

**RIVERHILLS CAPITAL  
CORPORATION AND  
SUBSIDIARY**

**Vicksburg, Mississippi**

**December 31, 2018**

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**Independent Auditors' Report**

To the Board of Directors and Stockholders  
RiverHills Capital Corporation and Subsidiary  
Vicksburg, Mississippi

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

**Management's Responsibility for the Financial Statements**

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

**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.

**Opinion**

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

*Nail McKinney P.A.*

Tupelo, Mississippi  
February 25, 2019

**Consolidated Balance Sheets**

**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and due from banks:		
Noninterest-bearing	\$ 5,198,951	\$ 4,428,661
Interest-bearing	14,077,833	19,916,631
Federal funds sold	-	250,000
Cash and cash equivalents	<u>19,276,784</u>	<u>24,595,292</u>
Interest-bearing time deposits in banks	4,308,815	3,970,000
Securities available for sale	91,336,970	78,822,214
Securities held to maturity	3,000,000	3,000,000
Loans, net of allowance for loan losses	186,073,565	194,095,884
Equity securities at cost	2,278,115	2,232,915
Accrued interest receivable	2,029,925	1,802,421
Premises and equipment, net	6,799,229	7,131,501
Other investments carried at cost	593,547	643,335
Foreclosed assets	117,710	281,827
Cash surrender value of life insurance	1,555,041	1,510,212
Prepaid expenses	2,745	38,352
Other assets	5,269	5,268
Total assets	<u>\$ 317,377,715</u>	<u>\$ 318,129,221</u>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Deposits:		
Demand	\$ 55,159,343	\$ 57,099,744
Savings, NOW and money market	103,677,493	98,288,005
Time	<u>94,425,158</u>	<u>98,033,180</u>
Total deposits	253,261,994	253,420,929
Borrowed funds	29,780,879	32,373,708
Deferred compensation	104,970	76,932
Escrow payable	118,895	115,064
Accrued interest payable	181,653	143,388
Other liabilities	<u>8,426</u>	<u>3,880</u>
Total liabilities	<u>283,456,817</u>	<u>286,133,901</u>
Stockholders' equity:		
Common stock - \$ 0.25 par value; 500,000 shares authorized; 426,790 shares issued and outstanding	106,698	106,698
Additional paid-in capital	4,999,747	4,977,997
Retained earnings	30,932,936	28,482,215
Accumulated other comprehensive income	370,937	606,655
Common stock in treasury at cost, 31,934 and 29,434 shares at December 31, 2018 and 2017, respectively	<u>(2,489,420)</u>	<u>(2,178,245)</u>
Total stockholders' equity	<u>33,920,898</u>	<u>31,995,320</u>
Total liabilities and stockholders' equity	<u>\$ 317,377,715</u>	<u>\$ 318,129,221</u>

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

**Consolidated Statements of Income**  
**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

Years ended December 31, 2018 and 2017

	<i>2018</i>	<i>2017</i>
Interest and dividend income:		
Loans	\$ 10,522,577	\$ 9,788,690
Debt securities	1,479,591	1,037,326
Federal funds sold	2,366	7,136
Deposits with financial institutions	402,868	371,725
Dividends	72,931	58,038
Total interest and dividend income	12,480,333	11,262,915
Interest expense:		
Deposits	1,611,160	1,358,497
Federal funds purchased	284	178
Federal Home Loan Bank advances	626,935	700,648
Total interest expense	2,238,379	2,059,323
Net interest income	10,241,954	9,203,592
Provision for loan losses	340,000	240,000
Net interest income after provision for loan losses	9,901,954	8,963,592
Noninterest income:		
Service fees	1,523,170	1,461,515
Net gain on available for sale securities	-	4,902
Net gain (loss) on sale of foreclosed assets	(1,316)	44,784
Other income	389,976	413,455
Total noninterest income	1,911,830	1,924,656
Noninterest expenses:		
Salaries and employee benefits	4,292,184	4,116,033
Occupancy expense, net of rental income	864,818	743,843
Data processing fees	520,247	532,635
Other general and administrative	1,383,228	1,407,979
Total noninterest expenses	7,060,477	6,800,490
Net income	\$ 4,753,307	\$ 4,087,758

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

**Consolidated Statements of Comprehensive Income**  
**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

**Years ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Net income	\$ 4,753,307	\$ 4,087,758
Other comprehensive income:		
Unrealized holding losses on available-for-sale securities	(235,718)	(48,060)
Reclassification adjustment for net gains realized in net income	<u>-</u>	<u>(4,902)</u>
Other comprehensive loss	<u>(235,718)</u>	<u>(52,962)</u>
Comprehensive income	<u>\$ 4,517,589</u>	<u>\$ 4,034,796</u>

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

**Consolidated Statements of Changes in Stockholders' Equity**  
**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**  
**Years ended December 31, 2018 and 2017**

	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Unearned ESOP Shares</i>	<i>Common Stock in Treasury</i>	<i>Total Stockholders' Equity</i>
Balance, January 1, 2017	\$ 106,698	\$ 4,949,063	\$ 26,421,971	\$ 659,617	\$ (52,492)	\$ (1,884,120)	\$ 30,200,737
Net income	-	-	4,087,758	-	-	-	4,087,758
Other comprehensive loss	-	-	-	(52,962)	-	-	(52,962)
Compensation expense, long-term incentive plan	-	15,370	-	-	-	-	15,370
↳ Unearned ESOP Shares released	-	13,564	-	-	52,492	-	66,056
Purchase of treasury stock (2,500 shares at cost)	-	-	-	-	-	(294,125)	(294,125)
Distributions to shareholders	-	-	(2,027,514)	-	-	-	(2,027,514)
Balance, December 31, 2017	106,698	4,977,997	28,482,215	606,655	-	(2,178,245)	31,995,320
Net income	-	-	4,753,307	-	-	-	4,753,307
Other comprehensive loss	-	-	-	(235,718)	-	-	(235,718)
Compensation expense, long-term incentive plan	-	21,750	-	-	-	-	21,750
Purchase of treasury stock (2,500 shares at cost)	-	-	-	-	-	(311,175)	(311,175)
Distributions to shareholders	-	-	(2,302,586)	-	-	-	(2,302,586)
Balance, December 31, 2018	<u>\$ 106,698</u>	<u>\$ 4,999,747</u>	<u>\$ 30,932,936</u>	<u>\$ 370,937</u>	<u>\$ -</u>	<u>\$ (2,489,420)</u>	<u>\$ 33,920,898</u>

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

**Consolidated Statements of Cash Flows**  
**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**  
**Years ended December 31, 2018 and 2017**

