Morris State Bancshares, Inc
and Subsidiaries

Consolidated Financial Statements

Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morris State Bancshares, Inc.
Dublin, GA

We have audited the accompanying consolidated financial statements of Morris State Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of changes in shareholders' equity, income, comprehensive income, and cash flows for the years ended 2018, 2017, and 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Morris State Bancshares, Inc. and its subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the year ended 2018, 2017, and 2016 in accordance with accounting principles generally accepted in the United States of America.

Nichols, Cauley + Associates, LLC

Dublin, Georgia
March 1, 2019

MORRIS STATE BANCSHARES, INC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31, 2018	2017
Assets		
Cash and due from banks	$ 29,257,366	$ 38,087,123
Federal funds sold	14,044,014	6,624,488
Total cash and cash equivalents	43,301,380	44,711,611
Interest-bearing time deposits in other banks	2,098,000	2,248,000
Securities available for sale, at fair value	70,845,928	51,364,420
Securities held to maturity, at cost	5,716,318	5,934,900
Federal Home Loan Bank stock, restricted, at cost	993,300	1,143,600
Loans, net of unearned income	613,029,720	559,493,733
Less - allowance for loan losses	(9,480,989)	(9,417,617)
Loans, net	603,548,731	550,076,116
Bank premises and equipment, net	8,884,433	9,612,661
Goodwill	2,237,890	2,237,890
Intangible assets, net	288,920	338,830
Other real estate and foreclosed assets	835,921	1,157,992
Accrued interest receivable	3,064,254	2,816,199
Cash surrender value of life insurance	7,035,138	6,851,182
Other assets	1,215,978	1,082,844
Total Assets	$ 750,066,191	$ 679,576,245
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	$ 122,899,907	$ 116,922,117
Interest bearing	532,608,585	475,869,831
Total deposits	655,508,492	592,791,948
Other borrowed funds	9,857,143	13,142,856
Accrued interest payable	401,934	339,920
Accrued expenses and other liabilities	2,066,457	2,275,841
Total liabilities	667,834,026	608,550,565
Shareholders' Equity:		
Common stock, $1 par value, authorized 10,000,000 shares, 1,882,740 issued and 1,838,816 outstanding in 2018 and 1,855,548 issued and 1,811,624 outstanding in 2017	1,882,740	1,855,548
Paid-in capital surplus	24,225,182	22,837,933
Retained earnings	57,792,589	47,332,599
Accumulated other comprehensive income (loss)	(457,247)	210,699
Treasury stock, at cost 43,924 shares in 2018 and 2017	(1,211,099)	(1,211,099)
Total shareholders' equity	82,232,165	71,025,680
Total Liabilities and Shareholders' Equity	$ 750,066,191	$ 679,576,245

Morris State Bancshares, Inc and Subsidiaries
Consolidated Statements of Income

	Years ended December 31, 2018	2017	2016
Interest and Dividend Income:			
Interest and fees on loans	$ 35,472,471	$ 31,397,586	$ 27,710,305
Interest income on securities	1,755,255	1,265,068	1,244,362
Income on federal funds sold	312,613	159,657	75,892
Income on time deposits held in other banks	42,579	59,049	73,428
Other interest and dividend income	396,993	216,326	110,523
Total interest and dividend income	37,979,911	33,097,686	29,214,510
Interest Expense:			
Deposits	5,408,394	3,256,799	2,336,830
Interest on other borrowed funds	319,560	448,687	479,879
Interest on federal funds purchased	946	1,154	346
Total interest expense	5,728,900	3,706,640	2,817,055
Net interest income before provision for loan losses	32,251,011	29,391,046	26,397,455
Less - provision for loan losses	1,425,000	975,000	1,735,000
Net interest income after provision for loan losses	30,826,011	28,416,046	24,662,455
Noninterest Income:			
Service charges on deposit accounts	2,384,911	2,080,312	1,738,086
Other service charges, commissions and fees	155,083	208,156	317,788
Gain on sales of loans	47,493	28,141	25,217
Gain (loss) on sales and calls of securities	(3,351)	(37,263)	37,794
Increase in CSV of life insurance	183,956	194,527	203,327
Other income	394,494	358,570	559,538
Total noninterest income	3,162,586	2,832,443	2,881,750
Noninterest Expense:			
Salaries	8,840,754	8,081,342	7,151,332
Employee benefits	2,165,479	1,924,808	1,558,466
Net occupancy expense	1,666,663	1,674,658	1,488,370
Equipment rental and depreciation of equipment	105,290	69,813	39,734
Impairment recognized on other real estate held for sale	124,101	91,224	730,111
Loss (gain) on sales of foreclosed assets and other real estate	141,799	278,659	(44,065)
Loss (gain) on sales of premises and equipment	435	213,957	(1,205)
Other expenses	5,707,932	5,537,014	5,534,137
Total noninterest expense	18,752,453	17,871,475	16,456,880
Net Income	$ 15,236,144	$ 13,377,014	$ 11,087,325
Earnings per common share:			
Basic	$ 8.34	$ 7.41	$ 6.20
Diluted	$ 8.34	$ 7.41	$ 6.20

MORRIS STATE BANCSHARES, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,		
	2018	2017	2016
Net Income	$ 15,236,144	$ 13,377,014	$ 11,087,325
Other comprehensive income (loss):			
Unrealized holding gains (losses) on available for sale debt securities	(671,297)	494,037	(711,769)
Reclassification adjustments for (gains) losses realized in income	3,351	37,263	(37,794)
Total other comprehensive income (loss)	(667,946)	531,300	(749,563)
Total comprehensive income	$ 14,568,198	$ 13,908,314	$ 10,337,762

Morris State Bancshares, Inc and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

	Common Stock	Paid-in Capital Surplus	Note Receivable from Sale of Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2015	$ 1,826,860	$ 21,825,928	$ (1,346,472)	$ 35,173,838	$ 428,962	$ (1,211,099)	$ 56,698,017
Issuance of common stock	9,381	314,785	-	-	-	-	324,166
Repayment of note receivable	-	32,220	631,671	-	-	-	663,891
Net income	-	-	-	11,087,325	-	-	11,087,325
Other comprehensive loss	-	-	-	-	(749,563)	-	(749,563)
Cash dividends	-	-	-	(5,184,684)	-	-	(5,184,684)
Balance, December 31, 2016	1,836,241	22,172,933	(714,801)	41,076,479	(320,601)	(1,211,099)	62,839,152
Issuance of common stock	19,307	655,468	-	-	-	-	674,775
Repayment of note receivable	-	9,532	714,801	-	-	-	724,333
Net income	-	-	-	13,377,014	-	-	13,377,014
Other comprehensive income	-	-	-	-	531,300	-	531,300
Cash dividends	-	-	-	(7,120,894)	-	-	(7,120,894)
Balance, December 31, 2017	1,855,548	22,837,933	-	47,332,599	210,699	(1,211,099)	71,025,680
Issuance of common stock	27,192	1,387,249	-	-	-	-	1,414,441
Net income	-	-	-	15,236,144	-	-	15,236,144
Other comprehensive loss	-	-	-	-	(667,946)	-	(667,946)
Cash dividends	-	-	-	(4,776,154)	-	-	(4,776,154)
Balance, December 31, 2018	$ 1,882,740	$ 24,225,182	$ -	$ 57,792,589	$ (457,247)	$ (1,211,099)	$ 82,232,165

See Accompanying Notes to Consolidated Financial Statements

Morris State Bancshares, Inc and Subsidiaries
Consolidated Statements of Cash Flows

	Years ended December 31,		
	2018	**2017**	**2016**
Cash Flows from Operating Activities:			
Net income	$ 15,236,144	$ 13,377,014	$ 11,087,325
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,425,000	975,000	1,735,000
Depreciation	585,214	588,093	556,801
Impairment recognized on other real estate held for sale	124,101	91,224	730,111
Loss (gain) on sales of foreclosed assets, other real estate and property, net	142,234	492,616	(45,270)
Gain on sales of loans	(47,493)	(28,141)	(25,217)
Net amortization on securities	428,753	547,453	684,090
Loss (gain) on sales / calls of investment securities	3,351	37,263	(37,794)
Increase in CSV life insurance	(183,956)	(194,526)	(203,328)
Amortization of intangible assets	49,910	51,070	52,001
Changes in accrued income and other assets	(418,201)	(764,125)	(260,951)
Changes in accrued expenses and other liabilities	(147,370)	887,208	54,957
Net cash provided by operating activities	17,197,687	16,060,149	14,327,725
Cash Flows from Investing Activities:			
Net change in loans to customers	(57,664,779)	(55,899,507)	(78,465,795)
Proceeds from sales of loans	1,126,545	541,205	284,117
Net change in interest-bearing time deposits in other banks	150,000	1,350,000	1,100,000
Purchase of available for sale securities	(27,827,884)	(8,354,765)	(7,603,902)
Proceeds from sales of available for sale securities	507,207	4,209,229	3,144,942
Proceeds from maturities/calls/paydowns of available for sale securities	6,766,359	3,425,803	7,208,654
Purchase of held to maturity securities	-	(1,247,167)	-
Proceeds from maturities/calls/paydowns of held to maturity securities	191,342	1,111,551	-
Proceeds from redemption of Federal Home Loan Bank stock	150,300	-	-
Purchase of Federal Home Loan Bank stock	-	(89,400)	(48,200)
Property and equipment expenditures	(430,894)	(705,304)	(1,377,750)
Proceeds from sales of property and equipment	573,473	267,777	-
Proceeds from sales of other real estate and repossessed assets	1,781,295	1,702,367	2,370,545
Net cash used in investing activities	(74,677,036)	(53,688,211)	(73,387,389)
Cash Flows from Financing Activities:			
Net change in deposits	62,716,544	60,994,474	46,998,691
Proceeds from other borrowed funds	-	6,000,000	-
Repayment of other borrowed funds	(3,285,713)	(7,285,716)	(285,714)
Proceeds from issuance of common stock	1,414,441	674,775	324,166
Proceeds from stock note receivable	-	724,333	663,891
Cash dividends paid	(4,776,154)	(7,120,894)	(5,184,684)
Net cash provided by financing activities	56,069,118	53,986,972	42,516,350
Net Increase (decrease) in Cash and Cash Equivalents	(1,410,231)	16,358,910	(16,543,314)
Cash and Cash Equivalents, Beginning of Year	44,711,611	28,352,701	44,896,015
Cash and Cash Equivalents, End of Year	$ 43,301,380	$ 44,711,611	$ 28,352,701

See Accompanying Notes to Consolidated Financial Statements

MORRIS STATE BANCSHARES, INC AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2018	**2017**	**2016**
Cash paid for interest:			
Interest on deposits	$ 5,340,507	$ 3,158,248	$ 2,329,465
Interest on borrowings	$ 326,379	$ 465,648	$ 480,584
Noncash items:			
Changes in unrealized gain/loss on securities available for sale	$ (667,946)	$ 531,300	$ (749,563)
Transfer of loans to other real estate and other assets	$ 1,702,912	$ 1,171,519	$ 6,292,732
Transfer of other real estate and other assets to loans	$ 14,800	$ 423,210	$ 3,136,259

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Morris State Bancshares, Inc. (the "Company") and subsidiaries conform with generally accepted accounting principles in the United States of America ("GAAP") and with general practices within the banking industry. The following is a description of the more significant of those policies the Company follows in preparing and presenting its financial statements.

