securities	$ -	$ 105,198,053	$ -
State & political subdivisions	-	34,284,826	-
Corporate bonds	-	2,028,852	-
Securities available-for-sale	$ -	$ 141,511,731	$ -

The Company did not record any liabilities at fair market value for which measurement of the fair value was made on a recurring basis at December 31, 2018 or 2017.

There were no transfers between Level 1 or Level 2 during 2018 or 2017.

14. Disclosures about fair value of financial instruments (continued)

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The following describes the hierarchy designation, valuation methodologies, and key inputs for those assets that are measured at fair value on a non-recurring basis:

Impaired Loans

At the time a loan is considered impaired, it is recorded at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification.

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments typically result in a Level 2 classification of the inputs for determining fair value.

Assets and liabilities measured at fair value on a non-recurring basis (in thousands) are summarized below:

	Fair Value Measurements at Reporting Date Using:			
December 31, 2018	Fair Value	Level 1	Level 2	Level 3
Assets:				
Impaired Loans				
Commercial	$ 2,094	$ -	$ -	$ 2,094
Commercial Real Estate	1,958	-	-	1,958
Consumer	546	-	-	546
Residential	5,377	-	-	5,377
Foreclosed Assets	632	-	632	-
Total	$ 10,607	$ -	$ 632	$ 9,975

14. Disclosures about fair value of financial instruments (continued)

Assets and Liabilities Measured on a Non-Recurring Basis (continued)

	Fair Value Measurements at Reporting Date Using:			
December 31, 2017	Fair Value	Level 1	Level 2	Level 3
Assets:				
Impaired Loans				
Commercial	$ 1,554	$ -	$ -	$ 1,554
Commercial Real Estate	678	-	-	678
Consumer	791	-	-	791
Residential	5,612	-	-	5,612
Foreclosed Assets	1,456	-	1,456	-
Total	$ 10,091	$ -	$ 1,456	$ 8,635

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a gross carrying amount of approximately $9,975,000 as of December 31, 2018, with a valuation allowance of $144,808. As of December 31, 2017, impaired loans had a gross carrying amount of approximately $8,635,000 with a valuation allowance of $232,887.

Foreclosed assets measured at fair value less costs to sell, had a net carrying amount of $631,862 and $1,455,803 as of December 31, 2018 and 2017, respectively. There were no valuation allowances associated with the foreclosed assets.

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2018 and 2017, the Company utilized the following valuation techniques and significant unobservable inputs.

Impaired Loans

For individually evaluated impaired loans, the amount of impairment is based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the estimated fair value of the underlying collateral for collateral-dependent loans, resulting in an average discount of 5% to 30%.

14. Disclosures about fair value of financial instruments (continued)

Financial Instruments

The carrying amounts and estimated fair values of financial instruments at December 31, 2018 are as follows (in thousands):

	Carrying Amount	Fair Value Measurements at December 31, 2018 Using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and due from banks and Interest bearing deposits In other banks	$ 39,278	$ 39,278	$ -	$ -	$ 39,278
Securities available-for-sale	126,408	-	126,408	-	126,408
Securities held to maturity	22,408	-	22,421	-	22,421
Loans, net of allowance	619,775	-	-	624,859	624,859
Other stocks, at cost	8,313	-	8,313	-	8,313
Accrued interest receivable	2,910	-	1,006	1,904	2,910
Financial Liabilities:					
Noninterest bearing deposits	$ 273,454	$ -	$ 273,454	$ -	$ 273,454
Interest bearing deposits	485,375	-	448,519	-	448,519
Securities sold under repurchase agreements	451	-	451	-	451
Other borrowed funds	3,253	-	3,253	-	3,253
Accrued interest payable	151	-	151	-	151
Subordinate debentures	17,113	-	17,113	-	17,113

14. Disclosures about fair value of financial instruments (continued)

Financial Instruments (continued)

The estimated fair values of the Company's financial instruments at December 31, 2017, were as follows (in thousands):

	Carrying Amount	Fair Value Measurements at December 31, 2017 Using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and due from banks and Interest bearing deposits In other banks	$ 46,313	$ 46,313	$ -	$ -	$ 46,313
Securities available-for-sale	141,512	-	139,512	-	139,512
Securities held to maturity	24,048	-	24,142	-	24,142
Loans, net of allowance	599,307	-	-	609,710	609,710
Other stocks, at cost	8,260	-	8,260	-	8,260
Accrued interest receivable	2,892	-	1,135	1,757	2,892
Financial Liabilities:					
Noninterest bearing deposits	$ 261,538	$ -	$ 261,538	$ -	$ 261,538
Interest bearing deposits	471,610	-	469,477	-	469,477
Securities sold under repurchase agreements	377	-	377	-	377
Other borrowed funds	38,489	-	38,489	-	38,489
Accrued interest payable	578	-	578	-	578
Subordinate debentures	17,064	-	17,064	-	17,064