	<i>2018</i>	<i>2017</i>
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,753,307	\$ 4,087,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	340,000	240,000
Provision for foreclosed asset losses	-	25,000
Net amortization	949,151	1,142,120
Depreciation of premises and equipment	440,706	376,977
Realized gain on sales of available-for-sale securities, net	-	(4,902)
Realized (gain) loss from sales of foreclosed assets, net	1,316	(69,784)
Stock dividend received	(45,200)	(31,700)
Net change in:		
Accrued interest receivable	(227,504)	(276,689)
Cash surrender value of life insurance	(44,829)	(44,673)
Other assets	35,606	86,248
Accrued interest payable and other liabilities	74,680	(5,588)
	<u>6,277,233</u>	<u>5,524,767</u>
<b>Cash flows from investing activities:</b>		
Activity in available-for-sale securities:		
Sales	-	2,771,612
Maturities, prepayments, and calls	27,624,555	31,678,562
Purchases	(41,324,180)	(37,959,738)
Loan originations, net	7,601,123	(11,132,352)
Redemption of cost basis investments	49,788	54,734
Net purchase of interest-bearing time deposits in banks	(338,815)	(20,000)
Additions to premises and equipment	(108,434)	(1,312,651)
Proceeds from sales of foreclosed assets	243,997	221,774
	<u>(6,251,966)</u>	<u>(15,698,059)</u>

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



Consolidated Statements of Cash Flows - (continued)

**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from financing activities:</b>		
Net change in deposits	\$ (158,935)	\$ 3,721,476
Net repayments of long-term borrowings	(2,592,829)	(6,819,460)
Payments to acquire treasury stock	(311,175)	(294,125)
Distributions to shareholders	(2,302,586)	(2,026,582)
Fair value of unexercised stock options	21,750	15,370
Common stock released ESOP share	-	13,564
Unearned ESOP shares payments made	-	52,492
	<u>(5,343,775)</u>	<u>(5,337,265)</u>
Change in cash and cash equivalents	(5,318,508)	(15,510,557)
Cash and cash equivalents at beginning of year	<u>24,595,292</u>	<u>40,105,849</u>
Cash and cash equivalents at end of year	<u>\$ 19,276,784</u>	<u>\$ 24,595,292</u>
<b>Supplementary cash flow information:</b>		
Interest paid on deposits and borrowed funds	<u>\$ 2,200,114</u>	<u>\$ 2,033,538</u>

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

**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

December 31, 2018

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The consolidated financial statements include the accounts of RiverHills Capital Corporation (the Company), and its wholly owned subsidiary, RiverHills Bank (the Bank). All material intercompany balances and transactions have been eliminated in consolidation.

***Nature of Operations***

The Company, through its wholly owned subsidiary, RiverHills Bank, provides financial services to individuals and corporate customers through its offices located Madison, Claiborne, and Warren counties in Mississippi. The Company is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

***Use of Estimates***

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed assets, other-than-temporary impairment (OTTI) and fair value of financial instruments.

***Significant Group Concentrations of Credit Risk***

Most of the Bank's activities are with customers located within the western and central counties of Mississippi. Note 2 discusses the types of securities that the Bank invests in. Note 4 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations to any one customer.

***Cash and Cash Equivalents***

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, demand balances due from banks and federal funds sold.

***Securities***

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

Purchase premiums and discounts are recognized in interest income using the interest method, with premiums being amortized to the next call date and discounts accreted to maturity. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

## Notes to Consolidated Financial Statements

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Loans*

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage and real estate secured loans throughout counties in which the Bank's branches are located. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

#### *Allowance for Loan Losses*

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans 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.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as 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. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

## Notes to Consolidated Financial Statements

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Allowance for Loan Losses* (continued)

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Pursuant to the regulatory examination process, regulatory authorities can require the Bank to adjust the balance of the allowance for loan losses account to amounts deemed by those authorities to represent an adequate allowance for safety and soundness purposes. Accordingly, the allowance for loan losses represents a material estimate that is susceptible to significant change in the near term.

#### *First National Bankers Bankshares and Federal Home Loan Bank Stock*

First National Bankers Bankshares and Federal Home Loan Bank stock are required investments for institutions that are members of those systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

#### *Premises and Equipment*

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets, which range from 20 to 40 years for buildings and improvements, and range from 5 to 10 years for equipment.

#### *Foreclosed Assets*

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

#### *Off-Balance Sheet Credit Related Financial Instruments*

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

#### *Treasury Stock*

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

#### *Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

#### *Stock-Based Compensation*

The Company is accounting for the stock and incentive compensation under the provisions of FASB ASC 718, "Compensation- Stock Compensation". Under this accounting guidance, fair value is established as the measurement objective in accounting for stock awards and requires the application of fair value based on measurement method accounting for compensation cost, which is recognized over the requisite service period.

#### *Reclassifications*

Certain prior year amounts have been reclassified to conform to current year's presentation.

## Notes to Consolidated Financial Statements

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Income Taxes*

The Company and the Bank have elected to be taxed under the provisions of subchapter S of the Internal Revenue Code and related state codes effective. Under those provisions, the Company does not pay federal or state corporate income taxes on its taxable income. Instead, the shareholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income.

On a continuing basis, management analyzes the Company's tax positions, and, when a tax position meets the measurement and recognition principles outlined in FASB ASC 740, the Company accrues a liability for unrecognized tax benefits. Any related interest and penalties associated with unrecognized tax benefits are included as a component of other non-interest expense.

The Company is subject to income tax reporting in the United States and the State of Mississippi. The Company's federal and state income tax returns are subject to examination by the taxing authorities generally for three years after they are filed. Management has evaluated the tax positions taken, and has not identified any positions that are unlikely to be sustain upon examination.

#### *Advertising*

The Bank expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2018 and 2017 were approximately \$125,691 and \$105,421, respectively.

#### *Evaluation of Subsequent Events*

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.