1. ***Principles of Consolidation*** – The consolidated financial statements include the accounts of Morris State Bancshares, Inc. and its wholly owned subsidiaries, Morris Bank (the "Bank") and IMOR Properties LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

2. ***Reporting Entity*** - The Company was formed on July 1, 1989, as Morris State Bancshares, Inc., and operates as a bank holding company with one bank subsidiary. At December 31, 2018 the Company owned 100% of Morris Bank, Dublin, Georgia. The Bank provides a variety of financial services to individuals and small businesses through its offices in Middle Georgia. The Bank offers a full range of commercial and personal loan products. The Bank makes loans to individuals for purposes such as home mortgage financing, personal vehicles and various consumer purchases and other personal and family needs. The Bank makes commercial loans to businesses for purposes such as providing equipment and machinery purchases, commercial real estate purchases and working capital. The Bank offers a full range of deposit services that are typically available from financial institutions, including NOW accounts, demand, savings and other time deposits. In addition, retirement accounts such as Individual Retirement Accounts are available. All deposit accounts are insured by the FDIC up to the maximum amount currently permitted by law.

   During 2015 the Company acquired 100% ownership of IMOR Properties LLC. At December 31, 2018 the Company owned 100% of IMOR Properties LLC. IMOR Properties LLC was established by the Company as a subsidiary for holding real property.

3. ***Acquisition Accounting*** - Acquisitions are accounted for under the purchase method of accounting. Purchased assets and assumed liabilities are recorded at their estimated fair values as of the purchase date. Any identifiable intangible assets are also recorded at fair value. When the fair value of the assets purchased exceeds the fair value of liabilities assumed, it results in a "bargain purchase gain." If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available.

   All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity). Because deposit liabilities and the related customer relationship intangible assets may be exchanged in a sale or exchange transaction, the intangible asset associated with the depositor relationship is considered identifiable.

   Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date and prohibit the carryover of the related allowance for loan losses. When the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The Company must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior provisions and adjust accretable discount if no prior provisions have been made. This increase in accretable discount will have a positive impact on interest income. In addition, purchased loans without evidence of credit deterioration are also handled under this method.

4. ***Securities*** – The classification of securities is determined at the date of purchase. Gains or losses on the sale of securities are recognized on a specific identification basis.

   Securities available for sale, primarily debt securities, are recorded at fair value with unrealized gains or losses excluded from earnings and reported as a component of shareholders' equity. Securities available for sale will be used as a part of the Company's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, and other factors.

   Held to maturity securities, primarily debt securities, are stated at cost, net of the amortization of premium and the accretion of discount. The Company intends and has the ability to hold such securities on a long-term basis or until maturity.

   Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. Mortgage-backed securities are carried at unpaid principal balances, adjusted for unamortized premiums and unearned discounts.

   The market value of securities is generally based on quoted market prices. If a quoted market price is not available, market value is estimated using quoted market prices for similar securities.

   Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

5. ***Loans and Interest Income*** – Loans are stated at the amount of unpaid principal, reduced by net deferred loan fees, unearned discounts and a valuation allowance for possible loan losses. Interest on simple interest installment loans and other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are generally placed on non-accrual status when full payment of principal or interest is in doubt, or when they are past due 90 days as to either principal or interest. Senior management may grant a waiver from non-accrual status if a past due loan is well secured and in process of collection. A non-accrual loan may be restored to accrual status when all principal and interest amounts contractually due, including payments in arrears, are reasonably assured of repayment within a reasonable period, and there is a sustained period of performance by the borrower in accordance with the contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

6. ***Allowance for Loan Losses*** - The allowance for loan losses is available to absorb losses inherent in the credit extension process. The entire allowance is available to absorb losses related to the loan and lease portfolio and other extensions of credit, including off-balance sheet credit exposures. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses. Additions to the allowance for loan losses are made by charges to the provision for loan losses.

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

A loan is considered impaired when, based on current information and events, it is probable that a creditor will not be able 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 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. Substantially all of the Bank's loans, which have been identified as impaired, have been measured by the fair value of existing collateral.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment disclosures.

7. ***Premises and Equipment*** – Land is carried at cost. Other premises and equipment are stated at cost, less accumulated depreciation. Depreciation is charged to operating expenses over the estimated useful lives of the assets and is computed on the straight-line method. In general, estimated lives for buildings are up to 40 years, furniture and equipment (including vehicles) useful lives range from five to 20 years, and the lives of software and computer related equipment range from three to five years. Leasehold improvements are amortized over the life of the related lease, or the related assets, whichever is shorter. Expenditures for major improvements of the Company's premises and equipment are capitalized and depreciated over their estimated useful lives. Minor repairs, maintenance and improvements are charged to operations as incurred. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

8. ***Goodwill and Intangible Assets*** – Goodwill represents the excess of cost over the fair value of the net assets purchased in business combinations. Goodwill is required to be tested annually for impairment or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of an impairment, the amount by which the carrying amount exceeds the fair value is charged to earnings. At December 31, 2018, neither of the Company's assets had identified impairment and still had an indefinite life; accordingly, no impairment was recorded for the year.

   Intangible assets consist of core deposit premiums acquired in connection with business combinations and are based on the established value of acquired customer deposits. The core deposit premium is initially recognized based on a valuation performed as of the consummation date and is amortized over an estimated useful life of five to seven years. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

9. ***Other Real Estate*** - Other real estate, acquired principally through foreclosure, is stated at fair value less cost to sell. Loan losses incurred in the acquisition of these properties are charged against the allowance for possible loan losses at the time of foreclosure. Subsequent write-downs of other real estate owned are charged against the current period's expense.

10. ***Cash Surrender Value of Life Insurance ("BOLI")*** – The Bank has purchased life insurance on the lives of certain Bank officers. The beneficial aspects of these life insurance policies are tax-free earnings and a tax free death benefit, which are realized by the Bank as the owner of the policies. The cash surrender value of these policies is included as an asset on the balance sheets, and any increases in cash surrender value are recorded as noninterest income in the statements of income

11. ***Income Taxes*** – The Company does not reflect a provision for federal and state income taxes inasmuch as there was a Small Business Corporation election in force. This Small Business Corporation election, under Section 1372(a) of the Internal Revenue Code of 1954, provided for the income or loss of the Company to pass through to the shareholders as personal taxable income or loss.

The Company adopted the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740, *Accounting for Uncertainty in Income Taxes*, as of January 1, 2009. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the Company's financial statements for the year ending December 31, 2018.

The Company recognizes penalties related to income tax matters in income tax expense. The Company is subject to U.S. federal and Georgia state income tax audit for returns for the tax periods ending December 31, 2018, 2017, and 2016.

12. ***Cash and Cash Equivalents*** - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, highly liquid debt instruments purchased with an original maturity of three months or less, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

13. ***Securities Sold Under Agreement to Repurchase*** - Securities sold under agreement to repurchase are secured borrowings from customers and are treated as financing activities which are carried at the amounts at which the securities will be subsequently reacquired as specified in the respective agreements. The Bank had no such items outstanding as of December 31, 2018 or 2017.

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

    The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. 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.

    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.

15. ***Advertising Costs*** – It is the policy of the Company to expense advertising costs as they are incurred. The Company does not engage in any direct-response advertising and accordingly has no advertising costs reported as assets on its balance sheet. Amounts charged to advertising expense for the years ended December 31, 2018, 2017, and 2016 were $283,726, $340,592, and $218,747, respectively.

16. ***Stock Compensation Plans*** – The Bank has an employee stock ownership plan covering substantially all of its employees meeting age and length of service requirements. Contributions to the plan are made at the discretion of the Board of Directors. The Bank also adopted a 401K Plan during 1996 covering those employees qualifying for coverage under the employee stock ownership plan. Contributions to the plan are made at the discretion of the Board of Directors. The employee stock ownership plan and 401k Plan have merged into a single plan known as 401kSOP. The Bank also has a stock ownership plan which grants stocks to selected executives and other key employees. Stock grants under this plan vest over a period of three years.

17. ***Earnings per Common Share*** – Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed conversion. Potentially dilutive common shares are limited to preferred shares outstanding that would be converted to common shares upon change in control of the Company. As such, the average number of common shares outstanding used to calculate diluted earnings per share equals the total number of common and preferred shares outstanding less any shares held in treasury.

    Earnings per common share have been computed based on the following:

	Years ended December 31,		
	2018	2017	2016
Net income applicable to common shares	$ 15,236,144	$ 13,377,014	$ 11,087,325
Average number of common shares outstanding	1,826,422	1,804,830	1,788,490
Effect of dilutive options, warrants, etc.	-	-	-
Average number of common shares outstanding used to calculate diluted earnings per common share	1,826,422	1,804,830	1,788,490

18. ***Comprehensive Income*** – GAAP generally requires that recognized revenues, expenses, gains and losses be included in net earnings. 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 consolidated balance sheets, such items along with net earnings, are components of comprehensive income. The adoption of FASB Accounting Standards Codification Topic 220, *Comprehensive Income*, had no effect on the Company's net income or shareholders' equity. The Company presents comprehensive income in a separate consolidated statement of comprehensive income.

19. ***Reclassifications*** – Certain accounts in the prior-year financial statements have been reclassified to conform to the presentation of current-year financial statements.

