CNFC
CENTURY NEXT
FINANCIAL CORPORATION

2018 Annual Report

CENTURY NEXT
FINANCIAL CORPORATION

Report to Shareholders

Dear Fellow Shareholder:

On behalf of the Board of Directors, management team and staff of Century Next Bank, formerly Bank of Ruston, we are proud to provide the 2018 annual report. This year was a great year with strong earnings and robust asset and deposit growth for Century Next Financial Corporation and its subsidiary Century Next Bank primarily due to the acquisition of Ashley Bancstock Company (ABC) and First National Bank of Crossett (FNBC) in Arkansas.

For the year ended December 31, 2018, net income increased by $955,000 or 40.6%, mostly due to earnings growth of Century Next Bank and savings from the new corporate tax structure. As we mentioned last year, we were excited about the growth potential for earnings in 2018, and it did not disappoint. The Arkansas locations also contributed $116,000 representing two months of earnings for November and December. Both loan and deposit growth were outstanding in 2018 with loans up 58.1% and deposits up 68.2% year over year mostly due to the addition of FNBC.

We continue to see our customer base in our market regions of Lincoln and Ouachita Parishes and the surrounding areas grow. And now, with the addition of FNBC, our customer base and opportunity for future growth have increased significantly. As always, our primary focus is asset quality, which is the cornerstone of success for any prudent financial institution.

Century Next Bank, our subsidiary bank, is celebrating 113 years of serving the Ruston Community and Lincoln Parish. Ouachita parish continues to show excellent growth and market expansion opportunity.

FNBC, now Century Next Bank of Ashley County, celebrated 115 years of servicing the Southeast Arkansas region. With three full-service branches and one drive through location, we are now a dominant presence in the area.

As we move into 2019, we are excited about our growth opportunities in North Louisiana and Southeast Arkansas. As always, we continue to explore new technologies to enhance the customer experience making banking more convenient than ever. We are excited about the potential for growth of the bank, increased return for the shareholders, and the opportunity to continue to serve our new and existing market areas.

We are proud of you, our shareholders, our loyal customers, and our wonderful region and look forward to an exciting year ahead.

Bill Hogan

William D. Hogan
President and Chief Executive Officer

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Board of Directors

Michael S. Coyle, Esq.	Has served as a director since 2015. Mr. Coyle is an attorney in private practice since October 1976 in Ruston, Louisiana. Mr. Coyle brings significant knowledge of the local legal community and serves as Bank legal counsel.
Bartlett H. Dugdale	Has served as a director since 2016. Mr. Dugdale is a principal in a managing general insurance agency located in Ruston, Louisiana. He currently holds his certified public accountant designation and is a licensed producer for property and casualty insurance in the state of Louisiana. Mr. Dugdale brings both knowledge of the community and business management expertise.
J. Brandon Ewing	Has served as a director since 2006. Mr. Ewing is the owner of Ewing Timber L.L.C., located in Jonesboro, Louisiana. Mr. Ewing brings significant business, management and financial expertise to the Board as the owner of a family operated business.
William D. Hogan	Has served as a director since 1996, President & CEO of Century Next Financial and Century Next Bank since July, 2013, President of the Bank since May 2011, Executive Vice President of Century Next Financial Corporation since September 2010, and Executive Vice President-Business Development of the Bank from 2008 to 2011. Prior thereto, he was a co-owner and Senior Vice President of Sales at Hogan Hardwoods, located in Ruston, Louisiana from 2001 to 2008. Mr. Hogan brings over 25+ years of business expertise to the Board.
Herb R. Hutchison	Has served as director since November 2018. Mr. Hutchison previously served on the board of Ashley Bancstock Company and First National Bank of Crossett for over 25 years. He also served as Chairman as part of his tenure as a board member of both companies. He retired from the restaurant industry in 2016 where he owned businesses in both Arkansas and Louisiana. He also manages real estate holdings in Alabama, Ohio, Louisiana and Arkansas.
Jeffrey P. McGehee	Has served as a director since 2016. Mr. McGehee is an entrepreneur and owns a wholesale distribution business and has some real-estate interests located in Ruston, Louisiana. Mr. McGehee brings to the Board business management and marketing experience as well as knowledge of the local business community.
Dan E. O'Neal, III	Has served as a director since 2011. Mr. O'Neal is the owner of Ruston Exterminating, Inc., located in Ruston, Louisiana since 1993. Mr. O'Neal brings to the Board significant business and management expertise as well as knowledge of the local real estate market as a developer of numerous housing subdivisions and the owner of a local service company.
Charles M. Pope	Has served as director since November 2018. Mr. Pope previously served on the board of Ashley Bancstock Company and First National Bank of Crossett from 1986 to October 2018. He also served as Chairman as part of his tenure as a board member of both companies. He is a retired business owner in Crossett, Arkansas and has served on the board of various entities including the local school board, Rotary Club, and a scholarship foundation.
Dr. Daniel D. Reneau	Has served as a director since 1982. Dr. Reneau was President of Louisiana Tech University, located in Ruston, Louisiana, from July 1987 to June 2013. Dr. Reneau brings significant leadership and management expertise to the Board as the President of a major Louisiana research university. Dr. Reneau serves as the Chairman of the Board.
Scott R. Thompson	Has served as a director since 2005. Mr. Thompson is the owner of STC, LLC, located in Ruston, Louisiana. Mr. Thompson brings to the Board significant business and management expertise as well as knowledge of the local real estate market as the owner of a local construction company. Mr. Thompson serves as Chairman of the Compensation Committee.
J. Neal Walpole	Has served as a director since 2003. Mr. Walpole is President of Walpole Tire Service, located in Ruston, Louisiana and has served in such capacity for over 30 years. Mr. Walpole brings significant business and management expertise and knowledge of the local business community from his years of service as President of a local service company. Mr. Walpole serves as Chairman of the Audit Committee.

Board of Directors, continued

Michael F. Webb	Has served as director since November 2018. Mr. Webb previously served on the board of Ashley Bancstock Company and First National Bank of Crossett from 1996 to October 2018. He also served as Chairman as part of his tenure as a board member of both companies. He is currently President of Ideal Construction Company, a local general contracting firm, where he joined in 1980.
Benjamin L. Denny *(Director Emeritus)*	Has served as director emeritus of Century Next Bank since July 2013. Prior to July 2013, he served as a director and President and Chief Executive Officer of Century Next Financial from September 2010 until June 2013. He also served as Chief Executive Officer of Century Next Bank from 1981 to June 2013. Mr. Denny has over 40 years of service in the financial institutions industry and has long-standing ties to the local business and legal community in the Ruston area.
James H. Hall *(Director Emeritus)*	Has served as director emeritus of Century Next Bank since July 2013. Prior to July 2013, he served as Chief Credit Officer of Century Next Bank from March 2000 to his retirement in June 2013. Mr. Hall has over 40 years of service as a commercial lender in the local banking industry and has long-standing ties to the local business community in the Ruston area.

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Ashley County-Bank Advisory Board

Philip E. Barnes	Began serving as an advisory member in November 2018. Mr. Barnes is a part owner of Timber Producers Company. He previously served as a board member of First National Bank of Crossett from June 2017 to October 2018. He has also served as a member on local civic organizations.
W. Gary Brannon	Began serving as an advisory member in November 2018. Mr. Brannon is currently the Market President for Arkansas. He has extensive experience in banking and financial services. He previously served as board member of First National Bank of Crossett from March 2015 to October 2018.
Crystal G. Marshall	Began serving as an advisory member in November 2018. Mrs. Marshall is a principal or owner of a Marshall Crude Oil. She previously served as a board member of Ashley Bancstock Company and First National Bank of Crossett from March 2017 to October 2018. She also currently serves as a member of the Arkansas Municipal League Public Safety Advisory Council, Crossett City Council, Crossett Parks and Recreation Commission, Junior Auxiliary of Crossett, and the Crossett Elementary School PTO and Parental Involvement Committee.
John E. McGoogan	Began serving as an advisory member in November 2018. Mr. McGoogan is a graduate of Oklahoma University in mathematics. He served as an officer in the US Navy before a long career with Lucent Technologies in information systems design and development. He previously served as a board member of Ashley Bancstock Company and First National Bank of Crossett from September 2014 to October 2018. He is active in the United Methodist Church and has served on the Board of Grace UMC Foundation.
Dr. Robert Milton	Began serving as an advisory member in November 2018. Dr. Milton is an owner and dentist at Ashley County Family Dentistry located in Crossett, Arkansas. He previously served as a board member of First National Bank of Crossett from July 2015 to October 2018. He also served as a member of the Crossett Chamber of Commerce and currently serves in various positions at his church.
Douglas W. Reed	Began serving as an advisory member in November 2018. Mr. Reed is currently retired. In the past, he was involved in Convoy Logistics, LLC in Crossett with his two sons. He previously served as a board member of Ashley Bancstock Company and First National Bank of Crossett from May 1995 to October 2018.
Dr. Benjamin J. Walsh	Began serving as an advisory member in November 2018. Dr Walsh is a staff physician at the Family Clinic of Ashley County. He previously served as a board member of Ashley Bancstock Company and First National Bank of Crossett from 2003 to October 2018. He is also a member of the Board of Directors of Ashley County Medical Center.
Lori B. Walsh	Began serving as an advisory member in November 2018. Mrs. Walsh is currently a Vice President and Senior Consultant for MedAxiom, a healthcare consulting firm specializing in Cardiovascular medicine. She previously served as a board member for First National Bank of Crossett from July 2015-October 2018. Mrs. Walsh also serves on the Crossett Economic Development Board and is the Chairman of the Ashley County Medical Center Foundation Board.

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Ouachita Parish-Bank Advisory Board

Terry Baugh

Began serving as an advisory member in 2016. Mr. Baugh is the CFO for D&J Construction, Inc. and its affiliates. He has served as past chairman of both the Monroe and West Monroe Chambers of Commerce and has served on many other local, regional and statewide organizations. He is currently a board member for Louisiana Association of Business & Industry, Family Church and is President of the Claiborne Christian School Board. He is a recipient of the prestigious James M. Shipp Memorial Young Business Leader Award.