### NOTE 2. SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	<i>December 31, 2018</i>			<i>Fair Value</i>
	<i>Amortized Cost</i>	<i>Gross Unrealized</i>		
		<i>Gains</i>	<i>Losses</i>	
<u>Securities Available-for-Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 14,610,743	\$ 941	\$ (121,588)	\$ 14,490,096
State and municipal	70,243,224	31,679	(291,387)	69,983,516
Corporate debt securities	2,201,880	-	(8,281)	2,193,599
Mortgage-backed	3,769,122	11,169	(33,169)	3,747,122
Debt securities available-for-sale	90,824,969	43,789	(454,425)	90,414,333
Marketable equity securities	141,064	781,573	-	922,637
Total securities available-for-sale	\$ 90,966,033	\$ 825,362	\$ (454,425)	\$ 91,336,970
<u>Securities Held-to-Maturity:</u>				
Debt Securities				
State and municipal	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Total securities held-to-maturity	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000

Notes to Consolidated Financial Statements

NOTE 2. SECURITIES (continued)

	<i>December 31, 2017</i>			
	<i>Amortized Cost</i>	<i>Gross Unrealized</i>		<i>Fair Value</i>
		<i>Gains</i>	<i>Losses</i>	
<u>Securities Available-for-Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ 10,585,178	\$ -	\$ (69,750)	\$ 10,515,428
State and municipal	62,634,451	6,830	(302,129)	62,339,152
Corporate debt securities	2,205,568	4,958	(5,904)	2,204,622
Mortgage-backed	2,649,298	16,562	(12,907)	2,652,953
Debt securities available-for-sale	78,074,495	28,350	(390,690)	77,712,155
Marketable equity securities	141,064	968,995	-	1,110,059
Total securities available-for-sale	<u>\$ 78,215,559</u>	<u>\$ 997,345</u>	<u>\$ (390,690)</u>	<u>\$ 78,822,214</u>
<u>Securities Held-to-Maturity:</u>				
Debt Securities				
State and municipal	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Total securities held-to-maturity	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>

At December 31, 2018 and 2017, securities with a carrying value of approximately \$45,751,094 and \$49,566,645, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2018 follows:

	<i>Available-for-Sale</i>		<i>Held-to-Maturity</i>	
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Amortized Cost</i>	<i>Fair Value</i>
Within 1 year	\$ 34,034,574	\$ 33,942,552	\$ -	\$ -
Over 1 year through 5 years	38,796,933	38,553,137	-	-
After 5 years through 10 years	7,703,515	7,667,993	3,000,000	3,000,000
Over 10 years	6,520,825	6,503,529	-	-
	87,055,847	86,667,211	3,000,000	3,000,000
Mortgage backed securities	3,769,122	3,747,122	-	-
	<u>\$ 90,824,969</u>	<u>\$ 90,414,333</u>	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

	<i>Available-for-Sale</i>		<i>Held-to-Maturity</i>	
	<i>Year Ended December 31, 2018</i>	<i>2017</i>	<i>Year Ended December 31, 2018</i>	<i>2017</i>
Proceeds from sale	<u>\$ -</u>	<u>\$ 2,771,612</u>	<u>\$ -</u>	<u>\$ -</u>
Gross gains	\$ -	\$ 5,408	\$ -	\$ -
Gross losses	-	(506)	-	-
	<u>\$ -</u>	<u>\$ 4,902</u>	<u>\$ -</u>	<u>\$ -</u>

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



**Notes to Consolidated Financial Statements**

**NOTE 2. SECURITIES** (continued)

<i>December 31, 2018</i>				
<i>Less than Twelve Months</i>		<i>Over Twelve Months</i>		
<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	
<u>Securities Available-for-Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ (5,442)	\$ 1,900,778	\$ (116,146)	\$ 11,391,240
State and municipal	(50,654)	20,283,648	(240,733)	31,212,121
Corporate debt securities	(4,217)	1,296,812	(4,064)	896,787
Mortgage-backed	-	-	(33,169)	2,804,973
Total securities available-for-sale	<u>\$ (60,313)</u>	<u>\$ 23,481,238</u>	<u>\$ (394,112)</u>	<u>\$ 46,305,121</u>
<i>December 31, 2017</i>				
<i>Less than Twelve Months</i>		<i>Over Twelve Months</i>		
<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	
<u>Securities Available-for-Sale</u>				
Debt securities:				
U.S. Government and federal agency	\$ (47,971)	\$ 7,841,519	\$ (21,779)	\$ 2,667,226
State and municipal	(259,502)	46,808,456	(42,627)	8,291,582
Corporate debt securities	(2,998)	1,297,259	(2,906)	399,922
Mortgage-backed	(11,387)	1,066,181	(1,520)	210,877
Total securities available-for-sale	<u>\$ (321,858)</u>	<u>\$ 57,013,415</u>	<u>\$ (68,832)</u>	<u>\$ 11,569,607</u>

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

The unrealized losses on the Bank's investments were caused by interest rate fluctuations. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment or, in the case of mortgage-backed securities, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment. Because the declines in market value are attributable to changes in interest rate and not credit quality, and because the Bank has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired.

**NOTE 3. FAIR VALUE**

"Fair value" is defined by FASB Accounting Standards Codification ("ASC") 820, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the

## Notes to Consolidated Financial Statements

### NOTE 3. FAIR VALUE (continued)

best information available under the circumstances. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

- Level 1      Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2      Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3      Significant unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

#### *Determination of fair value*

The Company uses the valuation methodologies listed below to measure different financial instruments at fair value. An indication of the level in the fair value hierarchy in which each instrument is generally classified is included. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

#### *Available-for-sale securities*

Available-for-sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. The Company's available-for-sale securities that are traded on an active exchange, such as the New York Stock Exchange, are classified as Level 1. Available-for-sale securities valued using matrix pricing are classified as Level 2.

#### *Impaired loans*

Loans considered impaired under FASB ASC 310, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value. All of the Company's impaired loans are classified as Level 3.

#### *Foreclosed assets*

Foreclosed assets are carried at the lower of cost or estimated fair value, less estimated selling costs and is subjected to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of independent appraisals, risk-adjusted discounted cash flow analyses, and other relevant factors. All of the Company's foreclosed assets are classified as Level 3.

### Assets Recorded at Fair Value on a Recurring Basis

The following table presents the balances of assets measured at fair value on a recurring basis:

	<i>December 31, 2018</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Securities available-for-sale	\$ 922,637	\$ 90,414,333	\$ -	\$ 91,336,970
	<i>December 31, 2017</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Securities available-for-sale	\$ 1,110,059	\$ 77,712,155	\$ -	\$ 78,822,214



**Notes to Consolidated Financial Statements**

**NOTE 3. FAIR VALUE** (continued)

There were no changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2018.