20. ***Changes in Accounting Principles and Effects of New Accounting Pronouncements***

    ASU 2018-03 – Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10). This Update clarifies certain aspects of the guidance issued in ASU 2016-01 including (i) an entity measuring an equity security using the measurement alternative may make an irrevocable election to change its measurement approach to a fair value method under Topic 820 for that security and any identical or similar investments of the same issuer, (ii) fair value adjustments under the measurement alternative should be as of the date the observable transaction for a similar security occurred, (iii) requiring the remeasurement of the entire value of forward contracts and purchased options when observable transactions occur on the underlying equity securities, (iv) financial liabilities for which the fair value option is elected should follow the guidance in paragraph 825-10-45-5, (v) changes in the fair value of financial liabilities for which the fair value option is elected relating to the instrument-specific credit risk should first be measured in the currency of denomination and then both components of the change in fair value should be remeasured into the reporting entity's functional currency using end-of-period spot rates, and (vi) the prospective transition approach should only be applied for instances in which the measurement alternative is applied. The guidance was effective for interim periods beginning after June 15, 2018 and may be early adopted provided ASU 2016-01 was adopted. The Company adopted the amendments in this ASU effective January 1, 2018. The adoption of ASU 2018-03 had no material impact on the Company's consolidated financial statements.

ASU 2017-08 – Premium Amortization on Purchased Callable Debt Securities (Subtopic 310-20). This update shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. For securities held at a discount, the discount will continue to be amortized to maturity. For private entities, this update is effective for fiscal years beginning after December 15, 2019, with modified retrospective application. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2016-13 – Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the current incurred loss approach with an expected loss model, referred to as the current expected credit loss ("CECL") model. The new standard will apply to financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 simplifies the accounting for purchased credit-impaired debt securities and loans and expands the disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is effective. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures.

ASU 2016-02 – Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 amends the existing standards for lease accounting effectively requiring most leases be carried on the balance sheets of the related lessees by requiring them to recognize a right-of-use asset and a corresponding lease liability. ASU 2016-02 includes qualitative and quantitative disclosure requirements intended to provide greater insight into the nature of an entity's leasing activities. The standard must be adopted using a modified retrospective transition with a cumulative-effect adjustment to equity as of the beginning of the period in which it is adopted. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods with early adoption permitted. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures.

ASU 2016-01 – Financial Instruments–Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company adopted the amendments in this ASU effective January 1, 2018. The adoption of 2016-01 had no material impact on the Company's consolidated financial statements.

B. BUSINESS COMBINATIONS

On September 28, 2015, the Company completed its acquisition of the Warner Robins, Georgia branch from CertusBank. The acquisition of the branch was accounted for using the acquisition method of accounting in accordance with FASB ASC 805, *Business Combinations*. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. Management continues to evaluate its initial estimates regarding the valuation of loans, premises and intangible assets acquired.

The following table presents the assets acquired and liabilities assumed as of September 28, 2015 and their fair value estimates. The fair value adjustments shown in the following table continue to be evaluated by management and may be subject to further adjustment:

	As Recorded by CertusBank	Initial Fair Value Adjustment	As Recorded by Morris Bank
Assets			
Cash and cash equivalents	$ 47,981,741	$ -	$ 47,981,741
Loans	1,985,497	(11,059)	1,974,438
Premises and equipment	642,461	626,311	1,268,772
Intangible assets	-	455,782	455,782
Accrued interest receivable	4,437	-	4,437
Total assets	$ 50,614,136	$ 1,071,034	$ 51,685,170
Liabilities			
Deposits:			
Demand deposits	$ 27,192,878	$ -	$ 27,192,878
Time deposits	26,290,469	41,461	26,331,930
Other liabilities	9,437	-	9,437
Total liabilities	53,492,784	41,461	53,534,245
Net identifiable assets acquired over (under) liabilities assumed	(2,878,648)	1,029,573	(1,849,075)
Goodwill	-	1,849,075	1,849,075
Net assets acquired over (under) liabilities assumed	$ (2,878,648)	$ 2,878,648	$ -
Consideration:			
Cash paid as deposit premium	$ 2,878,648		
Fair value of total consideration transferred	$ 2,878,648		

Goodwill in the amount of $1,849,075 which is the excess of the purchase consideration over the fair value of the net assets acquired, was recorded in the branch acquisitions and is the result of expected operational synergies and other factors. Additionally, a core deposit intangible on the acquired core deposits in the amount of $455,782 was recognized to be amortized over a 10 year period. All other fair value adjustments presented were management's estimates of the values of the loans, premises, and deposits acquired from CertusBank.

C. INVESTMENT SECURITIES

Debt and equity securities have been classified in the balance sheet according to management's intent. The following table reflects the amortized cost and estimated market values of investments in debt and equity securities held at December 31, 2018 and 2017. In addition, gross unrealized gains and gross unrealized losses are disclosed as of December 31, 2018 and 2017.

The book and market values of securities **available for sale** were:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
December 31, 2018				
Non-mortgage backed debt securities of:				
U.S. Government agencies	$ 4,247,816	$ -	$ 61,716	$ 4,186,100
U.S. Treasury securities	5,477,302	37,152	-	5,514,454
State, county, and municipal securities	28,500,318	185,082	314,040	28,371,360
Total non-mortgage backed debt securities	38,225,436	222,234	375,756	38,071,914
Mortgage backed securities:				
Residential mortgage backed securities	11,034,972	89,077	197,966	10,926,083
Commercial mortgage backed securities	22,042,767	72,474	267,310	21,847,931
Total mortgage backed securities	33,077,739	161,551	465,276	32,774,014
Total	$ 71,303,175	$ 383,785	$ 841,032	$ 70,845,928
December 31, 2017				
Non-mortgage backed debt securities of:				
U.S. Government agencies	$ 4,246,011	$ 3,047	$ 23,035	$ 4,226,023
State, county, and municipal securities	26,597,606	429,044	175,717	26,850,933
Total non-mortgage backed debt securities	30,843,617	432,091	198,752	31,076,956
Mortgage backed securities:				
Residential mortgage backed securities	14,330,721	157,949	149,543	14,339,127
Commercial mortgage backed securities	5,979,383	-	31,046	5,948,337
Total mortgage backed securities	20,310,104	157,949	180,589	20,287,464
Total	$ 51,153,721	$ 590,040	$ 379,341	$ 51,364,420

The book and market values of securities **held to maturity** were:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
December 31, 2018				
Non-mortgage backed debt securities of:				
State, county, and municipal securities	$ 3,823,771	$ 76,020	$ 5,583	$ 3,894,208
Total non-mortgage backed debt securities	3,823,771	76,020	5,583	3,894,208
Residential Mortgage backed securities	1,892,547	-	84,109	1,808,438
Total	$ 5,716,318	$ 76,020	$ 89,692	$ 5,702,646
December 31, 2017				
Non-mortgage backed debt securities of:				
State, county, and municipal securities	$ 3,835,466	$ 131,581	$ 195	$ 3,966,852
Total non-mortgage backed debt securities	3,835,466	131,581	195	3,966,852
Residential Mortgage backed securities	2,099,434	-	35,693	2,063,741
Total	$ 5,934,900	$ 131,581	$ 35,888	$ 6,030,593

The book and market values of pledged securities were $12,533,501 and $12,416,924 at December 31, 2018, respectively and $45,007,745 and $45,184,157 at December 31, 2017, respectively.

The proceeds from sales and calls of securities and the associated gains and losses are as follows:

	December 31, 2018	*December 31, 2017*	*December 31, 2016*
Proceeds	$ 7,464,908	$ 8,746,583	$ 10,353,596
Gross gains	-	-	37,794
Gross losses	3,351	37,263	-

The amortized cost and estimated market value of debt securities held to maturity and available for sale at December 31, 2018 and 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Available for Sale	
December 31, 2018	Amortized Cost	Estimated Market Value
Non-mortgage backed securities:		
Due in one year or less	$ 6,588,886	$ 6,597,544
Due after one year through five years	14,730,998	14,670,101
Due after five years through ten years	14,454,506	14,320,835
Due after ten years	2,451,046	2,483,434
Total non-mortgage backed securities	38,225,436	38,071,914
Mortgage backed securities:		
Residential mortgage backed securities	11,034,972	10,926,083
Commercial mortgage backed securities	22,042,767	21,847,931
Total mortgage backed securities	33,077,739	32,774,014
Total	$ 71,303,175	$ 70,845,928

	Available for Sale	
December 31, 2017	Amortized Cost	Estimated Market Value
Non-mortgage backed securities:		
Due in one year or less	$ 1,596,117	$ 1,598,004
Due after one year through five years	18,701,932	18,807,574
Due after five years through ten years	8,571,152	8,579,610
Due after ten years	1,974,416	2,091,768
Total non-mortgage backed securities	30,843,617	31,076,956
Mortgage backed securities:		
Residential mortgage backed securities	14,330,721	14,339,127
Commercial mortgage backed securities	5,979,383	5,948,337
Total mortgage backed securities	20,310,104	20,287,464
Total	$ 51,153,721	$ 51,364,420

	Held to Maturity	
December 31, 2018	Amortized Cost	Estimated Market Value
Non-mortgage backed securities:		
Due in one year or less	$ 786,706	$ 786,188
Due after one year through five years	397,490	404,894
Due after five years through ten years	2,311,098	2,369,746
Due after ten years	328,477	333,380
Total non-mortgage backed securities	3,823,771	3,894,208
Residential mortgage backed securities	1,892,547	1,808,438
Total	$ 5,716,318	$ 5,702,646

December 31, 2017	Amortized Cost	Estimated Market Value
Non-mortgage backed securities:		
Due in one year or less	$ 245,000	$ 245,377
Due after one year through five years	952,598	963,764
Due after five years through ten years	1,994,870	2,036,875
Due after ten years	642,998	720,836
Total non-mortgage backed securities	3,835,466	3,966,852
Residential mortgage backed securities	2,099,434	2,063,741
Total	$ 5,934,900	$ 6,030,593

The market value is established by an independent pricing service as of the approximate dates indicated. The differences between the book value and market value reflect current interest rates and represent the potential loss (or gain) had the portfolio been liquidated on that date. Security losses (or gains) are realized only in the event of dispositions prior to maturity.

At December 31, 2018 and 2017, the Company did not hold investment securities of any single issuer, other than obligations of the U. S. Treasury and other U. S. Government agencies, whose aggregate book value exceeded ten percent of shareholders' equity.