The estimated fair value approximates carrying amounts for all items except those described below. The carrying amounts of cash and short-term instruments approximate fair values and are classified as either Level 1 or Level 2. Estimated fair value for both securities available-for-sale and held-to-maturity is as previously described for securities available-for-sale. Fair value of loans are estimated as set forth below:

The methods assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1.

Interest Earning Deposits in Other Depository Institutions

The carrying amount of interest-earning deposits approximates fair value and are classified as Level 1.

14. Disclosures about fair value of financial instruments (continued)

Financial Instruments (continued)

Loans Receivable, Net

The fair value of loans is estimated through discounted cash flow analysis using current rates at which loans with similar terms would be made to borrowers of similar credit quality resulting in a Level 3 classification. Appropriate adjustments are made to reflect probable credit losses. The carrying amount of accrued interest on loans approximated its fair value.

Other stocks, at cost

The value of the stock is based on the current book value per common share of stock and is classified as Level 2.

Deposit Liabilities

ASC 825 specifies that the fair value of deposit liabilities with no defined maturity is the amount payable on demand at the reporting date, i.e., their carrying or book value. The fair value of fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently offered on certificates of similar remaining maturities to a schedule of aggregate expected cash flows on time deposits and are classified as Level 2.

Short-Term 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 short-term borrowings are estimated using discounted cash flow analyses based on current market rates for similar types of borrowing arrangements and are classified as Level 2.

Advances from Federal Home Loan Bank

The fair value of fixed rate borrowings is estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements and is classified as Level 2.

Accrued Interest Receivable/Payable

The carrying amount of accrued interest receivable/payable approximates its fair value resulting in a Level 2 or Level 3 classification consistent with the classification of the asset/liability with which they are associated.

14. Disclosures about fair value of financial instruments (continued)

Financial Instruments (continued)

Off-Balance Sheet Instruments

Off-balance sheet financial instruments include commitments to extend credit and undisbursed lines of credit. The fair value of such instruments is estimated using fees currently charged for similar arrangements in the marketplace, adjusted for changes in terms and credit risk as appropriate. The estimated fair value for these instruments was not significant at December 31, 2018 and 2017. The contract or notional amounts of the Company's financial instruments with off-balance sheet risk are disclosed in Note 12.

15. Other borrowed funds and lines of credit

The Bank has established a federal funds line-of-credit with First National Banker's Bank (FNBB) and Federal Home Loan Bank (FHLB) to provide additional sources of operating funds. The Bank can borrow up to approximately $25,000,000 and $233,608,235, respectively under these agreements at December 31, 2018. There was nothing drawn under the agreement with FNBB at December 31, 2018 and 2017. There were $3,253,314 in advances and a $80,000,000 Letter of Credit outstanding as of December 31, 2018, under the agreement with the FHLB for a total of $83,253,314.

16. Subordinated Notes

The Company issued $17,500,000 in aggregate principal amount of fixed-to-floating subordinated notes during the year ended December 31, 2017. The terms are listed below.

Issue date	January 11, 2017
Maturity date	January 15, 2027
Interest rate	6.75% through January 15, 2022, then LIBOR plus 469.0 basis points through maturity

Interest expense as of December 31, 2018 and 2017 was $1,181,250 and $1,096,076, respectively, and the principal balance owed was $17,500,000. Debt issuance costs amounting to approximately $482,000 are being amortized over the life of the debt. Amortization expense during the years ended December 31, 2018 and 2017 was approximately $48,000 and $46,000, respectively.

The Company may, at its option, beginning with the interest payment date of January 15, 2022 and on any scheduled interest payment date thereafter redeem the subordinated notes, in whole or in part, upon not fewer than 30 nor greater than 60 days' notice to holders, at a redemption price equal to 100% of the principal amount of the subordinated notes to be redeemed plus accrued interest to, but excluding, the date of redemption. Any partial redemption will be made pro rata among all of the holders.

As part of the agreement, the Company will not declare or pay any dividend or make any distribution on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock or other equity securities of any kind, if (i) the total risk-based capital ratio, Tier 1 risk-based capital ratio or leverage ratio of the Company or any of the Company's banking subsidiaries becomes less than ten percent (10%), six percent (6%) or five percent (5%), respectively, or (ii) there exists an Event of Default, in each case except for dividends payable solely in shares of common stock of the Company or as required by any federal or state Governmental Agency.