**Assets Recorded at Fair Value on a Nonrecurring Basis**

The following table presents the balances of assets measured at fair value on a nonrecurring basis:

<i>December 31, 2018</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	<i>Total Gains (Losses)</i>
Foreclosed assets	\$ -	\$ -	\$ 117,710	\$ 117,710	\$ (64,999)
Impaired loans	-	-	3,843,813	3,843,813	(96,870)
	\$ -	\$ -	\$ 3,961,523	\$ 3,961,523	\$ (161,869)
<i>December 31, 2017</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	<i>Total Gains (Losses)</i>
Foreclosed assets	\$ -	\$ -	\$ 281,827	\$ 281,827	\$ (97,276)
Impaired loans	-	-	4,700,706	4,700,706	(18,505)
	\$ -	\$ -	\$ 4,982,533	\$ 4,982,533	\$ (115,781)

**NOTE 4. LOANS**

The Bank's loan and lease portfolio is disaggregated into the following segments: real estate; commercial and agricultural; and consumer. A summary of gross loans and leases, by segment follows:

			<i>December 31,</i>	
			<i>2018</i>	<i>2017</i>
Real estate loans			\$ 152,663,478	\$ 154,675,860
Commercial loans			32,012,014	37,092,730
Consumer and other			5,521,476	6,494,117
Total loans			190,196,968	198,262,707
Less: Allowance for loan losses			(4,123,403)	(4,166,823)
Loans, net			\$ 186,073,565	\$ 194,095,884

The following tables provide details regarding the aging of the Bank's loan and lease portfolio, net of unearned income, by segment:

**Notes to Consolidated Financial Statements**

**NOTE 4. LOANS** (continued)

	<i>December 31, 2018</i>			
	<i>30-89 Days Past Due</i>	<i>90+ Days Past Due Still Accruing</i>	<i>Nonaccrual</i>	<i>Total</i>
Real estate loans	\$ 2,209,439	\$ 30,905	\$ 1,399,976	\$ 3,640,320
Commercial loans	151,267	5,255	-	156,522
Consumer and other	319,363	-	29,501	348,864
Total	<u>\$ 2,680,069</u>	<u>\$ 36,160</u>	<u>\$ 1,429,477</u>	<u>\$ 4,145,706</u>
	<i>December 31, 2017</i>			
	<i>30-89 Days Past Due</i>	<i>90+ Days Past Due Still Accruing</i>	<i>Nonaccrual</i>	<i>Total</i>
Real estate loans	\$ 3,194,561	\$ 919,671	\$ 2,347,234	\$ 6,461,466
Commercial loans	414,956	14,050	-	429,006
Consumer and other	129,453	780	30,034	160,267
Total	<u>\$ 3,738,970</u>	<u>\$ 934,501</u>	<u>\$ 2,377,268</u>	<u>\$ 7,050,739</u>

The Bank utilizes an internal loan classification system to grade loans according to certain quality indicators. Those quality indicators include, but are not limited to, recent credit performance, delinquency, liquidity, cash flows, debt coverage ratios, collateral type and loan-to-value ratios. The Bank's internal loan classification system is compatible with classifications used by the Federal Deposit Insurance Corporation as well as other regulatory agencies. Loans may be classified as follows:

Pass: Loans which are performing as agreed with few or no signs of weakness. These loans show sufficient cash flow, capital and collateral to repay the loans as agreed.

Watch: Loans where potential weaknesses have developed which could cause a more serious problem if not corrected.

Substandard: Loans where well-defined weaknesses exist that require corrective action to prevent further deterioration.

Doubtful: Loans having all the characteristics of Substandard and which have deteriorated to a point where collection and liquidation in full is highly questionable.

Loss: Loans that are considered uncollectible or with limited possible recovery.

Impaired: Loans for which it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement and for which a specific impairment reserve has been considered.

**Notes to Consolidated Financial Statements**

**NOTE 4. LOANS** (continued)

The following tables provide details of the Bank's loan and lease portfolio, net of unearned income, by segment and internally assigned grade:

<i>December 31, 2018</i>							
	<i>Pass</i>	<i>Watch</i>	<i>Sub- standard</i>	<i>Doubtful</i>	<i>Loss</i>	<i>Impaired</i>	<i>Total</i>
	<i>(in thousands)</i>						
Real estate loans	\$148,494	\$ 291	\$ -	\$ -	\$ -	\$ 3,878	\$152,663
Commercial loans	31,972	32	-	-	-	8	32,012
Consumer and other	5,439	-	28	-	-	55	5,522
Total	<u>\$185,905</u>	<u>\$ 323</u>	<u>\$ 28</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,941</u>	<u>\$190,197</u>

  

<i>December 31, 2017</i>							
	<i>Pass</i>	<i>Watch</i>	<i>Sub- standard</i>	<i>Doubtful</i>	<i>Loss</i>	<i>Impaired</i>	<i>Total</i>
	<i>(in thousands)</i>						
Real estate loans	\$148,666	\$ 652	\$ 781	\$ -	\$ -	\$ 4,577	\$154,676
Commercial loans	37,063	-	-	-	-	30	37,093
Consumer and other	6,382	-	-	-	-	112	6,494
Total	<u>\$192,111</u>	<u>\$ 652</u>	<u>\$ 781</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,719</u>	<u>\$198,263</u>

The Bank evaluates relationships graded internally as substandard, doubtful, and loss for impairment. Generally, impairment is measured as the excess of the Bank's recorded investment in the underlying loans in excess of the loan collateral, less estimated costs to sell. The following tables provide details of the Bank's impaired loans and leases, net of unearned income, by segment:

<i>December 31, 2018</i>					
	<i>Unpaid Principal Balance</i>	<i>Recorded Investment</i>	<i>Investment with no Allowance</i>	<i>Investment with Allowance</i>	<i>Related Allowance for Losses</i>
	<i>(in thousands)</i>				
Real estate loans	\$ 3,878	\$ 3,878	\$ 3,564	\$ 314	\$ 89
Commercial loans	8	8	8	-	-
Consumer and other	55	55	33	22	8
Total	<u>\$ 3,941</u>	<u>\$ 3,941</u>	<u>\$ 3,605</u>	<u>\$ 336</u>	<u>\$ 97</u>

  

<i>December 31, 2017</i>					
	<i>Unpaid Principal Balance</i>	<i>Recorded Investment</i>	<i>Investment with no Allowance</i>	<i>Investment with Allowance</i>	<i>Related Allowance for Losses</i>
	<i>(in thousands)</i>				
Real estate loans	\$ 4,577	\$ 4,577	\$ 4,577	\$ -	\$ -
Commercial loans	30	30	30	-	-
Consumer and other	112	112	13	99	18
Total	<u>\$ 4,719</u>	<u>\$ 4,719</u>	<u>\$ 4,620</u>	<u>\$ 99</u>	<u>\$ 18</u>

The Bank's average recorded investment in impaired loans was approximately \$4,330,000 during the year ended December 31, 2018 and approximately \$3,286,000 during the year ended December 31, 2017. Interest income

**Notes to Consolidated Financial Statements**

**NOTE 4. LOANS** (continued)

recognized on impaired loans during the years ended December 31, 2018 and 2017 was immaterial. No additional funds are committed to be advanced in connection with impaired loans.