Dr. Gordon "G.G." Grant, IV

Began serving as an advisory member in 2016. Dr. Grant is the co-owner of Shell Family Chiropractic in Monroe. He also serves as the Chiropractor for ULM athletes and donates his time weekly. He is an active member of the Knights of Columbus and was recipient of the Healthcare Hero Award in 2014.

David Sorrell

Began serving as an advisory member in 2016. David plays a key role with the Holyfield Construction a decades-old real estate development company headquartered in Monroe. Prior to joining Holyfield, He held top positions with non-profits for over fifteen years. He also owns Sorrell Consulting and Relee Properties a real estate development and management company.

Kathy Spurlock

Began serving as an advisory member in 2016. She is owner of Spurlock Communications, LLC and former chief executive for The News-Star Media Group in Monroe. Her journalism career spans forty years and includes periods of time in Shreveport, Baton Rouge and Jackson. Under her leadership, The News-Star was recognized locally, regionally and nationally for excellence in journalism. She is also an award-winning writer and a published author and songwriter. She has held numerous leadership positions in journalism and non-profits and is a current board member for United Way of Northeast Louisiana and Goodfellows and is President of the Twin City Art Foundation.

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Executive Management

William D. Hogan	President and Chief Executive Officer
Lorie R. Hamlin	Executive Vice President and Chief Operations Officer – Century Next Bank
Mark A. Taylor, CPA CGMA	Executive Vice President and Chief Financial Officer
David L. Weeks	Executive Vice President and Chief Credit Officer
W. Gary Brannon	Arkansas Market President-Century Next Bank
William E. Willson	Ouachita Parish Market President-Century Next Bank

Officers of Century Next Bank

Cody Hollis	Senior Vice President-Lending
Courtnie Beach	Vice President-Lending
Terry Burns	Vice President-Lending Compliance
Sheri Burt	Vice President-Lending
Angela Carpenter	Vice President-Operations & Marketing Manager
Lee Denny	Vice President-Lending
Mitsy Huffstetler, CRCM	Vice President-Compliance Officer
Warren Post	Vice President-Mortgage Lending
Carla Raborn	Vice President-Human Resources
Alan Roberson	Vice President-Controller
Amanda Taunton	Vice President-Information Systems
John Tompkins	Vice President-Lending
Tammy Walsworth	Vice President-Credit Administration
Chastain Wardlaw	Vice President-Business Development
Matt Winkelpleck	Vice President-Lending
Christy Bishop	Assistant Vice President-Relationship Banking
Johnathan Canley	Assistant Vice President-Lending
Sarah Cantley	Assistant Vice President-Mortgage
Joyce Cummins	Assistant Vice President-Loan Operations

Officers of Century Next Bank-Continued

Connie Kelley	Assistant Vice President-Retail Lending
Christy Martin	Assistant Vice President-Branch Manager
Patricia Murad	Assistant Vice President-Administration
Michael Wilkes	Assistant Vice President-Lending
Melinda Bonnette	Mortgage Loan Officer

CENTURY NEXT
FINANCIAL CORPORATION

Community Involvement

Century Next Bank is committed to serving our community and enhancing the quality of life locally. We are proud to serve alongside our community partners in North Central Louisiana & Southeast Arkansas.

LOUISIANA

Lincoln Parish Involvement

Louisiana Tech University
Grambling State University
Lincoln Parish Schools
Lincoln Parish Chamber & Visitors Bureau
North Louisiana Medical Center
Lincoln Parish Narcotics Enforcement Team
Louisiana Methodist Children's Home
Big Brother Big Sister Program
Christian Community Action
Lincoln Parish First Responders
Lions Club
United Way-Lincoln
Lincoln Health Foundation
Dixie Center For The Arts
North Central Louisiana Arts Council
Ruston Community Theatre
Ducks Unlimited
Ruston Lincoln Peach Festival
Crime Stoppers
Rotary Clubs of Ruston
Kiwanis International
Quota Club
Weekend At The Cross
Buddy Ball
Rolling Hills Ministries
Teen Challenge
American Cancer Society
American Heart Association
Boys & Girls Club
Dixie Center for the Arts
Louisiana Center for the Blind
Pine Hills Children's Advocacy
Habitat for Humanity
Ruston Farmer's Market
Ruston Cultural District
Wiggin Out
The OWL Center
Lincoln Achieve
Choudrant High School
Dodson High School
Teen Challenge
Bulldog Aquatics Booster Club
The Arts Council of Northeast Louisiana
DART
Life Choices Pregnancy Resource Center
Northeast Louisiana Board of Realtors
Lincoln Parish FFA
Fellowship of Christian Athletes
Ruston-Lincoln Community Foundation
Boy Scouts of America
Cedar Creek School
North Central Louisiana Arts Council
Temple Baptist Church
Lincoln Parish Senior Expo
Ruston Parks and Recreation
Med Camps of Louisiana
4PAWS
Ruston Country Club
Louisiana Military Museum
Lincoln Parish Museum
City of Ruston
City of Grambling
Dubach Chicken Festival
The Wellspring
Life House Ministries
The Ross Lynn Charitable Foundation
VFW

Ouachita Parish Involvement

ULM Athletic Foundation
Saint Francis
Ouachita Christian School
Monroe Symphony Orchestra
Rotary of Monroe
Monroe Chamber of Commerce
Northeast Louisiana Home Builders Association
United Way-Ouachita
Keep Ouachita Beautiful

ARKANSAS

Crossett Community Involvement

Crossett Area Chamber of Commerce
Crossett School District Support and Education Alliance
Boys and Girls Club
Crossett Riding Club/ Rodeo Support
Crest Swim Team- Crossett City Pool
Kiwanis
Rotary
Food Pantry
Buddy Bass Sponsorship
Lions club

Hamburg Community Involvement

Hamburg Area Chamber of Commerce
Serve for Hamburg 50-year club
Hamburg Sports Banquet
Hamburg School District and Foundation
Armadillo Festival

Ashley County Involvement

UAM Job Fair
UAM Career Camp- 9th Grade
ACMC Health Foundation
Ashley County Cares Banquet
American Legion Ladies Aux
American Cancer Society- Relay for Life
Hippy USA
Ashley County Fair
Ashley County Single Parent Scholarships
John 3:16
Seark Concert Sponsorship

And many, many more!

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Company Information

Century Next Financial Corporation is the holding company for Century Next Bank (the “Bank”) which conducts business from its main office in Ruston, Louisiana and five full-service branch offices. The Company was formed in 2010 and is subject to the regulatory oversight of the Board of Governors of the Federal Reserve System. The Bank is a wholly-owned subsidiary and is an insured federally-chartered stock savings association subject to the regulatory oversight of the Office of the Comptroller of the Currency. The Bank was established in 1905 and is headquartered in Ruston, Louisiana. The Bank is a full-service bank with three locations in Louisiana including two banking offices in Ruston and one banking office in Monroe, and four locations in Arkansas including two banking offices in Crossett, one banking office in Hamburg, and one drive-through location in Fountain Hill. The Bank emphasizes professional and personal banking service directed primarily to small and medium-sized businesses, professionals, and individuals. The Bank provides a full range of banking services including its primary business of real estate lending to residential and commercial customers.

The corporate headquarters are located at 505 North Vienna Street, Ruston, Louisiana 71270.

The common stock of Century Next Financial Corporation publicly trades on the OTC Markets Group’s OTCQX Best Market under the symbol CTUY.

CENTURY NEXT BANK

BANKING LOCATIONS

LOUISIANA

505 North Vienna Street
Ruston, Louisiana 71270
(318) 255-3733

2109 Farmerville Highway
Ruston, Louisiana 71270
(318) 255-3733

2450 Tower Drive
Monroe, Louisiana 71201
(318) 812-2265

ARKANSAS

218 Main Street
Crossett, Arkansas 71635
(870) 364-1300

1218 Hwy 133 North
Crossett, Arkansas 71635
(870) 364-2125

603 N. Main Street
Hamburg, Arkansas 71646
(870) 853-8200

105 Hwy 160
Fountain Hill, Arkansas 71642
(870) 853-5201

Website: www.cnext.bank

CENTURY NEXT
FINANCIAL CORPORATION

Financial Highlights

Selected Financial Data: *(data in thousands)*	At December 31, 2018	2017	2016
Total Assets	$ 462,128	$ 283,613	$ 239,431
Cash and cash equivalents	54,454	30,611	22,382
Securities available-for-sale	351	471	654
Securities held-to-maturity	685	686	1,191
FHLB stock and other investments	1,922	1,457	1,215
Total net loans	375,342	237,449	201,486
Total deposits	383,320	227,922	191,361
Short-term borrowings including FHLB Advances	22,000	3,250	20,000
Long-term borrowings including FHLB Advances	8,542	22,134	179
Total equity	44,851	28,152	25,909

Selected Operating Data:	For the Year Ended December 31, 2018	2017	2016
Interest income	$ 16,067	$ 12,100	$ 10,218
Interest expense	3,295	1,658	1,042
Net interest income before provision for loan losses	12,772	10,442	9,176
Provision for loan losses	780	645	480
Net interest income after provision for loan losses	11,992	9,797	8,696
Non-interest income	1,958	1,652	1,369
Non-interest expense	9,789	7,419	6,396
Income before income taxes	4,161	4,030	3,669
Income taxes	851	1,675	1,188
Net income	$ 3,310	$ 2,355	$ 2,481

CENTURY NEXT
FINANCIAL CORPORATION

Financial Highlights (continued)