Information pertaining to securities with gross unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2018			
	Less Than Twelve Months		Twelve Months or More	
Securities Available for Sale	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value
Non-mortgage backed debt securities of:				
U.S. Government agencies	$ -	$ -	$ 61,716	$ 4,186,100
State, county, and municipal securities	8,160	3,164,204	305,880	10,520,042
Total non-mortgage backed debt securities	8,160	3,164,204	367,596	14,706,142
Mortgage backed securities:				
Residential mortgage backed securities	69,777	4,663,268	128,189	3,188,405
Commercial mortgage backed securities	91,054	8,314,141	176,256	7,611,001
Total mortgage backed securities	160,831	12,977,409	304,445	10,799,406
Total	$ 168,991	$ 16,141,613	$ 672,041	$ 25,505,548
Securities Held to Maturity				
Non-mortgage backed debt securities of:				
State, county, and municipal securities	$ -	$ -	$ 5,583	$ 922,967
Total non-mortgage backed debt securities	-	-	5,583	922,967
Residential mortgage backed securities	-	-	84,109	1,808,438
Total	$ -	$ -	$ 89,692	$ 2,731,405

	December 31, 2017			
	Less Than Twelve Months		Twelve Months or More	
Securities Available for Sale	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value
Non-mortgage backed debt securities of:				
U.S. Government agencies	$ 17,657	$ 1,982,344	$ 5,378	$ 494,621
State, county, and municipal securities	18,117	2,753,893	157,600	5,794,031
Total non-mortgage backed debt securities	35,774	4,736,237	162,978	6,288,652
Mortgage backed securities:				
Residential mortgage backed securities	27,949	3,667,568	121,594	4,037,791
Commercial mortgage backed securities	16,057	4,924,067	14,989	1,024,270
Total mortgage backed securities	44,006	8,591,635	136,583	5,062,061
Total	$ 79,780	$ 13,327,872	$ 299,561	$ 11,350,713
Securities Held to Maturity				
Non-mortgage backed debt securities of–				
State, county, and municipal securities	$ 195	$ 549,944	$ -	$ -
Total non-mortgage backed debt securities	195	549,944	-	-
Residential mortgage backed securities	22,468	1,218,620	13,225	845,121
Total	$ 22,663	$ 1,768,564	$ 13,225	$ 845,121

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

As of December 31, 2018, 68 debt securities had unrealized losses with aggregate depreciation of 2.05% from the Company's amortized cost basis.

As of December 31, 2018, the company held 6 U.S. Government agency securities that were in an unrealized loss position. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired at December 31, 2018.

As of December 31, 2018, the Company held 12 commercial mortgage backed securities and 11 residential mortgage backed securities that were in an unrealized loss position, all of which were issued by U.S. government sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired at December 31, 2018.

As of December 31, 2018, the Company held 39 state, county, and municipal securities that were in an unrealized loss position. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired at December 31, 2018.

D. LOANS

The Company engages in a full complement of lending activities, including real estate-related loans, commercial and industrial loans and consumer installment loans. The majority of its lending activities are concentrated in real estate loans. While risk of loss in the Company's portfolio is primarily tied to the credit quality of the various borrowers, risk of loss may increase due to factors beyond the Company's control, such as local, regional and/or national economic downturns. General conditions in the real estate market may also impact the relative risk in the real estate portfolio.

Loans are stated at unpaid balances, net of unearned income and deferred loan fees. Balances within the major loans receivable categories at December 31, 2018 and 2017 are presented in the following table:

	2018	2017
Commercial	$ 79,399,720	$ 72,059,139
Commercial Real Estate	345,787,812	305,891,933
Consumer	27,368,309	31,459,126
Residential Real Estate	131,971,906	120,027,996
Agriculture	24,913,306	27,209,521
Other	672,593	702,284
Total Loans	610,113,646	557,349,999
Other:		
Overdraft, in-process, and suspense accounts	2,916,074	2,143,734
Gross Loans	613,029,720	559,493,733
Allowance for loan losses	(9,480,989)	(9,417,617)
Loans, net	$ 603,548,731	$ 550,076,116

Overdrafts included in loans were $179,978 and $431,629 at December 31, 2018 and 2017, respectively.

Nonaccrual and Past Due Loans

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged to interest income. Interest on loans that are classified as non-accrual is recognized when received. Past due loans are loans whose principal or interest is 30 days or more past due. In some cases, where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the original contractual terms.

The following tables present an analysis of past due loans and loans accounted for on a nonaccrual basis as of December 31, 2018 and 2017:

	As of December 31, 2018						
		Past Due and Still Accruing					
	Current and < 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Accruing Past Due	Non-accrual	Total Loans
Commercial	$ 72,430,193	$ 429,224	$ 2,357,180	$ -	$ 2,786,404	$ 4,183,123	$ 79,399,720
Commercial Real Estate	343,219,939	541,818	117,545	-	659,363	1,908,510	345,787,812
Consumer	26,423,880	647,441	61,967	-	709,408	235,021	27,368,309
Residential Real Estate	129,445,497	1,044,764	269,296	-	1,314,060	1,212,349	131,971,906
Agriculture	24,332,395	297,053	-	-	297,053	283,858	24,913,306
Other	672,593	-	-	-	-	-	672,593
Total	$ 596,524,497	$ 2,960,300	$ 2,805,988	$ -	$ 5,766,288	$ 7,822,861	$ 610,113,646
Overdraft, in-process, and suspense accounts							2,916,074
							$ 613,029,720

	As of December 31, 2017						
		Past Due and Still Accruing					
	Current and < 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Accruing Past Due	Non-accrual	Total Loans
Commercial	$ 68,417,196	$ 618,261	$ 54,120	$ 406,615	$ 1,078,996	$ 2,562,947	$ 72,059,139
Commercial Real Estate	303,158,300	131,517	135,863	-	267,380	2,466,253	305,891,933
Consumer	30,302,205	664,842	147,726	-	812,568	344,353	31,459,126
Residential Real Estate	117,403,908	869,466	304,471	-	1,173,937	1,450,151	120,027,996
Agriculture	26,496,525	39,147	662,209	-	701,356	11,640	27,209,521
Other	702,284	-	-	-	-	-	702,284
Total	$ 546,480,418	$ 2,323,233	$ 1,304,389	$ 406,615	$ 4,034,237	$ 6,835,344	$ 557,349,999
Overdraft, in-process, and suspense accounts							2,143,734
							$ 559,493,733

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and troubled debt restructurings. If a loan is deemed impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

The following is a summary of information pertaining to interest income on impaired loans:

	As of December 31, 2018		
	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans	Interest Income Recognized on Cash Basis on Impaired Loans
Commercial	$ 4,853,121	$ 483,197	$ 249,745
Commercial Real Estate	3,085,305	124,645	69,280
Consumer	119,182	2,043	1,760
Residential Real Estate	1,264,031	69,714	64,550
Agriculture	469,527	26,079	19,800
Other	-	-	-
Total	$ 9,791,166	$ 705,678	$ 405,135

	As of December 31, 2017		
	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans	Interest Income Recognized on Cash Basis on Impaired Loans
Commercial	$ 3,563,746	$ 351,584	$ 143,621
Commercial Real Estate	3,510,311	179,238	110,610
Consumer	102,655	10,787	7,897
Residential Real Estate	1,591,299	70,845	45,363
Agriculture	644,123	61,833	52,528
Other	-	-	-
Total	$ 9,412,134	$ 674,288	$ 360,019

	As of December 31, 2016		
	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans	Interest Income Recognized on Cash Basis on Impaired Loans
Commercial	$ 2,851,808	$ 348,884	$ 149,825
Commercial Real Estate	5,922,797	175,019	131,295
Consumer	2,283	-	-
Residential Real Estate	2,172,275	93,506	86,310
Agriculture	1,116,318	100,100	85,348
Other	-	-	-
Total	$ 12,065,481	$ 717,509	$ 452,778

The following is an analysis of information pertaining to impaired loans:

	As of December 31, 2018				
	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial	$ 6,063,655	$ 4,924,719	$ 1,138,936	$ 6,063,655	$ 877,408
Commercial real estate	2,407,047	449,894	1,957,153	2,407,047	1,017,474
Consumer	33,053	33,053	-	33,053	-
Residential real estate	996,209	220,033	776,176	996,209	206,494
Agriculture	283,858	-	283,858	283,858	20,881
Other	-	-	-	-	-
Total	$ 9,783,822	$ 5,627,699	$ 4,156,123	$ 9,783,822	$ 2,122,257

	As of December 31, 2017				
	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial	$ 3,746,929	$ 784,341	$ 2,858,245	$ 3,642,586	$ 1,503,151
Commercial real estate	3,763,562	186,681	3,576,881	3,763,562	1,306,093
Consumer	205,310	205,310	-	205,310	-
Residential real estate	1,531,852	405,846	1,126,006	1,531,852	354,146
Agriculture	655,195	344,637	310,558	655,195	16,258
Other	-	-	-	-	-
Total	$ 9,902,848	$ 1,926,815	$ 7,871,690	$ 9,798,505	$ 3,179,648

Credit Quality Indicators

The Company uses a nine category risk grading system to assign a risk grade to each loan in the portfolio. The following is a description of the general characteristics of the grades:

Grade 1 – Excellent Risk
Loans in this category are considered to have very little, if any, credit risk. The following characteristics are common for loans in this category:

- Loan is fully secured by cash or cash equivalents.
- Loan is secured by marketable securities with no less than a 25% margin.
- There are no material exceptions to the Bank’s loan policy.
- Alternative sources of cash exist, such as commercial paper market, capital market, internal liquidity, or other bank lines.
- Borrower is a national or regional company with excellent cash flow which covers all debt service requirements and a significant portion of capital expenditures.
- Balance sheet strength and liquidity are excellent and exceed industry norms.
- Financial trends are positive.
- Borrower is a market leader within the industry, and industry performance is excellent.
- Borrower is of unquestioned strength. Financial wherewithal is known.
- Borrower exhibits excellent liquidity, net worth, cash flow, and leverage.

Grade 2 – High Quality
Loans in this category are considered to be an excellent credit risk with minimal risk of loss. The following characteristics are common for loans in this category:

- Loan is secured by marketable securities with margin below 25%.
- There are no material exceptions to the Bank’s loan policy.
- Borrower has stable and reliable cash flow and above-average liquidity.
- Borrower exhibits moderate risk from exposure to contingent liabilities.
- Borrower has strong, stable financial trends.
- Borrower has strong cash flow which covers all debt service requirements and some portion of capital expenditures.
- Alternative sources of repayment are evident and financial ratios are comparable to or exceed the industry norms.
- Borrower holds a prominent position in the industry or local economy.
- Borrower’s industry’s performance is above average.
- Management is strong in most areas and with good back-up depth.