The following tables present the balance in the allowance for credit losses and the recorded investment in loans based on portfolio segment and impairment method:

<i>December 31, 2018</i>					
<i>Real Estate Loans</i>	<i>Commercial Loans</i>	<i>Consumer Loans</i>	<i>Unallocated</i>	<i>Total</i>	
<i>(in thousands)</i>					
Loans evaluated for impairment:					
Individually	\$ 3,878	\$ 8	\$ 55	\$ -	\$ 3,941
Collectively	<u>148,785</u>	<u>32,004</u>	<u>5,467</u>	<u>-</u>	<u>186,256</u>
Total	<u>\$ 152,663</u>	<u>\$ 32,012</u>	<u>\$ 5,522</u>	<u>\$ -</u>	<u>\$ 190,197</u>
Allowance for losses evaluated for impairment:					
Individually	\$ 89	\$ -	\$ 8	\$ -	\$ 97
Collectively	<u>1,667</u>	<u>326</u>	<u>56</u>	<u>1,977</u>	<u>4,026</u>
	<u>\$ 1,756</u>	<u>\$ 326</u>	<u>\$ 64</u>	<u>\$ 1,977</u>	<u>\$ 4,123</u>
<i>December 31, 2017</i>					
<i>Real Estate Loans</i>	<i>Commercial Loans</i>	<i>Consumer Loans</i>	<i>Unallocated</i>	<i>Total</i>	
<i>(in thousands)</i>					
Loans evaluated for impairment:					
Individually	\$ 4,577	\$ 30	\$ 112	\$ -	\$ 4,719
Collectively	<u>150,099</u>	<u>37,063</u>	<u>6,382</u>	<u>-</u>	<u>193,544</u>
Total	<u>\$ 154,676</u>	<u>\$ 37,093</u>	<u>\$ 6,494</u>	<u>\$ -</u>	<u>\$ 198,263</u>
Allowance for losses evaluated for impairment:					
Individually	\$ -	\$ -	\$ 18	\$ -	\$ 18
Collectively	<u>1,596</u>	<u>255</u>	<u>60</u>	<u>2,238</u>	<u>4,149</u>
	<u>\$ 1,596</u>	<u>\$ 255</u>	<u>\$ 78</u>	<u>\$ 2,238</u>	<u>\$ 4,167</u>

**Notes to Consolidated Financial Statements**

**NOTE 4. LOANS** (continued)

The following tables summarize the changes in the allowance for credit losses by segment for the periods indicated:

<i>Year ended December 31, 2018</i>					
	<i>Balance at Beginning of Period</i>	<i>Charge- Offs</i>	<i>Recoveries</i>	<i>Provision</i>	<i>Balance at End of Period</i>
<i>(in thousands)</i>					
Real estate loans	\$ 1,596	\$ (166)	\$ 1	\$ 325	\$ 1,756
Commercial loans	255	(204)	4	271	326
Consumer loans	78	(34)	15	5	64
Unallocated	2,238	-	-	(261)	1,977
Total	<u>\$ 4,167</u>	<u>\$ (404)</u>	<u>\$ 20</u>	<u>\$ 340</u>	<u>\$ 4,123</u>
<i>Year ended December 31, 2017</i>					
	<i>Balance at Beginning of Period</i>	<i>Charge- Offs</i>	<i>Recoveries</i>	<i>Provision</i>	<i>Balance at End of Period</i>
<i>(in thousands)</i>					
Real estate loans	\$ 1,017	\$ (282)	\$ 2	\$ 859	\$ 1,596
Commercial loans	502	(26)	10	(231)	255
Consumer and other	93	(63)	10	38	78
Unallocated	2,664	-	-	(426)	2,238
Total	<u>\$ 4,276</u>	<u>\$ (371)</u>	<u>\$ 22</u>	<u>\$ 240</u>	<u>\$ 4,167</u>

In the normal course of business, management will sometimes grant concessions, which normally would not otherwise be considered to borrowers that are experiencing financial difficulty. Loans identified as meeting the criteria set out in FASB ASC 310 are identified as troubled-debt-restructures (TDRs). The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and interest for a specified period, the rescheduling of payments in accordance with a bankruptcy plan, the charge-off of a portion of the loan, or a reduction in the rate of interest charged. In most cases, the conditions of the credit also warrant nonaccrual status, even after the restructure occurs. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection and the borrower's ability to perform under the modified terms in determining the appropriate accrual status at the time of restructure. TDR loans initially placed on nonaccrual status may be returned to accrual status if there has been at least a six-month period of sustained repayment performance by the borrower.

During the year ended December 31, 2018, the most common concessions that were granted involved rescheduling payments of principal and interest over a longer amortization period and/or reducing the rate of interest charged.

None of the loans modified during 2018 experienced a payment default (i.e. 30 days or more past due at any given time during the year ended December 31, 2018).

**Notes to Consolidated Financial Statements**

**NOTE 4. LOANS** (continued)

The following table summarizes the financial effect of TDRs for the year ended December 31, 2018:

	<i>Number of Contracts</i>	<i>Pre-modification Outstanding Recorded Investment</i>	<i>Post-Modification Outstanding Recorded Investment</i>
	<i>(dollar amounts in thousands)</i>		
Real estate loans	1	\$ 2,011	\$ 2,011
Commercial loans	-	-	-
Consumer and other	1	28	28
Total	2	\$ 2,039	\$ 2,039

There were no modifications accounted for as TDRs during the year ended December 31, 2017.

**NOTE 5. EQUITY SECURITIES AT COST**

Equity securities maintained at historical cost basis consist of the following:

	<i>December 31,</i>	
	<i>2018</i>	<i>2017</i>
Federal Home Loan Bank stock	\$ 1,875,400	\$ 1,830,200
First National Banker's Bankshares stock	356,800	356,800
First Commercial Bank stock	35,860	35,860
Financial Institution Services Corporation	10,055	10,055
	\$ 2,278,115	\$ 2,232,915

**NOTE 6. OTHER INVESTMENTS CARRIED AT COST**

The Company maintains an investment in certain rental real estate partnerships maintained at historical cost basis consisting of the following:

	<i>December 31,</i>			
	<i>2018</i>		<i>2017</i>	
	<i>Historical Cost</i>	<i>Ownership Percentage</i>	<i>Historical Cost</i>	<i>Ownership Percentage</i>
Vicksburg Income Properties, LLC	\$ 59,026	2.40%	\$ 69,026	2.40%
Rockstep Scottsbluff, LLC	142,500	3.33%	142,500	3.33%
Rockstep Starkville, LLC	35,000	3.57%	40,000	3.57%
Rockstep Opelousas, LLC	90,000	3.33%	95,000	3.33%
Rockstep Willmar, LLC	200,000	2.35%	200,000	2.35%
Rockstep Capital Opportunity Fund I	67,021	4.35%	96,809	4.35%
	\$ 593,547		\$ 643,335	

**Notes to Consolidated Financial Statements**

**NOTE 7. BANK PREMISES AND EQUIPMENT**

A summary of the cost and accumulated depreciation of premises and equipment follows:

	<i>December 31,</i>	
	<i>2018</i>	<i>2017</i>
Land	\$ 1,780,956	\$ 1,780,956
Buildings & improvements	5,882,313	5,883,313
Equipment	3,486,451	3,405,189
	11,149,720	11,069,458
Less: accumulated depreciation and amortization	(4,350,491)	(3,937,957)
	\$ 6,799,229	\$ 7,131,501

Depreciation expense for the years ended December 31, 2018 and 2017, amounted to \$440,706 and \$376,977, respectively.