16. Subordinated Notes (continued)

The subordinated notes may be included in Tier 1 capital for the Bank (with certain limitations applicable) under current regulatory guidelines and interpretations. As of December 31, 2017, a portion of the proceeds of the subordinated notes, $14,000,000, was contributed to the Bank as Tier 1 capital. No such contributions were made to the Bank as of December 31, 2018.

17. Related Party Transactions

Loans are made in the normal course of business to its directors, executive officers and their associates on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. Such loans did not involve more than normal risks of collectability. An analysis of activity during 2018 and 2017 with respect to loans to officers and directors of the Bank is as follows:

	2018	2017
Balance - beginning of year	$ 2,371,316	$ 2,938,317
New loans	12,195,587	909,855
Payments	(11,833,842)	(1,476,856)
Balance - end of year	$ 2,733,061	$ 2,371,316

Included in deposits are deposits from directors, officers, their immediate families, and related companies. These accounts totaled approximately $5,822,479 and $6,358,211 at December 31, 2018 and 2017, respectively.

18. Loan Servicing

The Bank entered into an agreement with a customer on February 7, 2013, in which the Bank agreed to service loans owned by the customer. The servicing of these loans began on March 19, 2013. The Bank will collect the note payments and escrow for these loans and deposit into a JD Bank account owned by the customer. JD Bank will also send past due notices on the loans through the Bank's normal collection procedures. Per the agreement terms, loans that are 90 days past due will be transferred back to the customer for their collection and foreclosure efforts. The total loan balance being serviced at December 31, 2018 and 2017 is $1,395,840 and $1,534,369, respectively, and is properly not recorded on the Bank's consolidated financial statements.

19. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, March 11, 2019, and determined that there were no events that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

20. Bank Only Financial Statements

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Cash and due from banks	$ 26,744,674	$ 25,813,353
Interest bearing deposits in other banks	9,593,917	20,499,239
Securities available-for-sale	126,407,972	141,511,731
Securities held to maturity	22,407,606	24,047,885
Other stocks, at cost	8,313,337	8,259,637
Loans, less allowances for loan losses of $6,384,541 and $6,691,316 at December 31, 2018 and 2017, respectively	619,775,136	599,306,776
Accrued interest receivable	2,910,149	2,892,462
Bank premises and equipment, net	25,365,740	25,793,621
Other real estate owned	631,862	1,455,803
Goodwill and other intangibles	4,340,107	4,500,703
Life insurance contracts	13,375,172	13,083,324
Other assets	1,619,664	1,787,831
Total assets	$ 861,485,336	$ 868,952,365

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities:	2018	2017
Deposits		
Demand deposit accounts, non-interest bearing	$ 263,693,823	$ 249,701,171
Demand deposit accounts, interest bearing	174,546,830	171,992,283
Individual retirement accounts	17,764,842	19,707,578
Savings accounts	194,541,053	184,655,138
Certificates of deposit - $250,000 and over	39,647,725	32,478,586
Other certificates of deposit	58,874,849	62,776,101
Other deposit accounts	9,833,415	13,390,774
	758,902,537	734,701,631
Securities sold under repurchase agreements	451,471	377,255
Other borrowed funds	3,253,314	38,489,416
Accrued interest payable	151,003	85,889
Accrued expenses and other liabilities	2,460,655	2,329,971
Accrued interest payable on subordinated notes	590,625	590,625
Dividends payable	917,542	855,336
Total liabilities	766,727,147	777,430,123
Commitments and Contingencies	-	-
Stockholder's equity:		
Common stock; $12.50 par value; 1,536,000 shares authorized; 768,000 shares issued and outstanding at December 31, 2018 and 2017	9,600,000	9,600,000
Capital surplus	30,400,000	30,400,000
Undivided profits	56,147,698	51,515,833
Accumulated other comprehensive income	(1,389,509)	6,409
Total stockholder's equity	94,758,189	91,522,242
Total liabilities and stockholder's equity	$ 861,485,336	$ 868,952,365