Grade 3 – Average Risk
Loans in this category are considered to be of normal risk and of average quality. The following characteristics are common for loans in this category:

- Borrower has reliable cash flow but alternative sources of repayment would require sale of assets that may be considered illiquid.
- Borrower's financial position has been leveraged to an average degree or individual has an average net worth position considering income and debt.
- Cash flow is adequate to cover all debt service requirements but not capital expenditures.
- Balance sheet may be leveraged but still comparable to the industry.
- Financial trends are stable to mixed over long-term but no significant concerns exist at this time.
- Borrower's industry has a generally stable outlook and may have some cyclical characteristics.
- Borrower holds an average position in the industry or local economy.
- Management is considered capable and stable.
- Start-up venture with experienced management, adequate capitalization, and favorable performance versus projections.

Grade 4 – Acceptable
Loans in this category are considered to be of above-average risk or of below-average quality. The following characteristics are common for loans in this category:

- Borrower's sources of income or cash flow have become unstable or limited.
- Borrower's income has declined due to current business or economic conditions.
- Borrower has a somewhat highly-leveraged condition and limited capital.
- Moderate history of some degree of slow payment.
- Loan conditions require more frequent monitoring than the higher-graded loans.
- Stability is lacking in the primary repayment source, cash flow, credit history, or liquidity, however, the instability is manageable and considered temporary.
- Overall trends are not yet adverse.
- Loan involves speculative activity where the primary source for repayment is the activity itself and the borrower has limited ability to support the debt outside the successful completion of the activity.

Grade 5 – Watch
Loans in this category have potential financial weaknesses, the loan officer may not have properly supervised the credit, or material collateral exceptions exist. This category includes loans which do not presently expose the bank to a sufficient degree of risk to warrant adverse classification but do possess credit deficiencies deserving of management's close attention. Failure to correct deficiencies could result in greater credit risk in the future. The following characteristics are common for loans in this category:

- There is a material exception to the bank's loan policy.
- Management has potential weakness and back-up depth is weak.
- Principal and interest are currently protected through sufficient cash flows, collateral values, or secondary repayment sources, but downward trends in profitability and cash flow are evident.
- Financial leverage is excessive, and margins and financial ratios fall below industry averages.
- Adequate financial statements are not produced and/or provided timely, or the borrower exhibits an uncooperative attitude.
- Moderate delinquency may exist from time to time.
- A loss may not be readily apparent, but sufficient problems have arisen to cause the lender to go to abnormal lengths to protect its position.

Grade 6 – Substandard

Loans in this category display a well-defined weakness or weaknesses that may jeopardize collection of the debt. Assets do not appear to possess any loss, but exhibit more than a normal degree of risk. Lack of continued close attention on the part of the bank could result in deterioration and potential loss. The following characteristics are common for loans in this category:

- Cash flows are not sufficient to meet scheduled obligations and/or the financial strengths of the guarantors are questionable.
- Losses have eroded the net worth so that survivability of the business is in question.
- Primary and secondary sources of repayment are believed to offer marginal protection to the credit.
- Repayment of debt is likely to come from the liquidation of collateral or payments from guarantors.
- Past due problems are apparent.
- The loan has been placed on non-accrual status and/or is in bankruptcy with current repayment history for less than three months.
- The value of the collateral is questionable or has declined significantly.

Grade 7 – Impaired

Loans in this category have been classified as Impaired. The classification of Impaired is based upon the likelihood that the bank will not be able to collect all principal and interest under the original terms of the note. The following characteristics are common for loans in this category:

- Loan has been placed on non-accrual.
- Repayment of the debt is dependent upon the sale of collateral.
- The value of the collateral has declined such that its liquidation would not be sufficient to retire the debt.
- Repayment is dependent upon cash flows, and the cash flows are no longer sufficient to cover principal and interest payments under the terms of the debt.

Grade 8 – Doubtful

Loans in this category have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable. The following characteristics are common for loans in this category:

- Borrower is having financial difficulties, and the collateral does not cover the loan balance.
- Loan is unsecured and repayment is highly questionable.
- Bank’s access or rights to the collateral is unclear (e.g. because the lender’s lien is subordinate to substantial other liens or there is a dispute over title to the collateral).
- Business is on the verge of closing, being sold, or liquidated.

Grade 9 – Loss

Loans in this category are considered not collectible and of such little value that their continuance as active assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The following tables present the loan portfolio by risk grade as of December 31, 2018 and 2017:

As of December 31, 2018

	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	Total
Grade 1 (Excellent Risk)	$ 1,305,209	$ -	$ 1,007,414	$ 154,680	$ -	$ -	$ 2,467,303
Grade 2 (High Quality)	10,206	-	37,678	22,676	-	-	70,560
Grade 3 (Average Risk)	1,247,496	10,103,956	240,115	5,964,409	1,282,159	672,593	19,510,728
Grade 4 (Acceptable)	66,103,783	327,886,993	25,290,053	119,657,022	22,111,386	-	561,049,237
Grade 5 (Watch)	3,664,706	5,374,188	250,061	4,132,424	1,235,903	-	14,657,282
Grade 6 (Substandard)	969,944	15,628	489,025	1,044,486	-	-	2,519,083
Grade 7 (Impaired)	6,063,655	2,407,047	33,053	996,209	283,858	-	9,783,822
Grade 8 (Doubtful)	34,721	-	20,910	-	-	-	55,631
Grade 9 (Loss)	-	-	-	-	-	-	-
Total	$ 79,399,720	$ 345,787,812	$ 27,368,309	$ 131,971,906	$ 24,913,306	$ 672,593	610,113,646
Overdraft, in-process, and suspense accounts							2,916,074
Total Loans							$ 613,029,720

As of December 31, 2017

	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	Total
Grade 1 (Excellent Risk)	$ 925,849	$ 10,721	$ 1,167,378	$ 156,275	$ -	$ -	$ 2,260,223
Grade 2 (High Quality)	58,515	-	171,995	26,941	-	-	257,451
Grade 3 (Average Risk)	699,203	9,268,335	536,442	5,772,026	1,456,414	702,284	18,434,704
Grade 4 (Acceptable)	64,212,885	288,353,205	28,480,760	105,159,649	23,369,348	-	509,575,847
Grade 5 (Watch)	1,000,139	4,325,204	254,857	6,201,483	1,712,151	-	13,493,834
Grade 6 (Substandard)	1,519,962	170,906	597,405	1,179,770	16,413	-	3,484,456
Grade 7 (Impaired)	3,642,586	3,763,562	205,310	1,531,852	655,195	-	9,798,505
Grade 8 (Doubtful)	-	-	44,979	-	-	-	44,979
Grade 9 (Loss)	-	-	-	-	-	-	-
Total	$ 72,059,139	$ 305,891,933	$ 31,459,126	$ 120,027,996	$ 27,209,521	$ 702,284	557,349,999
Overdraft, in-process, and suspense accounts							2,143,734
Total Loans							$ 559,493,733

Troubled Debt Restructurings ("TDRs")

The restructuring of a loan is deemed to be a troubled debt restructuring (TDR) if the borrower is experiencing financial difficulties and the Company grants certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Loan modifications are reviewed and approved by the Company's senior lending staff, who then determine whether the loan meets the criteria for a TDR. In order to determine whether a borrower is experiencing financial difficulties, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. This evaluation is conducted under the Company's internal underwriting process. Concessions that may be granted include interest rate reductions, principal or interest forgiveness, restructuring of amortization schedules or maturity date, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet the borrower's specific circumstances at a point in time. Not all loan modifications are TDRs. Generally, a nonaccrual loan that has been modified in a TDR remains on nonaccrual status for a period subsequent of modification to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status. Once a loan is modified in a troubled debt restructuring it is accounted for as an impaired loan, regardless of its accrual status, until the loan is paid in full, sold or charged off.

As of December 31, 2018 and 2017, the Company had a recorded investment in TDRs of $2,295,044 and $1,404,006, respectively. The Company had previous charge offs of $-0- and $1,906 on such loans as of December 31, 2018 and 2017, respectively. The Company's allowance for loan losses included an allocation of $954,147 and $475,000 of specific allowance for those loans as of December 31, 2018 and 2017, respectively. The Company had no unfunded commitments to lend to customers with loans modified as TDRs as of December 31, 2018.

The following table presents loans modified as TDRs by class of loan and type of modification that occurred during the years ended December 31, 2018 and 2017.

	December 31, 2018		
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification
Commercial			
Rate Reduction, Payment Modification	1	$ 285,000	$ 285,000
Commercial real estate	-	-	-
Consumer			
Payment Modification Only	1	6,238	6,238
Rate Reduction, Payment Modification	3	26,248	26,248
Forgiveness of Principal	1	13,584	2,912
Residential real estate			
Payment Modification Only	3	150,240	150,240
Rate Reduction, Payment Modification	2	144,771	144,771
Forbearance of Interest	1	298,926	298,926
Forgiveness of Principal	1	48,678	44,849
Agriculture			
Rate Reduction, Payment Modification	1	8,306	8,306
Other	-	-	-
Total TDR's	14	$ 981,991	$ 967,490

	December 31, 2017		
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification
Commercial	-	$ -	$ -
Commercial real estate			
Payment Modification Only	2	1,088,189	1,088,189
Consumer			
Payment Modification Only	1	4,076	4,076
Rate Reduction, Payment Modification	1	7,787	7,787
Residential real estate	-	-	-
Agriculture	-	-	-
Other	-	-	-
Total TDR's	4	$ 1,100,052	$ 1,100,052

The TDRs described above increased the allowance for loan losses $221 and $380,000 during the years ended December 31, 2018 and 2017, respectively. The above TDRs resulted in charge offs of $14,501 and $-0- during the years ended December 31, 2018 and 2017.

The following table presents loans, by loan classification type, modified as TDRs for which there was a payment default within twelve months following the loan modification date during the year ended December 31, 2018. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

	December 31, 2018	
	Number of Loans	Recorded Investment
Commercial real estate	-	$ -
Residential real estate	1	39,590
Farmland, agricultural, other	-	-
Commercial	-	-
Consumer	1	2,498
Total	2	$ 42,088

The TDRs that subsequently defaulted described above did not increase the allowance for loan losses or result in charge offs during the year ended December 31, 2018.