**NOTE 8. DEPOSITS**

A summary of deposits follows:

	<i>December 31,</i>	
	<i>2018</i>	<i>2017</i>
Demand	\$ 55,159,343	\$ 57,099,744
Interest-bearing demand	90,969,155	86,317,144
Savings	12,708,338	11,970,861
Certificates of deposit less than \$100,000	40,911,259	41,896,372
Certificates of deposit greater than \$100,000	53,513,899	56,136,808
	\$ 253,261,994	\$ 253,420,929

One customer relationship accounted for 15% and 16% of total deposits at December 31, 2018 and 2017, respectively.

At December 31, 2018, the scheduled maturities of time deposits are as follows:

2019	\$ 50,663,958
2020	26,753,092
2021	12,898,345
2022	2,248,444
2023	1,861,319
	\$ 94,425,158

The aggregate amount of time deposits in denominations exceeding FDIC insurance limits at December 31, 2018 and 2017 amounted to \$17,949,000 and \$18,417,000, respectively.

**NOTE 9. BORROWED FUNDS**

The Bank has entered into a blanket floating lien security agreement with the Federal Home Loan Bank (FHLB) of Dallas. Under the terms of this agreement, the Bank is required to maintain sufficient collateral to secure borrowings in an aggregate amount of the lesser of 75% of the book value (unpaid principal balance) of the Bank's one to four family residential first mortgages, small business, and small farm loans or 35% of the Bank's assets.

The Bank also maintained stock in the Federal Home Loan Bank as indicated in Note 5 at December 31, 2018 and 2017, respectively, which is required to be held by the Bank in order to secure future advances. Dividends received by the Bank relating to this stock during 2018 and 2017 were \$45,200 and \$31,700, respectively.

## Notes to Consolidated Financial Statements

### NOTE 9. BORROWED FUNDS (continued)

The Bank's fixed-rate, long-term debt of \$29,780,879 and \$32,373,708 at December 31, 2018 and 2017, respectively, represented advances under that blanket floating lien security agreement with the Federal Home Loan Bank. There are no conversion or call features or specific restrictive covenants associated with the Federal Home Loan Bank borrowings; however, there are penalties in the event of prepayment.

At December 31, 2018, the interest rates on fixed-rate, long-term debt ranged from 1.231 percent to 5.251 percent. At December 31, 2018, the weighted average interest rate on fixed-rate, long-term debt was 2.00 percent.

The contractual maturities of long-term debt at December 31, 2018, are as follows:

	2019	\$ 5,594,401
	2020	3,837,874
	2021	8,039,540
	2022	5,228,262
	2023	4,838,068
	Thereafter	<u>2,242,734</u>
		<u>\$ 29,780,879</u>

In addition to the aforementioned long-term financing arrangements, at December 31, 2018, the Bank had established informal federal funds borrowings lines of credit aggregating \$11,300,000.

The Company also has a line of credit of \$2,500,000 with another financial institution that is secured by 5,000 shares of RiverHills Bank stock, bearing interest at a rate equal to New York Prime Rate and maturing in 2022. The Company did not make any draws against this line during 2018 or 2017.

### NOTE 10. RETIREMENT PLANS

#### *Employee Stock Ownership plan*

The Company has an Employee Stock Ownership Plan (ESOP) covering substantially all employees. Discretionary contributions are determined by the Board of Directors. At December 31, 2018 and 2017, the plan held 7,320 and 7,320 shares of common stock, respectively. For the years ended December 31, 2018 and 2017, expenses attributable to the plan amounted to \$69,539 and \$65,450, respectively.

In 2012, the ESOP purchased 4,416 shares of common stock. The purchase was financed by \$314,952 of notes payable to the Company. Since the ESOP notes payable are to be repaid by Bank contributions to the plan, the obligation is reflected in stockholders' equity as Unearned ESOP Shares. The fair value of unearned ESOP shares at December 31, 2018 and 2017 is \$0 and \$0, respectively. The ESOP note was paid off during 2017.

ESOP share activity for 2018 and 2017 is as follows:

	<i>2018 Shares</i>		<i>2017 Shares</i>	
	<i>Suspense</i>	<i>Released</i>	<i>Suspense</i>	<i>Released</i>
Balance beginning of year	-	4,416	736	3,680
Shares purchased	-	-	-	-
Released by debt payment	-	-	(736)	736
Balance end of year	<u>-</u>	<u>4,416</u>	<u>-</u>	<u>4,416</u>

#### *401(k) Plan*

The Company has a defined contribution 401(k) plan covering substantially all employees. Employees may contribute up to 15% of their compensation to this plan. The plan limits the Company matching contribution to the following: 100% of the first 3% of the employee's contribution and 50% of the next 3% of the employee's contribution, subject to 6% limit. For the years ended December 31, 2018 and 2017, employer contributions charged to expense were \$121,436 and \$119,008, respectively.



## Notes to Consolidated Financial Statements

### NOTE 11. RELATED PARTY TRANSACTIONS

The Bank makes loans to its officers and directors as well as other related parties. Loans to related parties amounted to approximately \$1,899,000 and \$1,375,000 at December 31, 2018 and 2017, respectively. During 2018, new loans to such related parties amounted to \$677,000 and repayments amounted to \$153,000.

Deposits from related parties held by the Bank at December 31, 2018 amounted to approximately \$3,189,000.

### NOTE 12. OFF-BALANCE SHEET ACTIVITIES

#### *Credit-Related Financial Instruments*

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial statements include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2018 and 2017, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<i>Years Ended December 31,</i>	
	<i>2018</i>	<i>2017</i>
	<i>(in thousands)</i>	
Unfunded commitments under lines of credit	\$ 23,207	\$ 28,431
Standby letters of credit	\$ 812	\$ 1,002

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are collateralized in conformity with bank lending practices, may not contain a specified maturity date and might not be drawn upon to the total extent to which the Bank is committed.