	At or For the Year Ended December 31,		
	2018	2017	2016
Select Operating Ratios:(1)			
Average yield on interest-earning assets	5.08%	4.92%	4.79%
Average rate on interest-bearing liabilities	1.24%	0.79%	0.58%
Average interest rate spread (2)	3.84%	4.13%	4.21%
Net interest margin (2)	4.04%	4.25%	4.31%
Average interest-earning assets to average interest-bearing liabilities	118.98%	116.58%	117.87%
Net interest income after provision for loan losses to non-interest expense	122.50%	132.05%	135.96%
Total non-interest expense to average assets	2.91%	2.84%	2.84%
Efficiency ratio(3)	66.46%	61.34%	60.65%
Return on average assets	0.98%	0.90%	1.10%
Return on average equity	9.76%	8.63%	10.05%
Average equity to average assets	10.08%	10.46%	10.95%
Asset Quality Ratios:(4)			
Non-performing loans as a percent of total net loans(5)	0.27%	0.32%	0.50%
Non-performing assets as a percent of total assets(5)	0.43%	0.26%	0.44%
Allowance for loan losses to total loans	0.68%	0.82%	0.67%
Allowance for loan losses as a percent of non-performing loans	250.44%	262.75%	136.74%
Net charge-offs to average total loans	0.06%	0.02%	0.05%
Capital Ratios:(6)			
Total Capital	13.68%	13.26%	13.60%
Tier 1 Capital	12.94%	12.32%	12.85%
Common Equity Tier 1 Capital	12.94%	12.32%	12.85%
Leverage Capital	9.76%	9.30%	9.95%
Asset Growth	62.9%	18.5%	13.5%
Loan Growth	58.1%	17.8%	16.8%
Deposit Growth	68.2%	19.1%	17.5%
Net Income Growth	40.6%	-5.1%	53.7%
Other Data:			
Banking offices	7	3	3

(1) With the exception of end of period ratios, all ratios are based on average monthly balances during the indicated periods.

(2) Average interest rate spread represents the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities, and net interest margin represents net interest income as a percent of average interest-earning assets.

(3) The efficiency ratio represents the ratio of non-interest expense divided by the sum of net interest income and non-interest income.

(4) Asset quality ratios are end of period ratios, except for net charge-offs to average net loans.

(5) Non-performing loans consist of all loans 90 days or more past due and all non-accruing loans. Non-performing assets consist of non-performing loans and other repossessed assets.

(6) Capital ratios for 2018, 2017 and 2016 are under the 'Basel III Capital Rule'. Total Capital and Tier 1 Capital are the same under current capital rules. Common Equity Tier 1 Capital is Tier 1 Capital divided by Total Risk-Weighted Assets, and Leverage Capital is Tier 1 Capital divided by Total Average Assets.

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Contents

Heard, McElroy, & Vestal
LLC

Certified Public Accountants

333 Texas Street, Suite 1525
Shreveport, Louisiana 71101
318-429-1525 Phone • 318-429-2070 Fax

The Board of Directors and Stockholders
Century Next Financial Corporation

Report of Independent Registered Public Accounting Firm

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Century Next Financial Corporation and Subsidiary (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes and schedules, collectively referred to as the consolidated financial statements. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of the internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion. We have served as the Company's auditor since 2010.

Heard, McElroy & Vestal, LLC

March 20, 2019
Shreveport, Louisiana

HMV
A Professional Services Firm
Shreveport · Monroe · Delhi
hmv@hmvcpa.com E-mail
www.hmvcpa.com Web Address

CENTURY NEXT
FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	December 31 2018	2017
ASSETS		
Cash and balances due from banks	$ 51,679	$ 30,611
Federal funds sold	2,775	-
Total cash and cash equivalents	54,454	30,611
Debt securities:		
Available-for-sale	351	471
Held-to-maturity (including $685 and $695 at fair value)	685	686
Total Debt Securities	1,036	1,157
Federal Home Loan Bank stock	1,469	1,137
Other equity investments	453	320
Loans:		
Loans, net of unearned income	376,706	238,920
Loans held for sale	1,203	497
Allowance for loan losses	(2,567)	(1,968)
Net Loans	375,342	237,449
Accrued interest receivable	1,752	998
Premises and equipment, net of accumulated depreciation of $3,631 and $3,334	8,370	5,627
Other foreclosed assets	957	-
Intangible assets	4,700	-
Other assets	13,595	6,314
TOTAL ASSETS	$ 462,128	$ 283,613
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits		
Noninterest-bearing	$ 57,132	$ 23,817
Interest-bearing	326,188	204,105
Total Deposits	383,320	227,922
Advances from borrowers for insurance and taxes	65	76
Short-term borrowings	22,000	3,250
Long-term borrowings	8,542	22,134
Accrued interest payable	320	176
Other liabilities	3,030	1,903
Total Liabilities	417,277	255,461
Stockholders' equity:		
Preferred Stock, $.01 par value – 1,000,000 shares authorized; none issued	-	-
Common Stock, $.01 par value – 9,000,000 shares authorized; 1,655,623 and 1,091,186 issued and outstanding	17	11
Additional paid-in capital	30,117	11,118
Unearned shares held by Recognition and Retention Plan (199 and 341 shares)	(2)	(4)
Unearned ESOP Shares (45,258 and 44,647 shares)	(392)	(426)
Retained earnings	15,102	17,437
Accumulated other comprehensive income (loss)-net of taxes, $2 and $4	9	16
Total Stockholders' Equity	44,851	28,152
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 462,128	$ 283,613

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

CENTURY NEXT
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CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share data)	Years Ended December 31 2018	2017
INTEREST INCOME		
Loans (including fees)	$ 15,375	$ 11,767
Debt securities:		
Taxable	17	17
Tax-exempt	20	34
Other	655	282
Total Interest Income	16,067	12,100
INTEREST EXPENSE		
Deposits	2,764	1,456
Short-term borrowings	27	180
Long-term debt	504	22
Total Interest Expense	3,295	1,658
Net Interest Income	12,772	10,442
Provision for loan losses	780	645
Net Interest Income After Loan Loss Provision	11,992	9,797
NON-INTEREST INCOME		
Service charges on deposit accounts	705	456
Loan servicing release fees	855	889
Net loss on sale of loans	(197)	(155)
Net gain (loss) on sale of foreclosed assets	(4)	25
Other	599	437
Total Non-interest Income	1,958	1,652
NON-INTEREST EXPENSE		
Salaries and employee benefits	5,663	4,659
Occupancy and equipment	649	548
Data processing	632	530
Directors' expense	323	153
Advertising	244	246
Legal and professional	606	22
Audit and examination fees	226	191
Office supplies	66	52
FDIC deposit insurance	160	129
Foreclosed assets	10	57
Amortization of Intangibles	41	-
Other operating expense	1,169	832
Total Non-interest Expense	9,789	7,419
Income Before Taxes	4,161	4,030
Income Taxes	851	1,675
NET INCOME	$ 3,310	$ 2,355
Basic Earnings per Share	$ 2.69	$ 2.05
Diluted Earnings per Share	$ 2.60	$ 1.98

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Years Ended December 31 2018	2017
Net income	$ 3,310	$ 2,355
Other comprehensive income gain (loss), net of tax*		
Unrealized gains (losses) on securites:		
Unrealized holding gain (losses) arising during the period	(7)	(5)
Less: reclassification adjustments for gains (losses) included in net income	-	-
Net change in unrealized gains (losses) on securities	(7)	(5)
Other comprehensive income gain (loss), net of tax*	(7)	(5)
Comprehensive income	$ 3,303	$ 2,350

The accompanying notes are an integral part of these consolidated financial statements.
**All other comprehensive amounts are shown net of tax.*

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)	Common Stock Amount	Additional Paid-In Capital	Unearned RRP Shares	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2016	$ 11	$ 11,087	$ (4)	$ (459)	$ 21	$ 15,253	$ 25,909
Comprehensive income:							
Net income	-	-	-	-	-	2,355	2,355
Unrealized gains (losses) on securities available for sale, net of tax	-	-	-	-	(5)	-	(5)
Total comprehensive income							2,350
ESOP shares released	-	64	-	33	-	7	104
Cash out of stock options (10,951 shares)	-	(42)	-	-	-	(25)	(67)
Stock option expense	-	8	-	-	-	-	8
Amortization of awards under RRP	-	1	-	-	-	-	1
Cash dividends	-	-	-	-	-	(153)	(153)
Balance December 31, 2017	$ 11	$ 11,118	$ (4)	$ (426)	$ 16	$ 17,437	$ 28,152
Comprehensive income:							
Net income	-	-	-	-	-	3,310	3,310
Unrealized gains (losses) on securities available for sale, net of tax	-	-	-	-	(7)	-	(7)
Total comprehensive income							3,303
Shares vested and issued for RRP	-	(2)	2	-	-	-	-
ESOP shares released	-	82	-	34	-	7	123
Cash out of stock options (3,590 shares)	-	(14)	-	-	-	(49)	(63)
Exercise of stock options (10,571 shares)	-	147	-	-	-	-	147
Stock option expense	-	3	-	-	-	-	3
Amortization of awards under RRP	-	4	-	-	-	-	4
Stock repurchases-dissenters (21,568 shares)	-	(723)	-	-	-	(37)	(760)
Issuance of common shares (425,264 shares)	4	14,243	-	-	-	-	14,247
Stock dividends at 10% (150,170 shares)	2	5,259	-	-	-	(5,265)	(4)
Cash dividends	-	-	-	-	-	(301)	(301)
Balance December 31, 2018	$ 17	$ 30,117	$ (2)	$ (392)	$ 9	$ 15,102	$ 44,851