During the year ended December 31, 2017, the Company reported no new loans modified as TDRs that subsequently defaulted.

Allowance for Loan Losses

The allowance for loan losses represents a reserve for inherent losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated periodically based on a review of all significant loans, with a particular emphasis on non-accruing, past due and other loans that management believes might be potentially impaired or warrant additional attention. The Company segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio. In addition, based on internal reviews and external reviews performed by independent auditors and regulatory authorities, the Company further segregates the loan portfolio by loan grades based on an assessment of risk for a particular loan or group of loans. Certain reviewed loans are assigned specific allowances when a review of relevant data determines that a general allocation is not sufficient or when the review affords management the opportunity to fine tune the amount of exposure in a given credit. In establishing allowances, management considers historical loan loss experience but adjusts this data with a significant emphasis on data such as current loan quality trends, current economic conditions and other factors in the markets where the Company operates. Factors considered include, among others, current valuations of real estate in their markets, unemployment rates, the effect of weather conditions on agricultural related entities and other significant local economic events.

The Company has developed a methodology for determining the adequacy of the allowance for loan losses which is monitored by the Company's Senior Credit Officer. Loans are segregated by loan type and historical loss rates for each type are used to estimate a general reserve percentage for loans that are not considered impaired and assigned specific reserves. Procedures provide for the assignment of a risk rating for every loan included in the total loan portfolio. The risk rating schedule provides seven ratings of which four ratings are classified as pass ratings and three ratings are classified as criticized ratings. Loans classified as substandard or below are reviewed on a quarterly basis by management for potential impairment. As a result of these evaluations, loans deemed impaired may be assigned specific reserve allocations and excluded from general reserve pools. Past due loans are assigned risk ratings based on the number of days past due. The calculation of the allowance for loan losses, including underlying data and assumptions, is reviewed regularly by executive management and the Board of Directors.

The following tables detail activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2018 and 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

2018

Allowance for credit losses:	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	Total
Beginning Balance	$ 3,061,877	$ 4,204,807	$ 884,000	$ 1,120,034	$ 54,922	$ 91,977	$ 9,417,617
Chargeoffs	(934,869)	-	(392,272)	(418,859)	-	-	(1,746,000)
Recoveries	46,168	247,466	58,840	31,898	-	-	384,372
Provision	821,348	(278,273)	216,275	727,438	20,026	(81,814)	1,425,000
Ending Balance	$ 2,994,524	$ 4,174,000	$ 766,843	$ 1,460,511	$ 74,948	$ 10,163	$ 9,480,989
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 877,408	$ 1,017,474	$ -	$ 206,494	$ 20,881	$ -	$ 2,122,257
Loans collectively evaluated for impairment	$ 2,117,116	$ 3,156,526	$ 766,843	$ 1,254,017	$ 54,067	$ 10,163	7,358,732
Ending balance	$ 2,994,524	$ 4,174,000	$ 766,843	$ 1,460,511	$ 74,948	$ 10,163	$ 9,480,989
Loans:							
Individually evaluated for impairment	$ 6,063,655	$ 2,407,047	$ 33,053	$ 996,209	$ 283,858	$ -	$ 9,783,822
Collectively evaluated for impairment	73,336,065	343,380,765	27,335,256	130,975,697	24,629,448	672,593	600,329,824
Ending balance	$ 79,399,720	$ 345,787,812	$ 27,368,309	$ 131,971,906	$ 24,913,306	$ 672,593	610,113,646
Overdraft, in-process, and suspense accounts							2,916,074
Total loans							$ 613,029,720

2017

Allowance for credit losses:	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	Total
Beginning Balance	$ 2,268,534	$ 3,453,399	$ 1,264,929	$ 1,191,548	$ 48,843	$ 723,119	$ 8,950,372
Chargeoffs	(282,178)	(452)	(504,888)	-	-	-	(787,518)
Recoveries	126,184	16,144	121,627	15,808	-	-	279,763
Provision	949,337	735,716	2,332	(87,322)	6,079	(631,142)	975,000
Ending Balance	$ 3,061,877	$ 4,204,807	$ 884,000	$ 1,120,034	$ 54,922	$ 91,977	$ 9,417,617
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 1,503,151	$ 1,306,093	$ -	$ 354,146	$ 16,258	$ -	$ 3,179,648
Loans collectively evaluated for impairment	1,558,726	2,898,714	884,000	765,888	38,664	91,977	6,237,969
Ending balance	$ 3,061,877	$ 4,204,807	$ 884,000	$ 1,120,034	$ 54,922	$ 91,977	$ 9,417,617
Loans:							
Individually evaluated for impairment	$ 3,642,586	$ 3,763,562	$ 205,310	$ 1,531,852	$ 655,195	$ -	$ 9,798,505
Collectively evaluated for impairment	68,416,553	302,128,371	31,253,816	118,496,144	26,554,326	702,284	547,551,494
Ending balance	$ 72,059,139	$ 305,891,933	$ 31,459,126	$ 120,027,996	$ 27,209,521	$ 702,284	557,349,999
Overdraft, in-process, and suspense accounts							2,143,734
Total loans							$ 559,493,733

Risk characteristics relevant to each portfolio segment are as follows:

Commercial loans – Loans in this segment are generally made to businesses and are typically secured by business assets, equipment, inventory and accounts receivable. Repayment is expected from the cash flows of the business entity. A weakened economy and decreased consumer spending will have a negative impact on the credit quality in this portfolio segment.

Commercial real estate loans – Loans in this segment include all mortgages and other liens on commercial real estate. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn will have an effect on the credit quality in this portfolio segment.

Consumer loans – Loans in this segment include unsecured loans, cash value loans and auto loans. Loans in these categories are primarily dependent on the credit quality of the borrower. The overall health of the economy, including unemployment rates in the Bank's market area will have an effect on the credit quality of this portfolio segment.

Residential real estate loans – Loans in this segment include all mortgages and other liens on residential real estate, as well as vacant land designated as residential real estate. Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality of this portfolio segment.

Agriculture loans – Loans in this segment include loans to finance agricultural production and other loans to farmers. The overall health of the economy will have an effect on the credit quality of this portfolio segment.

Other loans – Loans in this segment do not belong in the other categories previously described. Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality of the segment.

E. BANK PREMISES AND EQUIPMENT

Premises and equipment as of December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Land	$ 1,621,936	$ 1,621,936
Buildings and improvements	8,659,936	9,157,950
Leasehold improvements	487,026	451,994
Equipment, furniture and fixtures	3,436,061	3,142,362
Vehicles	100,058	100,058
Construction in progress	26,058	-
Total	14,331,075	14,474,300
Less - accumulated depreciation	(5,446,642)	(4,861,639)
Bank premises and equipment, net	$ 8,884,433	$ 9,612,661

Depreciation included in operating expenses amounted to $585,214, $588,093, and $556,801 for the years ended December 31, 2018, 2017 and 2016, respectively.

F. GOODWILL AND INTANGIBLE ASSETS

The Bank recorded $1,849,075 of goodwill on the branch purchase from CertusBank during 2015. Previously, the Company reported goodwill in the amount of $388,815 which resulted in total reported goodwill of $2,237,890 for the years ended December 31, 2018 and 2017. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2018, the Company's management determined reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

The Bank recorded a core deposit intangible asset of $455,782 associated with the branch purchase from CertusBank during 2015. The amortization period used for the core deposit intangible is 10 years. The intangible asset's carrying amount, accumulated amortization and amortization expense for December 31, 2018 and the five succeeding fiscal years are as follows:

	2018	2019	2020	2021	2022	2023
Amortizing intangible assets						
Core deposit premium						
Gross carrying amount	$ 455,782	$ 455,782	$ 455,782	$ 455,782	$ 455,782	$ 455,782
Accumulated amortization	(166,862)	(215,385)	(262,293)	(307,358)	(350,352)	(391,047)
Net carrying value	$ 288,920	$ 240,397	$ 193,489	$ 148,424	$ 105,430	$ 64,735
Amortization expense	$ 49,910	$ 48,523	$ 46,908	$ 45,065	$ 42,994	$ 40,695

G. OTHER REAL ESTATE AND FORECLOSED ASSETS

At December 31, 2018 and 2017 the Bank reported $835,921 and $1,157,992, respectively, as other real estate and foreclosed assets. At December 31, 2018, the balance of foreclosed real estate included $414,300 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2018, the Bank had no consumer mortgage loans secured by residential real estate for which formal foreclosure procedures were in process.

H. CASH SURRENDER VALUE OF LIFE INSURANCE

The Bank has established a BOLI program under which single-premium, split-dollar, whole-life insurance contracts are purchased on certain eligible officers. Initial investments in the policies are non-deductible for income tax purposes and the related investment income and death benefits are non-taxable when received. Death benefits are divided among the Bank and beneficiaries designated by the insured officer. The cash surrender value of these policies was $7,035,138 and $6,851,182 at December 31, 2018 and 2017, respectively. Income earned on the cash surrender value of these policies was $183,956, $194,527 and $203,327 for the years ended December 31, 2018, 2017, and 2016, respectively.

I. DEPOSITS

The aggregate amount of time deposits that meet or exceed $250,000 at December 31, 2018 and 2017 was $64,579,269 and $56,261,055, respectively, and the Bank had deposit liabilities in NOW accounts of $113,998,981 and $107,684,767 at December 31, 2018 and 2017, respectively.

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

2019	$	139,895,253
2020		33,442,800
2021		4,480,623
2022		8,164,121
2023 and thereafter		5,210,795
Total time deposits	$	191,193,592

J. SHORT-TERM BORROWINGS

The Bank had six lines of credit for federal funds purchased totaling $36,500,000 and one line of credit for repurchase transactions and reverse repurchase transactions in the amount of $10,000,000 with correspondent institutions as of December 31, 2018. At December 31, 2018 and 2017, there were no outstanding balances on these lines of credit.

K. LONG-TERM BORROWINGS

The Bank became a member of the Federal Home Loan Bank ("FHLB") of Atlanta during 1998 establishing a Credit Availability of $15,000,000. This agreement was modified in 2008 to increase credit availability to 20% of total assets. The Bank was advanced $9,000,000 and $12,000,000 against this line of credit at December 31, 2018 and 2017, respectively. In the event the Bank requests future advances, the Bank has pledged first liens on 1 to 4 family real estate loans with a carrying value of $20,105,706 and $15,059,566 at December 31, 2018 and 2017, respectively.