20. Bank Only Financial Statements (continued)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
INTEREST INCOME		
Interest and fees on loans	$ 32,866,699	$ 31,553,206
Investment securities:		
Taxable	2,390,282	2,341,114
Non-taxable	1,885,809	2,060,119
Federal funds sold and interest bearing deposits in other banks	297,382	70,529
Total interest income	37,440,172	36,024,968
INTEREST EXPENSE		
Interest on deposits	3,012,014	2,742,465
Interest on securities sold under repurchase agreements	14,112	5,495
Total interest expense	3,026,126	2,747,960
NET INTEREST INCOME	34,414,046	33,277,008
Provision for loan losses	189,000	942,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	34,225,046	32,335,008
NONINTEREST INCOME		
Service charges and fees on deposit accounts	7,981,324	8,118,480
Trust department income	477,817	440,457
Realized gains on sale of investments	5,386	13,910
Other income	2,596,607	349,278
	11,061,134	8,922,125

20. Bank Only Financial Statements (continued)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
NONINTEREST EXPENSES		
Salaries and employee benefits	$ 18,060,123	$ 16,770,806
Occupancy expenses	2,428,723	2,528,712
Other operating expenses	12,299,742	12,607,599
	32,788,588	31,907,117
INCOME BEFORE INCOME TAX EXPENSE	12,497,592	9,350,016
Income tax expense	2,200,728	2,428,095
NET INCOME	10,296,864	6,921,921
OTHER COMPREHENSIVE LOSS		
Unrealized gains on securities:		
Unrealized holding losses arising during the period net of taxes of ($347,951) and ($45,195)	(1,400,173)	(142,043)
Less: reclassification adjustments for gains included in net income, net of taxes of $1,131 and $4,729	4,255	9,181
	(1,395,918)	(132,862)
COMPREHENSIVE INCOME	$ 8,900,946	$ 6,789,059

21. Parent Only Financial Statements

BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Cash in subsidiary bank	$ 1,318	$ 1,438,432
Cash in Texas Capital	2,939,282	-
Dividend receivable	1,508,167	1,445,961
Investment in subsidiary bank	94,758,189	91,522,242
Investment in JD Bank Insurance, LLC	58,874	96,809
Income taxes receivable	258,227	398,423
Total assets	$ 99,524,057	$ 94,901,867

LIABILITIES AND STOCKHOLDERS' EQUITY

	2018	2017
Dividend payable	$ 917,542	$ 855,336
Subordinated Notes	17,112,781	17,064,384
Accrued Interest - Subordinated Notes	492,188	492,188
Total liabilities	18,522,511	18,411,908
Common stock; $6.25 par value; 3,072,000 shares authorized; 1,560,000 shares issued and outstanding at December 31, 2018 and 2017	9,719,725	9,719,725
Additional paid-in capital	3,598,000	3,598,000
Retained earnings	69,073,330	63,165,825
Accumulated other comprehensive (loss) income	(1,389,509)	6,409
Total stockholders' equity	81,001,546	76,489,959
Total liabilities and stockholders' equity	$ 99,524,057	$ 94,901,867

21. Parent Only Financial Statements (continued)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
INCOME		
Dividends from subsidiary bank	$ 5,664,819	$ 2,905,046
Dividends from subsidiary insurance company	100,000	100,000
Interest income	29,100	-
	5,793,919	3,005,046
EXPENSES		
Interest expense	1,229,652	1,142,076
Operating expenses	25,556	29,754
Taxes and other expenses	(258,227)	(405,949)
	996,981	765,881
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	4,796,938	2,239,165
Equity in undistributed earnings of subsidiaries and excess distribution of earnings	4,594,116	3,974,912
NET INCOME	9,391,054	6,214,077
OTHER COMPREHENSIVE LOSS		
Unrealized gains on securities:		
Unrealized holding lossees arising during the period net of taxes of ($347,951) and ($45,195)	(1,400,173)	(142,043)
Less: reclassification adjustment for realized gains included in net income, net of taxes of $1,131 and $4,729	4,255	9,181
	(1,395,918)	(132,862)
COMPREHENSIVE INCOME	$ 7,995,136	$ 6,081,215

21. Parent Only Financial Statements (continued)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 9,391,054	$ 6,214,077
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	48,398	46,138
Undistributed earnings of JD Prime	(62,066)	(58,037)
Undistributed earnings of Bank	(4,631,865)	(4,607,499)
Contribution to the Bank	-	(14,000,000)
Changes in accrued interest receivable	-	492,188
Changes in income tax receivable	140,196	(398,423)
Net cash provided by (used in) operating activities	4,885,717	(12,311,556)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(3,483,549)	(3,421,344)
Proceeds from issuance of subordinated debentures	-	17,500,000
Payment of debenture costs	-	(481,754)
Distribution from Subsidiary - JD Bank Ins.	100,000	100,000
Net cash (used in) provided by financing activities	(3,383,549)	13,696,902
Increase in cash in subsidiary bank	1,502,168	1,385,346
Cash in subsidiary bank - beginning of year	1,438,432	53,086
Cash in subsidiary bank - end of year	$ 2,940,600	$ 1,438,432