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

CENTURY NEXT
FINANCIAL CORPORATION

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31 2018	2017
Cash flows from operating activities:		
Net income	$ 3,310	$ 2,355
Adjustments to reconcile net income		
to net cash provided (used) by operating activities:		
Provision for possible loan losses	780	645
Depreciation and amortization	332	280
Amortization of purchase accounting valuations	(91)	-
Stock-based compensation expense, net of tax benefits	243	80
ESOP shares released	34	33
Net loss on sale of loans	197	155
Net (gain) loss on sale of foreclosed assets	4	(25)
Income from change in cash surrender value of life insurance	(130)	(103)
Deferred income tax benefit-Current Year	(28)	(169)
Deferred income tax expense-Cumulative Adjustment	(63)	312
Net amortization (accretion) of premium (discount) and fair value adjustments to investment	9	11
Decrease (increase) in loans held for sale	(903)	2,236
Decrease (increase) in foreclosed assets	(961)	48
Increase in interest receivable and other assets	(7,331)	(410)
Increase in accrued interest payable and other liabilities	1,271	172
Total adjustments	(6,637)	3,265
Net cash provided (used) by operating activities	(3,327)	5,620
Cash flows from investing activities:		
Proceeds from sales and maturities of investment securities	112	677
Net purchase of FHLB stock and other equity investments	(465)	(242)
Proceeds from sales of foreclosed assets	-	25
Purchases of life insurance	(5,231)	-
Purchase of fixed assets	(3,075)	(399)
Net increase in loans	(137,820)	(38,999)
Net cash used by investing activities	(146,479)	(38,938)
Cash flows from financing activities:		
Net increase in demand deposits and savings accounts	119,320	32,324
Net increase in time deposits	35,916	4,237
Increase (decrease) in advances from borrowers for insurance and taxes	(11)	1
Net increase in FHLB advances and other borrowings	5,158	5,205
Proceeds from issuance of common stock	14,247	-
Stock repurchases from dissenting shareholders in acquisition	(760)	-
Expenditures from cash out of stock options	(63)	(67)
Proceeds from exercise of stock options, including tax benefit	147	-
Cash paid to fractional shareholders for stock dividend	(4)	-
Cash dividends paid on common stock	(301)	(153)
Net cash provided by financing activities	173,649	41,547
Net increase in cash and cash equivalents	23,843	8,229
Cash and cash equivalents, at beginning of period	30,611	22,382
Cash and cash equivalents, at end of period	$ 54,454	$ 30,611
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest on deposits and borrowed funds	$ 3,151	$ 1,556
Income taxes	$ 1,055	$ 1,550

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

1. Summary of Significant Accounting Policies

a. Investments in securities

The Bank's investments in securities are classified in two categories and accounted for as follows:

- *Securities Held to Maturity*. Bonds, notes and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest income using the straight-line method over the period to maturity.

- *Securities Available for Sale*. Securities available for sale consist of bonds, notes, debentures, and certain equity securities not classified as trading securities nor as securities held to maturity.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below cost, that are other than temporary, result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. No such write-downs were made in fiscal 2018 or fiscal 2017.

Unrealized gains and losses, net of income taxes, on securities available for sale are accounted for in accumulated other comprehensive income as part of stockholders' equity. Changes in unrealized gains and losses on these securities are separately reported as components of other comprehensive income.

Gains and losses on the sale of securities available for sale are determined using the specific-identification method.

b. Use of estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

Most of the Bank's business activity is with customers located within the North Louisiana and South Arkansas areas. The loan categories are detailed in Note 3. The economies of these areas are diversified but depend on timber, agriculture, and oil and gas. Although these areas of the economy and the economy in general in the area are doing well, they could decline in the future.

While management uses available information to recognize losses on loans, future additions to the allowances 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 Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances 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 allowance for losses on loans may change materially in the near future.

1. <u>Summary of Significant Accounting Policies</u> (Continued)

c. Business Combinations

Assets and liabilities acquired in business combinations are recorded at their fair value. In accordance with ASC Topic 805, *Business Combinations*, the Company generally records provisional amounts at the time of acquisition based on the information available to the Company. The provisional estimates of fair values may be adjusted for a period of up to one year ("measurement period") from the date of acquisition if new information is obtained. Subsequently, adjustments recorded during the measurement period are recognized in the current reporting period.

d. Loans and allowance for loan losses

Loans are stated at the amount of unpaid principal, reduced by deferred loan fees and an allowance for loan losses. Deferred loan fees are generally recognized as income under the effective yield method. Interest on loans is calculated by using the simple interest method on daily or monthly balances of the principal amount outstanding. Loans held for sale are reported at the lower of cost or market, with market value determined on the aggregate method.

Loans acquired in business combinations are initially recorded at fair value. The fair value of the acquired loan portfolio includes two components: (1) an estimate of the interest rate premium or discount on the loans calculated as the difference between the contractual rate of interest on the loans and prevailing interest rates referred to as the "interest rate mark", and (2) an estimate of expected credit losses referred to as the "credit mark". The interest rate mark and credit mark on purchased performing loans are fully amortized on a straight-line basis to net interest income over the weighted-average life of the portfolio. For purchased credit impaired loans, expected cash flows will be reevaluated periodically to determine the need for adjusting the associated credit mark. The interest rate mark is amortized into net interest income on a straight-line basis over the effective life of the loan.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. No allowance for loan losses is recorded at the date of acquisition for loans acquired in a business combination because those loans are recorded at fair value which includes an expected credit loss component.

Accrual of interest is discontinued on a loan after it is 90 days or more past due and when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is unlikely. Past due status is based on contractual terms of the loan. However, loans may be placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Loans held for sale are disposed of within sixty days of origination; consequently, cost approximates fair value.

e. Premises and equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation of premises and equipment is provided over the estimated useful lives of the respective assets using straight-line and accelerated methods. Expenditures for major renewals and betterments of premises and equipment are capitalized and those for maintenance and repairs are charged to expense as incurred.

1. **Summary of Significant Accounting Policies (Continued)**

f. Bank owned life insurance

The Bank has purchased insurance policies on the lives of certain directors and executive officers of the Bank. The Bank purchased the policies to insure the lives of certain key executives and provide additional benefits for their beneficiaries. The Bank also acquired certain split-dollar life insurance policies in a business combination in the amount of $5.2 million. These policies provide death benefits to the Bank and designated beneficiaries of certain current and former employees of the acquired entity. The cash surrender value of the insurance policies, up to the total amount of premiums paid, is recorded as an asset in the balance sheets and included in other assets. At December 31, 2018 and 2017, the cash surrender value amounted to $10.7 million, and $5.1 million, respectively. The Bank's total holdings of bank owned life insurance measured as the cash surrender value of all combined policies is limited to an aggregate of 25 percent of its Tier I Capital unless the Board and management determine a justifiable reason to exceed the policy limit. The bank-owned life insurance provides an attractive tax-exempt return to the Bank.

g. Goodwill and other intangible assets

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangible assets deemed to have an indefinite useful life are not amortized but instead are subject to review for impairment annually, or more frequently if deemed necessary.

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives and reviewed for impairment. The asset is written down to its estimated fair value as deemed necessary based on the impairment analysis. Core deposit intangibles representing the value of the acquired core deposit base are generally recorded in connection with business combinations involving financial institutions or banks. The Company amortizes core deposit intangibles on a straight-line basis over their estimated useful life of 10 years. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows.

h. Income taxes

Deferred income taxes are recognized for the tax consequences of differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Such differences arise primarily from differences in computing the provision for possible loan losses, and differences in recognizing interest expense.

i. Cash and cash equivalents

For purposes of the statement of cash flows, the Bank considers all cash on hand and demand deposits with other banks to be cash equivalents. The Bank is required to maintain balances on hand or with the Federal Reserve Bank. At December 31, 2018 and 2017, these reserve requirements amounted to $2.5 and $2.3 million, respectively.

j. Advertising costs

Advertising costs are expensed as incurred. Such costs amounted to approximately $244,000 and $246,000 for the years ended December 31, 2018 and 2017, respectively, and are included in other operating expense.

k. ***Comprehensive income (loss)***

Generally accepted accounting principles ("GAAP") generally require 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 balance sheets, such items, along with net earnings, are components of comprehensive income. The Company presents comprehensive income in its consolidated statements of comprehensive income.

l. Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current period presentation.

1. **Summary of Significant Accounting Policies (Continued)**

m. ***Recent accounting pronouncements***

Accounting Standards Updates

In January 2016, the FASB issued ASU 2016-01, Financial Instruments. The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be measured at fair value either upon the occurrence of an observable price change or upon identification of impairment. The amendments in this Update also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period.

The provisions within this Update require 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. This amendment excludes from net income gains or losses that the entity may not realize because those financial liabilities are not usually transferred or settled at their fair values before maturity. The amendments in this Update require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements.

For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting pattern of expense recognition in the income statement for a lessee. For public business entities, the new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For non-SEC filer public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718) – Scope of Modification Accounting. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

2. **Investment Securities**

The carrying amounts (in thousands) of investment securities and their approximate fair values at December 31, 2018 and 2017 are as follows:

(In thousands)

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Securities Available-for-Sale:				
Mortgage-backed securities	$ 340	$ 11	$ -	$ 351
Total Available-for-Sale Securities	340	11	-	351
Securities Held-to-Maturity:				
State and municipal	685	1	1	685
Total Held-to-Maturity Securities	685	1	1	685
Total Debt Securities	$ 1,025	$ 12	$ 1	$ 1,036

(In thousands)

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Securities Available-for-Sale:				
Mortgage-backed securities	$ 451	$ 20	$ -	$ 471
Total Available-for-Sale Securities	451	20	-	471
Securities Held-to-Maturity:				
State and municipal	686	9	-	695
Total Held-to-Maturity Securities	686	9	-	695
Total Debt Securities	$ 1,137	$ 29	$ -	$ 1,166

2. Investment Securities (Continued)

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		Over Twelve Months		
(In thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Securities Available-for-Sale, at fair value					
Total Available-for-Sale Securities	$ -	$ -	$ -	$ -	$ -
Securities Held-to-Maturity at amortized cost					
State and municipal	1	332	-	-	1
Total Held-to-Maturity Securities	$ 1	$ 332	$ -	$ -	$ 1

December 31, 2017	Less Than Twelve Months		Over Twelve Months		
(In thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Securities Available-for-Sale, at fair value					
Total Available-for-Sale Securities	$ -	$ -	$ -	$ -	$ -
Securities Held-to-Maturity at amortized cost					
Total Held-to-Maturity Securities	$ -	$ -	$ -	$ -	$ -

Management evaluates securities for other-than-temporary impairment on at least 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.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market value of securities and the possibility of temporary unrealized losses. The Company has determined that there was no other-than-temporary impairment associated with these securities at December 31, 2018 and 2017.