A detail of the individual FHLB advances and related maturities and interest rates held as of December 31, 2018 are as follows:

	As of December 31, 2018				
	Principal Balance		Maturity Date	Interest Rate	
	$	3,000,000	6/12/2019	3.34%	Fixed
		6,000,000	4/24/2024	1.53%	Fixed
Total	$	9,000,000			

Investment in stock of a Federal Home Loan Bank (FHLB) is required for every federally insured institution that utilizes its services. FHLB stock is considered restricted, as defined in FASB Accounting Standards Codification Topic 320, *Investments – Debt and Equity Securities*; accordingly, the provisions of ASC Topic 320 are not applicable to this investment. The FHLB stock is reported in the consolidated financial statements at cost. Dividend income is recognized when earned.

On September 24, 2014 the Company executed a promissory agreement in the amount of $2,000,000 with a variable interest rate of Prime minus .25%, with a minimum rate of 3%. Principal and interest payments are due quarterly beginning February 2015 through maturity of the note in August 2021. The outstanding principal balance due was $857,143 and $1,142,856 as of December 31, 2018 and 2017, respectively. The Company has pledged, as collateral, its interest in Morris Bank shares consisting of 33,000 shares of common stock with a par value of $10.00 per share. In addition during the life of the borrowing agreement the Company is required to maintain a deposit account with the lender with a minimum deposit of $100,000 at all times. As of December 31, 2018 and 2017 the Company reported an outstanding balance with the lending institution of $254,736 and $254,882, respectively. Additional financial covenants in place as part of the lending agreement state that the Company and its Bank subsidiary are to maintain the following performance measures:

1. Both the Company and its Bank subsidiary are required to be classified as "well capitalized" with the rules and regulations of its primary federal regulator. Additionally the Company shall cause its Bank subsidiary to maintain a Tier 1 leverage capital ratio of not less than nine percent.

2. The Company shall cause its Bank subsidiary to maintain an annual return on assets greater than 0.5%.

3. The Company shall cause its Bank subsidiary's ratio of non-performing assets to stockholders equity, including the allowance for loan and lease losses, to be less than forty (40) percent.

At December 31, 2018, the scheduled payments of outstanding debt are as follows:

2019	$	3,285,714
2020		285,714
2021		285,715
2022		-
2023		-
Thereafter		6,000,000
Total	$	9,857,143

L. EMPLOYEE BENEFIT PLANS

The Company adopted a 401(k) plan in 1996 and made contributions to the plan totaling $259,374, $219,590, and $190,981 for the years ended December 31, 2018, 2017, and 2016, respectively.

The Bank established Morris Bank Employee Stock Ownership Plan and Trust ("the Plan") effective as of January 1, 2012. The Plan covers substantially all of its full-time employees meeting length of service requirements. Under the Plan, shares of stock in the Company are purchased on behalf of eligible employees. Contributions are made to the plan at management's discretions based on a percentage of salary, not to exceed 16% or $17,000. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. As of December 31, 2018, the Plan owned 145,908 shares of stock. The amount of pension expense charged to operations for the years ended December 31, 2018, 2017, and 2016 were $325,318, $320,485, and $184,931, respectively.

	As of December 31,	
	2018	**2017**
Shares held by the Plan were as follows:		
Allocated to participants	145,908	126,103
Unearned	-	1,680
Total KSOP shares	145,908	127,783
Fair value of unearned shares	$ -	$ 97,845

The Company initiated a Stock Grant Plan on February 1, 2017 in which granted stock has a 3 year vesting period. The fair value of each grant under the Stock Grant Plan was estimated on the date of grant using the same valuation model used for shares granted under the Plan. The term for shares granted under the Stock Grant Plan was 1.1 years as of December 31, 2018. Under the Stock Grant Plan, there were 6,000 stock grants outstanding as of December 31, 2018. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The Company recognized $67,540 in expense for the portion of the stock value vested in 2018. As of December 31, 2018, there was $73,169 of total unrecognized cost related to nonvested shares granted under the Stock Grant Plan; that cost is expected to be recognized over a period of 1.1 years.

M. NOTES RECEIVABLE ARISING FROM THE SALE OF COMMON STOCK

The Company issued a note receivable to facilitate the sale of common stock to Benefit Trust Company on behalf of the Morris Bank 401(k) and Employee Stock Ownership Plan. The related note receivable was for the sale of 73,421 shares at $27.24 per share, bears interest at 3%, and was collateralized by the common stock sold. The note was due in quarterly payments beginning February 2015 totaling $71,429 plus interest through July 2021. Interest on the note was credited to additional paid-in capital as it was earned. During the year ended December 31, 2017, interest earned and included in additional paid-in capital was $9,532. The note was paid in full on August 11, 2017.

N. LIMITATION ON DIVIDENDS

The Board of Directors of any state-chartered bank in Georgia with a Subchapter S election in force may declare and pay cash dividends on its outstanding capital stock without any request for approval of the Bank's regulatory agency if the following conditions are met:

1. Total classified assets at the most recent examination of the bank do not exceed eighty (80) percent of equity capital.

2. The aggregate amount of dividends declared in the calendar year does not exceed fifty (50) percent of the prior year's net income plus an additional fifty (50) percent of the calculated income taxes "as if" the corporation was still a taxable corporation.

3. The ratio of equity capital to adjusted total assets shall not be less than six (6) percent.

As of December 31, 2018, the amount available for distribution as dividends in the subsequent year without regulatory consent was $9,651,427.

O. FINANCIAL INSTRUMENTS

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

The Bank does require collateral or other security to support financial instruments with credit risk.

	As of December 31,	
	2018	**2017**
Financial instruments whose contract amount represent credit risk:		
Commitments to extend credit	$ 78,958,000	$ 74,063,000
Standby letters of credit	3,998,000	3,883,000
Total	$ 82,956,000	$ 77,946,000

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. All letters of credit are due within one year of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

P. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements.

On December 12, 2018, the Company signed a definitive agreement providing for the merger with FMB Equibanc, Inc. (FMB), the parent company of Farmers & Merchants Bank, headquartered in Statesboro, Georgia. Subsequent to the merger, Farmers & Merchants Bank will become a part of Morris Bank. Under the terms of the definitive agreement, each share of common stock of FMB issued and outstanding immediately prior to the effective time of the transaction will receive shares of the Company’s common stock, cash or a combination thereof. The transaction is subject to customary closing conditions, including receipt of regulatory approval and approval of both the Company’s and FMB’s shareholders. The transaction is expected to occur in the second quarter of 2019.

Q. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company, through the Bank, has direct and indirect loans outstanding to or for the benefit of certain executive officers and directors. These loans were made on substantially the same terms as those prevailing, at the time made, for comparable loans to other persons and did not involve more than the normal risk of collectability or present other unfavorable features. The following is a summary of activity during the year ended December 31, 2018 with respect to such loans to these individuals:

Balances at December 31, 2017	$	8,981,979
New loans		3,897,299
Repayments		(1,783,082)
Balances at December 31, 2018	$	11,096,196

The Bank also had deposits from these related parties of approximately $3,448,862 and $2,558,125 at December 31, 2018 and 2017, respectively.

The Bank leases office space for its Warner Robins branch from Red Thunder Properties, LLC, of which a member of the Bank’s Board of Directors is the managing member. See Note T for further detail.

R. FAIR VALUES 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 company's various financial instruments. In cases where quoted market prices are not available, fair value is based on discounted cash flows or other valuation techniques. These 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. The accounting standard for disclosures about the fair value of financial instruments excludes financial instruments not recorded at fair value and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The fair value hierarchy describes three levels of inputs that may be used to measure fair value:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

Investment Securities Available for Sale
The fair value of securities available for sale is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and municipal bonds. The level 2 fair value pricing is provided by an independent third-party and is based upon similar securities in an active market. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain residual municipal securities and other less liquid securities.

Loans
The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if repayment of the loan is dependent upon the sale of the underlying collateral. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other Real Estate and Foreclosed Assets

Foreclosed assets are adjusted to fair value, less cost to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017, aggregated by the level in the fair value hierarchy within which those measurements fall.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Investment debt securities available for sale:				
U.S. Government agencies	$ -	$ 4,186,100	$ -	$ 4,186,100
U.S. Treasury securities	-	$ 5,514,454	-	$ 5,514,454
State, county, and municipal securities	507,207	27,864,153	-	28,371,360
Residential mortgage backed securities	-	10,926,083	-	10,926,083
Commercial mortgage backed securities	-	21,847,931	-	21,847,931
Total investment securities	$ 507,207	$ 70,338,721	$ -	$ 70,845,928

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Investment debt securities available for sale:				
U.S. Government agencies	$ -	$ 4,226,023	$ -	$ 4,226,023
State, county, and municipal securities	546,055	26,304,878	-	26,850,933
Residential mortgage backed securities	2,996,250	11,342,877	-	14,339,127
Commercial mortgage backed securities	-	5,948,337	-	5,948,337
Total investment securities	$ 3,542,305	$ 47,822,115	$ -	$ 51,364,420

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents the Company's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2018 and 2017, aggregated by the level in the fair value hierarchy within which those measurements fall.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 7,661,565	$ 7,661,565
Other real estate and foreclosed assets	-	-	835,921	835,921
	$ -	$ -	$ 8,497,486	$ 8,497,486

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 6,618,857	$ 6,618,857
Other real estate and foreclosed assets	-	-	1,157,992	1,157,992
	$ -	$ -	$ 7,776,849	$ 7,776,849

The Company did not have assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2018 and 2017. The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2017.

	Total	Residential mortgage backed securities
Balance, December 31,2016	$ 2,822,293	$ 2,822,293
Transfers into Level 3	-	-
Transfers out of Level 3	(2,822,293)	(2,822,293)
Total net gains (losses) included in:		
Net income	-	-
Other comprehensive income	-	-
Transactions during the period:		
Purchases	-	-
Sales	-	-
Settlements	-	-
Balance, December 31,2017	$ -	$ -
Change in unrealized gains (losses) included in net income for the year for assets held as of December 31,2017	$ -	$ -

The following table shows significant unobservable inputs used in the fair value measurement of level 3 assets and liabilities.