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P&N
Postlethwaite & Netterville

8550 United Plaza Blvd., Ste. 1001 – Baton Rouge, LA 70809
225-922-4600 Phone – 225-922-4611 Fax – pncpa.com

A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Stockholders and Board of Directors of
Jeff Davis Bancshares, Inc. and Subsidiaries
Jennings, Louisiana

Our report on the audit of the consolidated financial statements of Jeff Davis Bancshares, Inc. and its Subsidiaries for the year ended December 31, 2018 and 2017 appears on pages 1 and 2. That audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The JD Bank Insurance, LLC financial statements, presented as supplementary information, are not a required part of the basic financial statements, but is supplementary information. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
March 11, 2019

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

SUPPLEMENTAL SCHEDULE
JD BANK INSURANCE, LLC FINANCIAL STATEMENTS

BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

ASSETS

		2018		2017
Cash in parent bank	$	71,427	$	115,165
Furniture and equipment, net		5,333		8,877
Other assets		-		4,596
Total assets	$	76,760	$	128,638

LIABILITIES AND STOCKHOLDER'S EQUITY

		2018		2017
Deferred income taxes payable	$	786	$	1,306
Other liabilities		17,100		30,523
Total liabilities		17,886		31,829
Stockholder's equity		685,000		685,000
Retained earnings		(626,126)		(588,191)
Total stockholder's equity		58,874		96,809
Total liabilities and stockholder's equity	$	76,760	$	128,638

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

SUPPLEMENTAL SCHEDULE
JD BANK INSURANCE, LLC FINANCIAL STATEMENTS

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
INCOME		
Commissions earned	$ 88,788	$ 102,062
Other income	-	81
	88,788	102,143
EXPENSES		
Insurance expenses	4,651	7,960
Other operating expenses	22,071	36,146
	26,722	44,106
NET INCOME	$ 62,066	$ 58,037

JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

SUPPLEMENTAL SCHEDULE
JD BANK INSURANCE, LLC FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 62,066	$ 58,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	3,544	4,325
Net change in operating assets and liabilities:		
Income taxes payable and other liabilities	(13,944)	(2,962)
Other assets and liabilities	4,596	7,860
Net cash provided by operating activities	56,262	67,260
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(100,000)	(100,000)
Net cash used in financing activities	(100,000)	(100,000)
Decrease in cash in subsidiary bank	(43,738)	(32,740)
Cash in subsidiary bank - beginning of year	115,165	147,905
Cash in subsidiary bank - end of year	$ 71,427	$ 115,165

EXECUTIVE OFFICERS

BOYD R. BOUDREAUX
President and Chief Executive Officer

CARLY LEONARDS
Senior Executive Vice President and Chief Banking Officer

PAUL E. BRUMMETT, II
Executive Vice President and Chief Financial Officer

BAVO GALL
Executive Vice President and Chief Information Officer

DORENE GOTHREAUX
Executive Vice President and Chief Operating Officer

RAMONA SCHEXNIDER
Executive Vice President and Chief Risk Officer

SARA HUVAL
Senior Vice President and Human Resource Director

ELIZABETH PARKER
Senior Vice President and Chief Administrative Officer

GEORGE SHAFER
Senior Vice President and Attorney/Chief Compliance Officer

MARSHA WILLIAMS
Senior Vice President and Chief Credit Officer

ANN BARILLEAUX
Vice President and Marketing Director

DIRECTORS

JEFF DAVIS BANCSHARES, INC.
AND
JD BANK

DAN L. DONALD, JR.
Chairman
Jeff Davis Bancshares, Inc.
JD Bank

DAVID B. DONALD
Vice Chairman
Jeff Davis Bancshares, Inc.
JD Bank

SARA A. ROBERTS
Secretary
Jeff Davis Bancshares, Inc.
JD Bank

BOYD R. BOUDREAUX
President and Chief Executive Officer
Jeff Davis Bancshares, Inc.
JD Bank

G. VINCENT BAILEY

CLARENCE A. BERKEN

DARYL V. BURCKEL

ANDREW CORMIER

MILTON RAY CROCHET

RAY HINES

THOMAS E. LEGER

VICTOR T. STELLY

TERRY J. TERREBONNE

EQUAL HOUSING LENDER

Member FDIC