2. Investment Securities (Continued)

The scheduled maturities of debt securities at December 31, 2018 are as follows:

	Available-for-Sale	
(In thousands)	Amortized Cost	Fair Value
1 year or less	$ -	$ -
Over 1 year to 5 years	2	2
Over 5 years to 10 years	108	113
Over 10 years	230	236
Total	$ 340	$ 351

	Held-to Maturity	
(In thousands)	Amortized Cost	Fair Value
1 year or less	$ -	$ -
Over 1 year to 5 years	99	99
Over 5 years to 10 years	234	233
Over 10 years	352	353
Total	$ 685	$ 685

The following table summarizes investment activities for the periods ending December 31, 2018 and 2017:

	For the Years Ended December 31,			
	2018		2017	
(In thousands)	Held to Maturity	Available for Sale	Held to Maturity	Available for Sale
Purchases of securities	$ -	$ -	$ -	$ -
Sales and maturities of securities	$ 1	$ 111	$ 505	$ 172
Gross realized gains on sales	$ -	$ -	$ -	$ -
Gross realized losses on sales	$ -	$ -	$ -	$ -
Net tax expense applicable to net gains	$ -	$ -	$ -	$ -

The Bank holds other restricted investments with fair values that are not readily determinable and are carried at cost.

Other investments consist of the following at December 31, 2018 and 2017: (Carried at Cost)

(In thousands)	2018	2017
Federal Home Loan Bank of Dallas	$ 1,469	$ 1,137
First National Bankers Bankshares, Inc.	430	320
Reserve Capital Corporation	13	-
Financial Institution Service Corporation	10	-
Total	$ 1,922	$ 1,457

First National Bankers Bankshares, Inc. is the parent company of the Bank's correspondent bank, First National Bankers Bank, used for clearing daily cash letter transactions. Reserve Capital Corporation is the parent of Reserve Capital Life Insurance Company that constitutes reinsurance business for the sale of credit life and disability insurance to Bank customers. Financial Institution Service Corporation is a data processing center cooperative. Stock membership in the above organizations affords certain discounts for services and dividends to members.

3. Loans

Loans at December 31, 2018 and 2017, consist of the following:

	December 31	
(In thousands)	2018	2017
Loans secured by real estate:		
Held for sale 1-4 family	$ 1,203	$ 497
Residential 1-4 family	141,553	106,364
Commercial	102,185	64,043
Multi-family	10,659	5,415
Agricultural	6,312	4,573
Land	17,993	16,130
Residential Construction	16,359	11,666
Home equity lines of credit	4,916	5,658
Total loans secured by real estate	301,179	214,346
Commercial loans	55,071	19,098
Agricultural	469	758
Consumer loans, including overdrafts of $100 and $74	21,190	5,215
Total loans	377,909	239,417
Less: Allowance for loan losses	(2,567)	(1,968)
Loans, net	$ 375,342	$ 237,449

The Company acquired loans in the acquisition of Ashley Bancstock Company and its subsidiary First National Bank of Crossett. These loans are recorded at the estimated fair value at the date of acquisition. The total amount of loans recorded at fair value on the date of acquisition on November 1, 2018 was $93.2 million consisting of $92.9 million of purchased performing loans and $311,000 in purchased credit impaired loans.

The Bank is obligated to repurchase those mortgage loans sold which do not have complete documentation or which experience an early payment default. At December 31, 2018 and 2017, loans sold for which the Bank is contingently liable to repurchase amounted to approximately $3.6 million and $5.1 million, respectively. The Bank also is committed to sell loans approximating $1.2 million and $497,000 at December 31, 2018 and 2017, respectively.

The following table details loans individually evaluated for impairment at the respective dates:

	December 31	
(In thousands)	2018	2017
Loans secured by real estate:		
Residential 1-4 family	$ 697	$ 269
Home equity lines of credit	-	30
Total loans secured by real estate	697	299
Commercial loans	319	-
Consumer loans	9	8
Total loans	$ 1,025	$ 307

All other loans were evaluated collectively.

3. Loans (Continued)

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	Impaired Loans For the Periods Ended,				
December 31, 2018					
With no related allowance recorded:					
Residential-prime	$ 697	$ 697	$ -	$ 555	$ -
Commercial non-real estate	319	319	-	910	-
Consumer	9	9	-	23	-
Total:					
Residential-prime	$ 697	$ 697	$ -	$ 555	$ -
Commercial non-real estate	$ 319	$ 319	$ -	$ 910	$ -
Consumer	$ 9	$ 9	$ -	$ 23	$ -
December 31, 2017					
With no related allowance recorded:					
Residential-prime	$ 299	$ 299	$ -	$ 325	$ -
Consumer	8	8	-	15	-
Total:					
Residential-prime	$ 299	$ 299	$ -	$ 325	$ -
Consumer	$ 8	$ 8	$ -	$ 15	$ -

At December 31, 2018, purchased credit impaired loans included in the balance of unpaid principal was $310,000.

The following table presents the changes in the carrying amount of the purchased credit impaired loans accounted for under ASC 310-30 for the periods presented.

(In thousands)	Amount
Carrying amount at November 1, 2018	$ 311
Payments received	(1)
Charge offs	-
Transfers to other real estate	-
Carrying amount at December 31, 2018	310

Under ASU No. 2010-20, separate disclosures are required for troubled-debt restructurings (TDRs). As of December 31, 2018 and 2017, the Company had no TDRs to report.

4. Allowance for Loan Losses and Credit Quality

Allowance for Loan Losses

The allowance for loan losses is established through a provision charged to earnings. Loan losses are charged against the allowance when management determines that the collection of the loan balance outstanding is unlikely. Subsequent recoveries, if any, are credited to the allowance. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Changes in the allowance related to impaired loans are charged or credited to the provision for loan losses.

The allowance for loan losses is maintained at a level which, in management's opinion, is adequate to absorb credit losses inherent in the portfolio. The Company utilizes an historical analysis of the Company's portfolio to validate the overall adequacy of the allowance for loan losses. In addition to these objective criteria, the Company subjectively assesses the adequacy of the allowance for loan losses with consideration given to current economic conditions, changes to loan policies, concentrations of credit, the level of classified and criticized credits, and other factors.

A summary of changes in the allowance for loan losses is as follows:

	December 31	
(In thousands)	2018	2017
Beginning balance	$ 1,968	$ 1,366
Provision for loan losses	780	645
Loans charged-off	(188)	(43)
Recoveries of loans previously charged-off	7	-
Ending balance	$ 2,567	$ 1,968

The following tables detail the balance in the allowance for loan losses by portfolio segment at the respective dates:

	For the Year Ended December 31, 2018				
(In thousands)	Beginning Balance	Chargeoffs	Recoveries	Provision	Ending Balance
Loans secured by real estate:					
Residential 1-4 family	$ 920	$ (129)	$ -	$ 505	$ 1,296
Commercial	537	(44)	-	260	753
Multi-family	36	-	-	42	78
Agricultural	31	-	-	15	46
Land	109	-	-	22	131
Residential construction	78	-	-	(7)	71
Home equity lines of credit	58	-	-	(22)	36
Totals by loans secured by real estate	1,769	(173)	-	815	2,411
Commercial loans	147	(14)	7	(88)	52
Agricultural	5	-	-	(1)	4
Consumer loans	47	(1)	-	54	100
Totals for all loans	$ 1,968	$ (188)	$ 7	$ 780	$ 2,567

4. Allowance for Loan Losses and Credit Quality (Continued)

	For the Year Ended December 31, 2017				
(In thousands)	Beginning Balance	Chargeoffs	Recoveries	Provision	Ending Balance
Loans secured by real estate:					
Residential 1-4 family	$ 658	$ -	$ -	$ 262	$ 920
Commercial	332	-	-	205	537
Multi-family	5	-	-	31	36
Agricultural	23	-	-	8	31
Land	84	-	-	25	109
Residential construction	34	-	-	44	78
Home equity lines of credit	44	-	-	14	58
Totals by loans secured by real estate	1,180	-	-	589	1,769
Commercial loans	129	(11)	-	29	147
Agricultural	4	-	-	1	5
Consumer loans	53	(32)	-	26	47
Totals for all loans	$ 1,366	$ (43)	$ -	$ 645	$ 1,968

At December 31, 2018 and 2017, the Company had no allowance for loan losses for loans disaggregated by impairment method.

Credit Quality

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

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

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

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

Loss - This classification includes those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be possible in the future, it is not practical or desirable to defer writing off these loans. Accordingly, these loans are charged-off before period end.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

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4. <u>Allowance for Loan Losses and Credit Quality</u> (Continued)

The table below illustrates the carrying amount of loans by credit quality indicator at December 31, 2018 and 2017:

(In thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2018						
Loans secured by real estate:						
Residential 1-4 family	$ 142,024	$ 9	$ 723	$ -	$ -	$ 142,756
Commercial	101,895	290	-	-	-	102,185
Multi-family	10,659	-	-	-	-	10,659
Agricultural	6,312	-	-	-	-	6,312
Land	17,993	-	-	-	-	17,993
Residential Construction	16,359	-	-	-	-	16,359
Home equity lines of credit	4,916	-	-	-	-	4,916
Totals by loans secured by real estate	300,157	299	723	-	-	301,179
Commercial loans	54,633	-	438	-	-	55,071
Agricultural	469	-	-	-	-	469
Consumer loans	21,181	-	9	-	-	21,190
Totals for all loans	$ 376,440	$ 299	$ 1,170	$ -	$ -	$ 377,909
December 31, 2017						
Loans secured by real estate:						
Residential 1-4 family	$ 106,548	$ 13	$ 300	$ -	$ -	$ 106,861
Commercial	62,079	1,964	-	-	-	64,043
Multi-family	5,415	-	-	-	-	5,415
Agricultural	4,573	-	-	-	-	4,573
Land	16,130	-	-	-	-	16,130
Residential Construction	11,666	-	-	-	-	11,666
Home equity lines of credit	5,628	-	30	-	-	5,658
Totals by loans secured by real estate	212,039	1,977	330	-	-	214,346
Commercial loans	19,098	-	-	-	-	19,098
Agricultural	758	-	-	-	-	758
Consumer loans	5,206	-	9	-	-	5,215
Totals for all loans	$ 237,101	$ 1,977	$ 339	$ -	$ -	$ 239,417

Interest income on impaired loans, other than non-accrual loans, is recognized on an accrual basis. Interest income on non-accrual loans is recognized only as collected. Loans on which the accrual of interest has been discontinued amounted to approximately $1.0 million and $307,000 at December 31, 2018 and 2017, respectively. If the non-accrual loans had been accruing interest at their original contracted rates, related income would have been $88,000 for 2018 and $43,000 for 2017.