Standby letters-of-credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Generally, 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 customers. The Bank typically holds collateral supporting those commitments, the value of which is deemed by management to be sufficient to limit the Bank's exposure to credit risk associated with issuing the guaranty. Premiums charged in issuing the guarantees are not material to the financial statements taken as a whole.

### NOTE 13. DUE FROM BANKS

The Company had funds on hand and on deposit with other banks at December 31, 2018 in excess of or not subject to FDIC insurance of \$2,578,559.

### NOTE 14. LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

## Notes to Consolidated Financial Statements

### NOTE 15. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (risk-based capital ratios). All banking companies are required to have core capital ("Tier 1") of at least 4% of risk-weighted assets, total capital of at least 8% of risk-weighted assets, Common Equity Tier 1 capital of at least 4.5% and a minimum Tier 1 leverage ratio of 4% of adjusted average assets. The regulations also define well capitalized levels of Common Equity Tier 1 capital, Tier 1 capital, total capital and Tier 1 leverage ratio as 6.5%, 8%, 10% and 5%, respectively. Management believes, as of December 31, 2018 and 2017, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the Company and the Bank had Common Equity Tier 1, Tier 1, total capital and Tier 1 leverage capital above the well capitalized levels. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2018 and 2017 are also presented in the table.

	2018		2017	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
	<i>(dollar amounts in thousands)</i>			
Common Equity Tier 1 capital (to risk-weighted assets)				
RiverHills Capital Corporation	\$ 33,551	17.6%	\$ 31,389	16.1%
RiverHills Bank	32,255	17.0%	29,787	15.4%
Tier 1 capital (to risk-weighted assets)				
RiverHills Capital Corporation	33,551	17.6%	31,389	16.1%
RiverHills Bank	32,255	17.0%	29,787	15.4%
Total capital (to risk-weighted assets)				
RiverHills Capital Corporation	35,938	18.9%	33,822	17.4%
RiverHills Bank	34,642	18.3%	32,582	16.9%
Tier 1 leverage capital (to average assets)				
RiverHills Capital Corporation	33,551	10.5%	31,389	9.7%
RiverHills Bank	32,255	10.2%	30,149	9.3%

### NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

## Notes to Consolidated Financial Statements

### NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME (continued)

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	<i>Years Ended December 31,</i>	
	<i>2018</i>	<i>2017</i>
Net unrealized gains on securities available-for-sale	\$ 370,937	\$ 606,655
Accumulated other comprehensive income	\$ 370,937	\$ 606,655

### NOTE 17. RESTRICTIONS ON DIVIDENDS

Federal and state banking regulations place certain restrictions on dividends paid. The total amount of dividends that may be paid at any date is generally limited to the retained earnings of the Bank

In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements and are subject to increasingly stringent limitations with respect to capital distributions and discretionary bonus payments to executive officers as regulatory capital conservation buffers approach zero percent.

### NOTE 18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. 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 instrument. FASB ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

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

#### *Cash and cash equivalents*

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

#### *Interest bearing time deposits in bank*

The carrying amounts of interest bearing time deposits in bank approximates fair values.

#### *Available-for-Sale Securities*

Fair value pricing models for available-for-sale securities are discussed in Note 3.

#### *Held-to-Maturity Securities*

Held-to-Maturity are carried at amortized cost which is presumed to approximate market and is considered a Level 3 input.

#### *Loans*

The fair value of loans and leases is calculated by discounting scheduled cash flows through estimated maturity using rates the Company would currently offer customers based on the credit and interest rate risk inherent in the loan or lease. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market and borrower information. Estimated maturity represents the expected average cash flow period. This entrance price approach results in a calculated fair value that would be different than an exit or estimated actual sales price approach and such differences could be significant. All of the Company's loans and leases are classified as Level 3.

**Notes to Consolidated Financial Statements**

**NOTE 18. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

***Equity securities at cost***

Equity securities carried at cost based on the redemption provisions of the issuers are classified as Level 3 inputs.

***Accrued interest receivable***

The carrying amounts of accrued interest approximate fair value.

***Deposit liabilities***

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The resulting fair value estimates for certificates of deposit are classified as Level 2.

***Borrowings***

The carrying amounts of federal funds purchased and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of Federal Home Loan Bank advances are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The resulting fair value estimates are classified as Level 2.

***Accrued interest payable***

The carrying amounts of accrued interest approximate fair value.

The estimated fair values, and related carrying amounts, of the Bank's financial instruments are as follows:

	2018		2017	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Financial assets:				
Cash and cash equivalents	\$ 19,276,784	\$ 19,276,784	\$ 24,595,292	\$ 24,595,292
Interest-bearing time deposits in banks	4,308,815	4,308,815	3,970,000	3,970,000
Securities available-for-sale	91,336,970	91,336,970	78,822,214	78,822,214
Securities held to maturity	3,000,000	3,000,000	3,000,000	3,000,000
Loans, net	186,073,565	170,742,344	194,095,884	191,187,370
Equity securities at cost	2,278,115	2,278,115	2,232,915	2,232,915
Accrued interest receivable	2,029,925	2,029,925	1,802,421	1,802,421
Financial liabilities:				
Deposits:				
Demand deposits	\$ 55,159,343	\$ 55,159,343	\$ 57,099,744	\$ 57,099,744
NOW accounts	90,969,155	90,969,155	86,317,144	86,317,144
Savings	12,708,338	12,708,338	11,970,861	11,970,861
Time	94,425,158	93,982,111	98,033,180	98,847,122
Federal Home Loan Bank advances	29,780,879	36,859,160	32,373,708	30,817,510
Accrued interest payable	181,653	181,653	143,388	143,388

**Notes to Consolidated Financial Statements**

**NOTE 19. INCENTIVE COMPENSATION PLANS**

***Time-Vested Awards***

The Company's time-vested awards are granted to the certain Bank executives. Time-vested awards are valued utilizing the fair value of the Company's stock at the grant date. These awards are recognized on the straight-line method over the requisite service period. Compensation expense for time-vested awards for the years ended December 31, 2018 and 2017, totaled \$21,750 and \$15,370, respectively.