Measurements:		Fair Value at December 31, 2018	Valuation Technique	Unobservable Inputs	Range
Nonrecurring:					
Impaired loans	$	7,661,565	Third party appraisals, discounted cash flows, and loan pricing	Collateral discounts, estimated selling expenses, and discount rates	0.00% - 100.00%
Other real estate and foreclosed assets	$	835,921	Third party appraisals	Collateral discounts and estimated selling costs	2.27% - 15.00%

Measurements:		Fair Value at December 31, 2017	Valuation Technique	Unobservable Inputs	Range
Nonrecurring:					
Impaired loans	$	6,618,857	Third party appraisals, discounted cash flows, and loan pricing	Collateral discounts, estimated selling expenses, and discount rates	0.00% - 100.00%
Other real estate and foreclosed assets	$	1,157,992	Third party appraisals	Collateral discounts and estimated selling costs	0.00% - 16.44%

S. CREDIT RISK CONCENTRATION

The Bank grants agribusiness, commercial and residential loans to customers. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the area's economic stability. The primary trade area for the Bank is generally that area within fifty miles in each direction.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit in excess of the legal lending limit to any single borrower or group of related borrowers.

The Company's bank subsidiary maintains its cash at several financial institutions located in the Southeast. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law and permanently raised the FDIC coverage limit to $250,000. The Company had uninsured balances of $17,898,631 as of December 31, 2018.

The Company maintains a cash balance in an account held with the Federal Home Loan Bank (FHLB). The FHLB is not a financial institution, and as a result, funds held are not subject to FDIC coverage. As of December 31, 2018 the Company had an outstanding balance of $743,517 with the FHLB, which is entirely uninsured.

The Company also maintains an account with the Federal Reserve Bank of Atlanta. Although funds held by this institution are not insured with the FDIC, funds are backed by the full faith and credit of the United States Government. As of December 31, 2018, the Company had an outstanding balance of $288,704 with the Federal Reserve Bank, which is backed by the full faith and credit of the United States Government.

T. LEASE EXPENSES

On August 15, 2012, the organizers of Morris Bank entered into a lease agreement for office space located in Gray, Georgia. This lease agreement includes a period of five years beginning September 1, 2012 and ending August 31, 2017. The lease agreement states that at the end of the lease term, the Bank may renew the lease for an additional term of five years. The Bank renewed the initial lease with no rate increase for five years ending August 31, 2022. The Bank has two remaining five year options to extend the original lease term for an aggregate term of twenty years. Monthly lease payments for the first five year period were established at $8,235, after which time, monthly lease payments may increase by no more than 10% of the original rent price.

On December 19, 2016, the organizers of Morris Bank entered into a lease agreement for office space located in Warner Robins, Georgia. This lease agreement includes a period of five years beginning December 16, 2016 and ending December 31, 2021. The lease agreement states that at the end of the lease term, the Bank may renew the lease for an additional term of five years. The Bank will have a total of three, five year options to extend the original lease term for an aggregate term of twenty years. Monthly lease payments for the first five year period were established at $8,668.33, after which time, monthly lease payments may increase by no more than 10% of the price of the previous lease term.

Estimated minimum lease payments as of December 31, 2018, for each of the next five years are as follows:

2019	$ 202,840
2020	202,840
2021	202,840
2022	202,840
2023	202,840
	$ 1,014,200

The Company recognized lease expenses of $224,939, $221,978 and $130,190 for the years ended December 31, 2018, 2017, and 2016, respectively.

U. OPERATING INCOME AND EXPENSES

Components of other operating expenses greater than 1% of total interest income and other income for the periods ended December 31, 2018, 2017, and 2016 are as follows:

	2018	2017	2016
Data processing	$ 1,880,949	$ 1,660,334	$ 1,647,994
FDIC insurance assessments	401,181	357,611	373,304
Legal and accounting fees	291,433	383,086	358,968

There were no components of other operating income greater than 1% of total interest income and other income for the periods ended December 31, 2018, 2017, and 2016.

V. REGULATORY MATTERS

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

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule with full phase in effective as of January 1, 2019. The Company and its bank subsidiary have elected to exclude the net unrealized gain or loss on available for sale securities, if any, in computing regulatory capital. Capital amounts and ratios for December 31, 2018 are calculated using Basel I rules.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based, Tier I capital and Common Equity 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, the Bank meets all capital adequacy requirements to which it is subject. As of December 31, 2018, the most recent notification from regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier I risk-based, and Tier I leverage ratios as set forth in the table. 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 are presented in the following table.

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
As of December 31, 2018								
Total Risk-Based Capital To (Risk-Weighted Assets)	$ 86,308,000	13.35%	$ 51,730,320	≥	8.0%	$ 64,662,900	≥	10.0%
Tier I Capital To (Risk-Weighted Assets)	78,208,000	12.09%	38,797,740	≥	6.0%	51,730,320	≥	8.0%
Common Equity Tier I Capital To (Risk-Weighted Assets)	78,208,000	12.09%	29,098,305	≥	4.5%	42,030,885	≥	6.5%
Tier I Capital To (Average Assets)	78,208,000	10.68%	29,291,800	≥	4.0%	36,614,750	≥	5.0%
As of December 31, 2017								
Total Risk-Based Capital To (Risk-Weighted Assets)	$ 75,390,000	13.39%	$ 45,037,440	≥	8.0%	$ 56,296,800	≥	10.0%
Tier I Capital To (Risk-Weighted Assets)	68,324,000	12.14%	33,778,080	≥	6.0%	45,037,440	≥	8.0%
Common Equity Tier I Capital To (Risk-Weighted Assets)	68,324,000	12.14%	25,333,560	≥	4.5%	36,592,920	≥	6.5%
Tier I Capital To (Average Assets)	68,324,000	10.32%	26,482,440	≥	4.0%	33,103,050	≥	5.0%

W. SEGMENT REPORTING

Reportable segments are strategic business units that offer different products and services. Reportable segments are managed separately because each segment appeals to different markets and, accordingly, requires different technology and marketing strategies.

The Company and its subsidiaries do not have any separately reportable operating segments. The entire operations of the Company are managed as one operation.

X. SUBSEQUENT EVENTS

The Company performed an evaluation of subsequent events through March 1, 2019, the date upon which the Company's financial statements were available to issue. In preparation for the merger with FMB Equibanc, Inc. more fully described in Note P, the Company's Shareholders have approved the revocation of its Small Business Corporation Election, and the Company will be subject to federal and state income taxes for 2019.

Y. CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

Condensed parent company financial information on Morris State Bancshares, Inc. at December 31, 2018 and 2017, is as follows:

BALANCE SHEETS

	As of December 31,	
	2018	**2017**
Assets		
Cash in subsidiary	$ 1,780,233	$ 301,633
Deposits in other banks	15,317	15,017
Investment in subsidiaries, at equity in underlying net assets	80,582,948	71,342,492
Goodwill	388,816	388,816
Other assets	364,816	140,708
Total Assets	$ 83,132,130	$ 72,188,666
Liabilities		
Notes payable	$ 857,143	$ 1,142,856
Accrued expenses	42,822	20,130
Total liabilities	899,965	1,162,986
Shareholders' Equity		
Common stock, $1 par value, authorized 10,000,000 shares, 1,882,740 issued and 1,838,816 outstanding in 2018 and 1,855,548 issued and 1,811,624 outstanding in 2017	1,882,740	1,855,548
Paid-in capital surplus	24,225,182	22,837,933
Retained earnings	57,792,589	47,332,599
Accumulated other comprehensive income (loss)	(457,247)	210,699
Treasury stock, at cost 43,924 shares in 2018 and 2017	(1,211,099)	(1,211,099)
Total shareholders' equity	82,232,165	71,025,680
Total Liabilities and Shareholders' Equity	$ 83,132,130	$ 72,188,666

STATEMENTS OF INCOME AND RETAINED EARNINGS

	Years ended December 31,		
	2018	**2017**	**2016**
Revenues			
Dividend Income	$ 5,450,000	$ 5,900,000	$ 5,950,000
Interest income	301	170	90
Gain on sale of premises and equipment	-	5,540	-
Total income	5,450,301	5,905,710	5,950,090
Expenses			
Interest expense	54,018	42,385	51,471
Occupancy expense	-	1,837	3,545
Other	68,540	65,129	39,000
Total expenses	122,558	109,351	94,016
Income Before Equity Income of Subsidiary	5,327,743	5,796,359	5,856,074
Equity in undistributed income of subsidiaries	9,908,401	7,580,655	5,231,251
Net Income	15,236,144	13,377,014	11,087,325
Retained Earnings, Beginning	47,332,599	41,076,479	35,173,838
Stock and cash dividends	(4,776,154)	(7,120,894)	(5,184,684)
Retained Earnings, Ending	$ 57,792,589	$ 47,332,599	$ 41,076,479

STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2018	**2017**	**2016**
Cash flows from operating activities:			
Net income	$ 15,236,144	$ 13,377,014	$ 11,087,325
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	-	1,385	1,385
Equity in undistributed income of subsidiary	(9,908,401)	(7,580,655)	(5,231,251)
Net change in operating assets and liabilities:			
Accrued income and other assets	(224,109)	(140,708)	-
Changes in accrued expenses and other liabilities	22,692	12,960	(1,130)
Net cash provided by operating activities	5,126,326	5,669,996	5,856,329
Cash flows from investing activities:			
Capital injection to subsidiaries	-	(50,000)	(785,000)
Proceeds from sale of property and equipment	-	166,866	-
Property and equipment expenditures	-	-	(169,636)
Net cash provided by (used in) investing activities	-	116,866	(954,636)
Cash flows from financing activities:			
Repayment of other borrowed funds	(285,713)	(285,716)	(285,714)
Proceeds from stock note receivable	-	724,333	663,891
Proceeds from issuance of common stock	1,414,441	674,775	324,166
Cash dividends paid	(4,776,154)	(7,120,894)	(5,184,684)
Net cash used in financing activities	(3,647,426)	(6,007,502)	(4,482,341)
Net increase (decrease) in cash and cash equivalents	1,478,900	(220,640)	419,352
Cash and cash equivalents at beginning of year	316,650	537,290	117,938
Cash and cash equivalents at end of year	$ 1,795,550	$ 316,650	$ 537,290

The following additional information is related to the Holding Company's cash flows during the periods reported.

	Years ended December 31,		
	2018	2017	2016
Cash paid for interest:			
Interest on borrowings	$ 47,046	$ 49,825	$ 52,622
Noncash items:			
Changes in unrealized gain/loss on investments	$ (667,946)	$ 531,300	$ (749,563)