4. <u>Allowance for Loan Losses and Credit Quality</u> (Continued)

A summary of current, past due, and non-accrual loans at December 31, 2018 and 2017 are as follows:

(In thousands)	Past Due 30-89 Days	Past Due Over 90 Days Accruing	Non-Accruing	Total Past Due and Non-Accruing	Current	Total Loans
December 31, 2018						
Loans secured by real estate:						
Residential 1-4 family	$ 472	$ -	$ 697	$ 1,169	$ 141,587	$ 142,756
Commercial	125	-	-	125	102,059	102,185
Multi-family	-	-	-	-	10,659	10,659
Agricultural	-	-	-	-	6,312	6,312
Land	-	-	-	-	17,993	17,993
Residential Construction	240	-	-	240	16,120	16,359
Home equity lines of credit	78	-	-	78	4,837	4,916
Totals by loans secured by real estate	915	-	697	1,613	299,566	301,179
Commercial loans	400	-	319	719	54,353	55,071
Agricultural	-	-	-	-	469	469
Consumer loans	161	-	9	170	21,020	21,190
Totals for all loans	$ 1,476	$ -	$ 1,025	$ 2,501	$ 375,408	$ 377,909
December 31, 2017						
Loans secured by real estate:						
Residential 1-4 family	$ 143	$ 442	$ 269	$ 854	$ 106,007	$ 106,861
Commercial	9	-	-	9	64,034	64,043
Multi-family	-	-	-	-	5,415	5,415
Agricultural	-	-	-	-	4,573	4,573
Land	27	-	-	27	16,103	16,130
Residential Construction	-	-	-	-	11,666	11,666
Home equity lines of credit	-	-	30	30	5,628	5,658
Totals by loans secured by real estate	179	442	299	920	213,426	214,346
Commercial loans	556	-	-	556	18,542	19,098
Agricultural	-	-	-	-	758	758
Consumer loans	27	-	8	35	5,180	5,215
Totals for all loans	$ 762	$ 442	$ 307	$ 1,511	$ 237,906	$ 239,417

The Bank grants consumer, commercial and residential loans to customers in Ruston, Louisiana and the surrounding area. Although the Bank has a diversified loan portfolio, a substantial portion of loan repayment is dependent upon the general economic sector.

5. Premises and Equipment

Premises and equipment are summarized as follows at the respective dates:

(In thousands)	Estimated Useful Lives	December 31, 2018	December 31, 2017
Cost:			
Land		$ 1,749	$ 1,566
Building and improvements	15-40 years	7,008	4,892
Furniture and equipment	3-10 years	3,085	2,409
Vehicles	4-5 years	159	94
Total Cost		12,001	8,961
Less: Accumulated depreciation and amortization		(3,631)	(3,334)
Total Premises and Equipment		$ 8,370	$ 5,627

Depreciation expense charged to operations amounted to $332,000 and $280,000 for the years ended in December 31, 2018 and 2017, respectively.

6. Goodwill and Other Intangible Assets

Goodwill was recorded as a result of the acquisition of Ashley Bancstock Company effective November 1, 2018. The carrying amount of goodwill as of December 31, 2018 was $2.3 million.

Core deposit intangibles were determined and recorded as part of the acquisition of Ashley Bancstock Company. A summary of the core deposit intangible asset as of December 31, 2018 is as follows:

(In thousands)	2018
Gross carrying amount	$ 2,458
Less: Accumulated amortization	(41)
Net carrying amount	$ 2,417

Amortization expense on the core deposit intangible asset recorded in non-interest expense was $41,000 for the year ended December 31, 2018. The following table presents the estimated aggregate amortization expense for the periods indicated:

(In thousands)	Amount
2018	$ 41
2019	246
2020	246
2021	246
2022	246
Thereafter	1,433
Total core deposit intangible	$ 2,458

7. Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by 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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios. Financial institutions are subject to capital adequacy pursuant to the Basel III Capital Rule set forth by the Basel Committee on Banking Supervision. The rule requires minimum capital and adjustments to Prompt Corrective Action (PCA) thresholds. The rule includes common equity tier 1 capital and establishes criteria that instruments must meet in order to be considered common equity tier 1 capital, additional tier 1 capital, or tier 2 capital. The rule maintains the general structure of the current PCA framework while incorporating increased minimum requirements. The tables that follow below present the Bank’s ratios under the capital rule for 2018 and 2017.

Management believes, as of December 31, 2018, that the Bank meets all capital adequacy requirements to which it is subject.

7. Regulatory Capital (Continued)

As of December 31, 2018, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for Prompt Corrective Action. To be categorized as adequately capitalized the Bank must maintain minimum ratios as set forth in the following table. The Bank's actual capital amounts (in thousands) and ratios are also presented in the table. There are no conditions or events since that notification that management believes have changed the institution's category. The following tables present the capital amounts and ratios for the respective categories as of the dates indicated:

	Basel III Capital Rule Ratios					
(Dollars in thousands)	Actual		Minimum Capital Standards		Prompt Corrective Action Well-Capitalized Thresholds	
December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital	$ 46,971	13.68%	$ 27,459	8.00%	$ 34,323	10.00%
Tier 1 Capital	$ 44,404	12.94%	$ 20,594	6.00%	$ 27,459	8.00%
Common Equity Tier 1 Capital	$ 44,404	12.94%	$ 15,446	4.50%	$ 22,310	6.50%
Leverage Capital	$ 44,404	9.76%	$ 18,196	4.00%	$ 22,745	5.00%
December 31, 2017						
Total Capital	$ 27,831	13.26%	$ 16,794	8.00%	$ 20,992	10.00%
Tier 1 Capital	$ 25,863	12.32%	$ 12,595	6.00%	$ 16,794	8.00%
Common Equity Tier 1 Capital	$ 25,863	12.32%	$ 9,446	4.50%	$ 13,645	6.50%
Leverage Capital	$ 25,863	9.30%	$ 11,129	4.00%	$ 13,911	5.00%

The following is a reconciliation of the Bank's equity under GAAP to regulatory capital at the dates indicated:

	December 31,	
(In thousands)	2018	2017
GAAP equity	$ 49,113	$ 25,879
Less: Intangible assets	(4,700)	-
Unrealized gains on debt securities	(9)	(16)
Allowance for loan losses (allowable portion)	2,567	1,968
Total risk-based Capital	$ 46,971	$ 27,831

The consolidated capital amounts are not significantly different than those for the Bank.

8. Other Comprehensive Income

The following tables show the related tax effects allocated to each component of other comprehensive income for the respective years ended:

(In thousands)	For the Year Ended December 31, 2018 Before-Tax Amount	Tax (Expense) or Benefit at 21%	Net-of-Tax Amount
Unrealized gains(losses) on securities:			
Unrealized holding gains(losses) arising during the period	$ (9)	$ 2	$ (7)
Less: reclassification adjustment for gains(losses) realized in net income	-	-	-
Net unrealized gains(losses)	(9)	2	(7)
Other comprehensive income(loss)	$ (9)	$ 2	$ (7)

	For the Year Ended December 31, 2017 Before-Tax Amount	Tax (Expense) or Benefit 21%	Net-of-Tax Amount
Unrealized gains(losses) on securities:			
Unrealized holding gains(losses) arising during the period	$ (6)	$ 1	$ (5)
Less: reclassification adjustment for gains(losses) realized in net income	-	-	-
Net unrealized gains(losses)	(6)	1	(5)
Other comprehensive income(loss)	$ (6)	$ 1	$ (5)

9. Related Party Transactions

At both December 31, 2018 and 2017, principal officers, directors, or companies that have 10% or more beneficial ownership were indebted to the Bank in the approximate aggregate amount of $4.1 million and $2.2 million, respectively. Such parties held deposits in the Bank in the approximate amounts of $5.9 million, and $5.2 million at December 31, 2018 and 2017, respectively. Total principal additions were $4.4 million and $896,000 and total principal payments were $2.3 million and $1.9 million for the years ended December 31, 2018 and 2017, respectively.

10. Off-Balance Sheet Activities

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

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

10. Off-Balance Sheet Activities (Continued)

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

(In thousands)	Contract Amount 2018	Contract Amount 2017
Standby letters of credit	$ 2,593	$ 2,371
Unfunded commitments under lines of credit	22,506	14,737
Commitments to originate loans	8,725	7,093
Total commitments	$ 33,824	$ 24,201

Unfunded commitments under lines-of-credit are commitments for possible future extensions of credit to existing customers. These lines-of-credit consist of commercial and consumer customers and may be secured or unsecured. All of these commitments have a specified maturity date and ultimately may not be drawn upon to the total extent to which the Company is committed.

Standby letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support private borrowing arrangements and have expiration dates ranging from within one year to three years. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments but can also extend commitments unsecured. Of the standby letters of credit outstanding at December 31, 2018, $1.2 million was secured and $1.4 million was unsecured.

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

The Bank is party to certain agreements for lease of premises, data processing and imaging services. These agreements' contractual terms vary and with a final expiration or renewal date between January 2019 and October 2023 at approximately $111,000 per month. Certain agreements automatically renew for a successive five-year term at market rates at the end of the current term, if no advance notice of termination is given.