The following table summarized time-vested awards activities for the years ended December 31:

	<i>2018</i>		<i>2017</i>	
	<i>Shares</i>	<i>Weighted Average Exercise Price</i>	<i>Shares</i>	<i>Weighted Average Exercise Price</i>
	<i>Shares</i>	<i>Price</i>	<i>Shares</i>	<i>Price</i>
Non-vested shares, beginning of year	1,200	\$ 70.57	800	\$ 63.88
Granted	400	80.25	400	77.25
Released from restrictions	-	-	-	-
Forfeited	-	-	-	-
Non-vested shares, end of year	1,600	\$ 75.41	1,200	\$ 70.57

**NOTE 20. DEFERRED COMPENSATION ARRANGEMENTS**

The Bank has entered into defined benefit deferred compensation arrangements in order to provide supplemental retirement benefits for certain executives of the Bank. The defined benefit plans provide a fixed benefit to certain executives after retirement. The plans have vesting schedules, and the Bank has purchased life insurance policies on the executives that are designed by the seller to offset the annual expenses associated with the plans. The Bank is the sole owner of all policies.

The liability reserve account related to these deferred compensation agreements is included on the balance sheet and amounted to \$104,970 and \$76,932 at December 31, 2018 and 2017, respectively.

## **Supplemental Information**



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**Independent Auditors' Report On  
Supplemental Information**

To the Board of Directors and Stockholders  
RiverHills Capital Corporation and Subsidiary  
Vicksburg, Mississippi

We have audited the consolidated financial statements of RiverHills Capital Corporation and subsidiary as of and for the year ended December 31, 2018 and our report thereon dated February 25, 2019, which expressed an unmodified opinion on those consolidated financial statements, appears on Page 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules 1 and 2 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Nail McKinney P.A.*

Tupelo, Mississippi  
February 25, 2019

## Consolidating Balance Sheets

## RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY

December 31, 2018

	<i>RiverHills Capital Corporation</i>	<i>RiverHills Bank</i>	<i>Eliminations</i>	<i>Consolidated</i>
<b>Assets</b>				
Cash and due from banks:				
Noninterest-bearing	\$ 713,838	\$ 5,176,526	\$ (691,413)	\$ 5,198,951
Interest-bearing	-	14,077,833	-	14,077,833
Cash and cash equivalents	713,838	19,254,359	(691,413)	19,276,784
Interest-bearing time deposits in banks	-	4,308,815	-	4,308,815
Securities available for sale	922,637	90,414,333	-	91,336,970
Securities held to maturity	-	3,000,000	-	3,000,000
Investment in subsidiary	31,843,819	-	(31,843,819)	-
Loans, net of allowance for loan losses	-	186,266,610	(193,045)	186,073,565
Equity securities at cost	35,860	2,242,255	-	2,278,115
Accrued interest receivable	-	2,030,952	(1,027)	2,029,925
Premises and equipment, net	-	6,799,229	-	6,799,229
Other investments carried at cost	593,547	-	-	593,547
Foreclosed assets	-	117,710	-	117,710
Cash surrender value of life insurance	-	1,555,041	-	1,555,041
Prepaid expenses	-	2,745	-	2,745
Other assets	5,269	-	-	5,269
Total assets	<u>\$ 34,114,970</u>	<u>\$ 315,992,049</u>	<u>\$ (32,729,304)</u>	<u>\$ 317,377,715</u>
<b>Liabilities and Stockholders' Equity</b>				
Liabilities:				
Deposits				
Demand	\$ -	\$ 55,850,756	\$ (691,413)	\$ 55,159,343
Savings, NOW and money market	-	103,677,493	-	103,677,493
Time	-	94,425,158	-	94,425,158
Total deposits	-	253,953,407	(691,413)	253,261,994
Long term debt	193,045	29,780,879	(193,045)	29,780,879
Deferred compensation	-	104,970	-	104,970
Escrow payable	-	118,895	-	118,895
Accrued interest payable	1,027	181,653	(1,027)	181,653
Other liabilities	-	8,426	-	8,426
Total liabilities	<u>194,072</u>	<u>284,148,230</u>	<u>(885,485)</u>	<u>283,456,817</u>
Stockholders' equity:				
Common stock	106,698	500,000	(500,000)	106,698
Additional paid-in capital	4,999,747	-	-	4,999,747
Retained earnings	30,932,936	31,754,455	(31,754,455)	30,932,936
Accumulated other comprehensive income	370,937	(410,636)	410,636	370,937
Common stock in treasury, at cost	(2,489,420)	-	-	(2,489,420)
Total stockholders' equity	<u>33,920,898</u>	<u>31,843,819</u>	<u>(31,843,819)</u>	<u>33,920,898</u>
Total liabilities and stockholders' equity	<u>\$ 34,114,970</u>	<u>\$ 315,992,049</u>	<u>\$ (32,729,304)</u>	<u>\$ 317,377,715</u>



## Consolidating Statements of Income

## RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY

Year ended December 31, 2018

	<i>RiverHills Capital Corporation</i>	<i>RiverHills Bank</i>	<i>Eliminations</i>	<i>Consolidated</i>
Interest and dividend income:				
Loans	\$ -	\$ 10,535,195	\$ (12,618)	\$ 10,522,577
Debt securities	-	1,479,591	-	1,479,591
Federal funds sold	-	2,366	-	2,366
Deposits with financial institutions	-	402,868	-	402,868
Dividends	24,470	48,461	-	72,931
Total interest and dividend income	<u>24,470</u>	<u>12,468,481</u>	<u>(12,618)</u>	<u>12,480,333</u>
Interest expense:				
Deposits	-	1,611,160	-	1,611,160
Federal funds purchased	-	284	-	284
Borrowed funds	12,618	626,935	(12,618)	626,935
Total interest expense	<u>12,618</u>	<u>2,238,379</u>	<u>(12,618)</u>	<u>2,238,379</u>
Net interest income	11,852	10,230,102	-	10,241,954
Provision for loan losses	-	340,000	-	340,000
Net interest income after provision for loan losses	<u>11,852</u>	<u>9,890,102</u>	<u>-</u>	<u>9,901,954</u>
Noninterest income (losses):				
Service fees	-	1,523,170	-	1,523,170
Net loss on sale of foreclosed assets	-	(1,316)	-	(1,316)
Subsidiary income	4,805,033	-	(4,805,033)	
Other income	28,629	361,347	-	389,976
Total noninterest income	<u>4,833,662</u>	<u>1,883,201</u>	<u>(4,805,033)</u>	<u>1,911,830</u>
Noninterest expenses:				
Salaries and employee benefits	49,229	4,242,955	-	4,292,184
Occupancy expense, net of rental income	-	864,818	-	864,818
Data processing fees	-	520,247	-	520,247
Other general and administrative	42,978	1,340,250	-	1,383,228
Total noninterest expenses	<u>92,207</u>	<u>6,968,270</u>	<u>-</u>	<u>7,060,477</u>
Net income	<u>\$ 4,753,307</u>	<u>\$ 4,805,033</u>	<u>\$ (4,805,033)</u>	<u>\$ 4,753,307</u>