Future estimated minimum payments at December 31, 2018 under these agreements are as follows:

	(In thousands) Amount
2019	$ 1,149
2020	451
2021	264
2022	238
2023	121
Total	$ 2,224

11. Deposits

Deposits are summarized as follows at:

(Dollars in thousands)	December 31, 2018 Amount	December 31, 2018 Weighted Average Rate	December 31, 2017 Amount	December 31, 2017 Weighted Average Rate
Demand and Savings				
Noninterest-bearing demand deposits	$ 57,132	-	$ 23,817	-
Interest-bearing demand deposits	112,748	1.02%	72,665	0.97%
Money market	33,238	1.32%	12,872	0.26%
Savings	54,789	0.13%	29,086	0.62%
Total Demand and Savings	$ 257,907		$ 138,440	
Time Deposits				
0.00% to 0.99%	$ 37,804	0.53%	$ 31,241	0.64%
1.00% to 1.99%	35,022	1.55%	50,947	1.30%
2.00% to 2.99%	50,016	2.34%	6,944	2.00%
3.00% to 3.99%	2,571	3.04%	350	3.25%
Total Time Deposits	$ 125,413		$ 89,482	
Total Deposits	$ 383,320		$ 227,922	

Scheduled maturities of time deposits at December 31, 2018 are as follows:

2019	$ 101,925
2020	15,882
2021	2,525
2022	3,040
Thereafter	2,041
Total	$ 125,413

Time deposits more than $250,000 or more amounted to approximately $45.2 million and $20.3 million at December 31, 2018 and 2017, respectively.

12. Income Taxes

In December of 2017, the Tax Cuts and Jobs Act of 2017 was enacted into law. The new law lowered the corporate tax rate from a maximum of 34% to 21%. This affected the recognition of future tax benefits and liabilities reflected on the balance sheet as deferred tax assets or liabilities and resulted in a cumulative adjustment to deferred taxes for 2017. This cumulative adjustment is reflected as a separate amount in the following tables below as "Cumulative Adjustment Tax Rate Change."

Income tax expense is summarized as follows:

	Years Ended December 31	
(In thousands)	2018	2017
Current:		
Federal	$ 942	$ 1,532
Deferred:		
Federal-Current Year	(28)	(169)
Federal-Cumulative Adjustment Tax Rate Change	$ -	$ 312
State-Current Year	(63)	-
Total Provision For Income Taxes	$ 851	$ 1,675

A reconciliation of the Company's provision for income taxes and the amount computed by applying the U.S. statutory federal income tax rate of 21% for 2018 and 34% for 2017 pretax income is as follows:

	Years Ended December 31	
(In thousands)	2018	2017
Tax computed at 21% and 34%, respectively	$ 874	$ 1,370
Increases (decreases) in taxes resulting from:		
Prior year tax benefit	-	(6)
Cumulative Adjustment Tax Rate Change	-	312
Nontaxable income	(32)	(47)
Other, net	9	46
Total Provision For Income Taxes	$ 851	$ 1,675
Effective Tax Rate	20.45%	41.56%
Effective Tax Rate excluding cumulative adjustment 2017	20.45%	33.82%

12. Income Taxes (Continued)

The components of the deferred income taxes included in other assets in the statements of condition are approximately as follows:

(In thousands)	Years Ended December 31 2018	2017
Net operating loss carryforward	$ 988	$ -
Allowance for loan losses	515	404
Acquired loans fair value adjustment	445	-
Deferred compensation plan	394	343
Foreclosed assets	131	-
Nonaccrual interest	52	-
Stock compensation plans	24	30
Subtotal deferred tax asset	2,549	777
Core deposit intangible	(665)	-
Asset cost basis	(204)	-
Accumulated depreciation	(104)	(105)
State tax	(60)	-
Other investments basis	(25)	-
Acquired time deposits fair value adjustment	(21)	-
Unrealized gain on available-for-sale securities	(2)	(4)
Subtotal deferred tax liability	(1,081)	(109)
Net deferred tax asset	$ 1,468	$ 668

Other assets at December 31, 2018 and 2017 included income taxes receivable of $257,000 and $12,000, respectively.

The Bank has reviewed its various tax positions taken or expected to be taken in its tax returns and has determined it does not have unrecognized tax benefits, nor does it expect that position to change significantly over the next twelve months. The Bank recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2018, it has not accrued interest or penalties related to uncertain tax positions.

The Bank files an annual U.S. Federal income tax return. Federal income tax returns for the tax years 2016 and beyond remain subject to examination by the Internal Revenue Service.

13. Foreclosed Assets

Foreclosed assets, including real estate, represent property acquired through foreclosure or deeded in lieu of foreclosure on loans on which the borrowers have defaulted as to payment of principal and interest. The Bank also transfers to this category those loans meeting the applicable criteria for loans considered repossessions in substance. Amounts are carried at the asset's estimated fair value less estimated costs to sell. Reductions in the balance at the date of transfer are charged to the allowance for loan losses. Any subsequent write downs to reflect current fair value are charged to noninterest expense and credited to a valuation allowance for foreclosed assets. Direct costs incurred in foreclosures are also charged to noninterest expense. At December 31, 2018, foreclosed assets were $957,000. At December 31, 2017, the Bank had no foreclosed assets.

14. Retirement Plans

Defined Benefit Plan

Until March 1, 2007, the Bank participated in a multiple employer, noncontributory defined benefit retirement plan sponsored by the Financial Institutions Retirement Fund. This plan covered substantially all the Bank's employees, and provided benefits to employees who worked at least one thousand hours per year. Benefits were based upon each employee's benefit service and average annual compensation, with each employee becoming fully vested upon completion of five years of qualifying service. The Financial Institutions Retirement Fund applied a full funding test on an individual employer basis. This plan is now known as the Pentegra Defined Benefit Plan for Financial Institutions (the "DB Plan").

Effective March 1, 2007, the Bank elected to freeze the benefits provided under the plan to existing participants, to cease future benefit accruals, and to cease eligibility for employees in the Plan. Those participants in the Plan as of March 1, 2007 will receive a benefit equal to the benefit accrued under the Plan as of that date. The Bank incurred pension contribution expense of $100,000 and $75,000 for the years ending December 31, 2018 and 2017, respectively. The Bank has a funding surplus in the Plan of an approximate amount of $307,000 as of July 1, 2018, the most recent valuation date.

The DB Plan is a tax-qualified defined benefit pension plan. The DB Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The DB Plan operates as a multiemployer plan for accounting purposes and as a multiple employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the DB Plan.

The DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the DB Plan, contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

Funded status (Market value of plan assets divided by funding target) as of July 1,

Source: Valuation Report	2018	2017
Bank Plan	120.16%	115.71%

* - Market value of plan assets reflects any contributions received through June 30, 2018.

Employer contributions, meaning all employers participating in the multiple employer plan, made to the DB Plan, as reported on Form 5500, equal $367.1 million and $153.2 million for plan years ending June 30, 2017 and 2016, respectively. The Bank contributions to the DB Plan for the fiscal year ending December 31, 2018 are not more than 5% of the total contributions to the DB Plan for the plan year ending June 30, 2017.

The following contributions were paid by the Bank during the fiscal years ending December 31,

2018		2017		2016	
Date Paid	Amount	Date Paid	Amount	Date Paid	Amount
11/30/2018	$ 100,000	12/20/2017	$ 100,000	12/29/2016	$ 50,000
	-		-		-
Total	$ 100,000		$ 100,000		$ 50,000

401K Plan

The Bank also participates in an employee 401(k) retirement plan. Employees contribute up to 6% of their compensation to the plan, with the Bank matching 75% of such contributions. The Bank's contribution expense to this plan amounted to $148,000 and $128,000 for December 2018 and 2017, respectively.

15. Deferred Compensation Plan

The Bank implemented a deferred compensation plan in late 1993 for certain key employees, and in 1996, for certain directors. The plans generally provide for retirement, death or disability payments, payable over 25 years (20 years for directors). The Bank obtained insurance on these individuals to provide for funding of the plan; however, the policies themselves are not pledged against the benefits. The plan limits the ultimate benefits to the cash surrender value (CSV) in the policies, after a certain return is realized by the Bank from those policies. Thus, based upon this limitation, deferred compensation is recognized to the extent of the CSV increase each year, once the Bank realizes its return. The Bank incurred deferred compensation expense of $91,000 and $158,000 for the years ended December 31, 2018 and 2017, respectively.

The Bank also acquired certain endorsement split-dollar life insurance policies in a business combination in the amount of $5.2 million. These policies provide death benefits to the Bank and designated beneficiaries of certain current and former employees of the acquired entity. Upon issuance of the policy, the Bank and the employee executed an endorsement to the policy in favor of the employee (the "Endorsement Plan"). The Endorsement Plan gives the employee the right, upon the employee's death while the split-dollar insurance agreement (the "Agreement") is in force, to designate the beneficiary of the proceeds from the policy in excess of the policy's cash surrender value (the "Endorsement Amount"). The Bank has the right to terminate the Agreement upon proper written notice to the employee subject to the limitation of the employee's completion of 25 years of service with the Bank. The Bank estimates and records the liability for the obligation to the employee and the corresponding expense.

Following is a summary of changes in deferred compensation payable and the related cash values of the life insurance contracts for the years ended:

	December 31,	
(In thousands)	2018	2017
Cash surrender value of life insurance contracts	$ 10,660	$ 5,120
Earnings of life insurance contracts - directors	26	23
Earnings of life insurance contracts - officers	104	80
Deferred compensation payable - directors	1,127	1,115
Deferred compensation payable - officers	701	519
Deferred compensation paid to retirees	27	26

16. Stock-Based Compensation Plans

The Company has three stock-based compensation plans. These are the 2010 Employee Stock Ownership Plan, the 2011 Recognition and Retention Plan (a restricted stock plan), and the 2011 Stock Option Plan.

The fair value of the options is calculated by using the Black-Scholes option pricing model which assumes that the option exercises occur at the end of the expected term of the option.

Employee Stock Ownership Plan

Under the Employee Stock Ownership Plan (ESOP), employees are generally eligible to participate in the ESOP after completion of one year of service and attaining the age of 21. The ESOP purchased 76,920 shares adjusted for stock dividends paid which were facilitated by a loan from the Company to the ESOP in the amount of $667,040. The loan is secured by a pledge of the ESOP shares. The shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance Sheet. The corresponding note is being repaid in 80 quarterly debt service payments of $11,372 on the last business day of each quarter, beginning December 31, 2010, at a rate of 3.25%.

The Company may contribute to the ESOP, in the form of debt service, at the discretion of its board of directors. Cash dividends, if any, on the Company's stock shall either be used to repay the loan, be distributed to the participants in the ESOP, or be retained in the ESOP and reinvested in the Company stock. Shares are released for allocation to ESOP participants based on principal and interest payments on the note. Compensation expense is recognized based on the number of shares allocated to ESOP participants each year and the average fair value of the shares for the current year. Released ESOP shares become outstanding for earnings per share computations.

16. Stock-Based Compensation Plans (Continued)

As compensation expense is incurred, the Unearned ESOP shares account is reduced based on the original cost of the stock. The difference between the cost and the average market price of shares released for allocation is applied to Additional Paid-In Capital. Compensation expense for the year ended December 31, 2018 and 2017 was $111,000 and $94,000, respectively. The total income tax benefit recognized in the income statement was $23,000 and $20,000 for 2018 and 2017, respectively. There were 3,851 shares released in both 2018 and 2017, adjusted for stock dividends paid. At December 31, 2018, 45,259 shares were unreleased with a market value of $1,357,763.

Restricted Stock Plan

Under the recognition and retention plan (RRP), restricted stock was granted to directors and officer-employees. The objective of the plan is to enable the Company to provide directors and officer-employees with a proprietary interest in the Company and enhance shareholder value by aligning the financial interests of those participants with those of shareholders. The Company will contribute sufficient funds to the RRP Trust (the Trust) so that the Trust can purchase all 42,993 shares of common stock, or 2.6% of the currently outstanding common stock. The shares will be acquired through open market purchases to the extent available with any deficiency fulfilled by the issuance of un-issued shares of the Company. Restricted shares were granted in May of 2011 for 42,993 shares of Company stock allocated under the RRP. Of the shares granted, 1,945 have been forfeited. The plan allows for forfeited shares to be re-granted. In October of 2017, 1,320 additional restricted shares were granted under the plan. During 2018, 440 shares were forfeited and 176 vested. As of December 31, 2018, 704 shares remain unvested. Shares granted will vest at a rate of no more rapid than 20% per year beginning one year from the anniversary date of the grant. As of December 31, 2018, 41,508 shares have been purchased by the Trust and 41,309 shares have been earned and issued. Shares are recorded at cost at the time of purchase and reported in the Consolidated Balance Sheet as unearned shares, which is a contra-equity account. The balance in unearned purchased shares is reduced as shares vest. At December 31, 2018, there were 199 unearned purchased shares remaining and reported at cost in the Consolidated Balance Sheet. All shares have been adjusted for any stock dividends paid.

The following table represents unearned allocated restricted shares activity for the year ended December 31, 2018:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2018	1,320	$ 25.68
Granted	-	-
Forfeited	(440)	-
Vested or earned	(176)	-
Outstanding at December 31, 2018	704	$ 25.68

During 2018, the Company made no restricted share awards. 176 shares were vested and issued to participants as of December 31, 2018. The compensation expense that has been charged against income was $4,000 and $1,000 in 2018 and 2017, respectively. The total income tax benefit recognized in the income statement for each of those years was $1,000 and $0, respectively. The total remaining unearned compensation related to restricted shares at December 31, 2018 was $18,000.

Compensation expense of restricted shares is based on the fair value of the shares determined at the date of grant and is recognized over the vesting period.

16. <u>Stock-Based Compensation Plans</u> (Continued)

Stock Option Plan

Under the Stock Option Plan (SOP), the Company may grant options to its directors and officer-employees. Stock options may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any affiliate. Non-Qualified Stock Options may be granted to employees and directors of the Company or its affiliate. The exercise price per share will be determined at the time of grant but will not be less than one hundred percent (100%) of the fair market value on the grant date in the case of Incentive Stock Options. If an Incentive Stock Option is granted to a person who owns 10% or more of the Company's voting stock, the exercise price per share for the common stock covered by such Incentive Stock Option will be not less than one hundred ten percent (110%) of the fair market value on the grant date. No stock option will be exercisable more than ten (10) years after the date of grant. If an Incentive Stock Option is granted to a person who owns 10% or more of the Company's voting stock, the term of such option will be no more than five (5) years from the grant date. Stock options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Board of Directors or the Committee and set forth in the option agreement evidencing such option. Any portion of an option that is not exercisable on the date of termination of an applicable service relationship shall immediately expire. Once any portion of an option becomes vested and exercisable, it shall continue to be exercisable by the grantee or his or her representatives at any time or times prior to the earliest of (i) the date which is (a) three years following the date on which the grantee's service relationship terminates due to retirement or disability, (b) twelve months following the grantee's death, or (c) six months following the date on which the grantee's service relationship terminates if the termination is due to any other reason, or (ii) the expiration date set forth in the option agreement; provided, however, that the Board or SOP Committee may revoke, rescind and terminate any options if the grantee's service relationship is terminated for cause. The options vest at a rate no more rapid than 20% per year. All options will vest and become exercisable upon death or disability of the grantee or following a change in control of the Company.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants made during the year ended December 31. No grants were made during 2018. The Company made grants of 4,400 options during 2017.

	2018	2017
Expected dividend yield over contractual term	N/A	0.61%
Expected life in years	N/A	6.5
Expected volatility over contractual term	N/A	21.09%
Risk-free interest rate over contractual term	N/A	2.17%

The expected dividend yield assumption is based on the Company's historical record of dividend payouts. The Company has elected to use the "simplified" method outlined in SAB 107 (Question 6 of Sub-Section 2, Valuation Methods) to compute the expected life of the options since the options granted are "plain vanilla." The expected volatility is based on annual average volatility of its share price using the standard deviation of the closing price over 10-day trading periods times the square root of the number of days in the year. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant.

16. Stock-Based Compensation Plans (Continued)

A summary of the status of the Company's stock option plan adjusted for stock dividends paid is presented below for the years ended December 31, 2018 and 2017:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at January 1, 2018	87,964	$ 13.60		
Granted	-	-		
Exercised	(15,333)	12.95		
Forfeited or expired	(4,400)	25.68		
Outstanding at December 31, 2018	68,231	$ 12.96	2.83	$ 1,162,656
Exercisable at December 31, 2018	68,231	$ 12.96	2.83	$ 1,162,656
Outstanding at January 1, 2017	95,610	$ 13.60		
Granted	4,400	25.68		
Exercised	(12,046)	12.99		
Forfeited or expired	-	-		
Outstanding at December 31, 2017	87,964	$ 13.60	3.83	$ 1,376,638
Exercisable at December 31, 2017	81,594	$ 13.60	3.83	$ 1,276,946

The aggregate intrinsic value of a stock option in the table above represents the amount by which the current market value of the underlying stock exceeds the exercise price of the option had all option holders exercised their options on December 31, 2018 and 2017. This amount changes as the market value of the Company's stock changes.

Information pertaining to options outstanding at December 31, 2018 is as follows:

Options	Shares	Weighted Average Exercise Price
Nonvested at January 1, 2018	6,370	$ 13.60
Granted	-	-
Vested	(1,970)	12.99
Forfeited	(4,400)	25.68
Nonvested at December 31, 2018	-	$ -

During 2017, the Company awarded 4,400 stock options which were subsequently forfeited in 2018. The compensation expense that has been charged against income was $3,000 and $8,000 in 2018 and 2017, respectively. The total income tax benefit recognized in the income statement for each of those years was $1,000 and $3,000, respectively. There was no remaining unearned compensation related to stock options at December 31, 2018.

Compensation expense under the SOP is based on the fair value of the options granted determined at the date of grant and is also recognized as the options vest.

17. Short-Term Borrowings

Federal Funds Sold and Federal Home Loan Advances

The Company had an uncollateralized federal funds line of credit with a correspondent bank aggregating $7.5 million and a collateralized Federal Home Loan Bank of Dallas ("FHLB") line of credit totaling $107.3 million at December 31, 2018. The Bank's borrowing availability both short- and long-term with the Federal Home Loan Bank of Dallas at December 31, 2018 was $38.7 million under current terms with the Federal Home Loan Bank. At December 31, 2018 and 2017, the Company had advances on its FHLB line of credit in the amount of $22.1 million and $25.4 million, respectively. The average rate on the outstanding FHLB advances was 2.66% and 1.58% for December 31, 2018 and 2017, respectively. These lines of credit generally have interest rates indexed to the Federal Funds rate, short-term U.S. Treasury rates, or LIBOR. FHLB advances are collateralized by loans and investment securities. The Company also had letters of credit guarantees from the FHLB for $46.5 million at December 31, 2018. Of these letters of credit, all $46.5 million were issued to secure public fund deposits. These letters of credit have expiration dates in 2019. As of December 31, 2018, $246.3 million in loans and no investment securities were pledged as collateral for FHLB advances. All lines of credit are on an "as available" basis and can be revoked by the grantor at any time.

Total short-term debt at the respective dates is summarized as follows:

	Interest	Settlement	Maturity	December 31,	
(In thousands)	Rate	Date	Date	2018	2017
Federal Home Loan Bank fixed-rate advance	2.66%	12/15/2017	12/13/2019	$ 22,000	$ 3,250
Total Short-Term Debt				$ 22,000	$ 3,250

Securities Sold Under Agreements to Repurchase

There were no securities sold under agreements to repurchase as of December 31, 2018 and 2017.

18. Long-Term Debt

Long-term debt includes advances from the Federal Home Loan Bank of Dallas (FHLB). Such advances are secured by deposit accounts with the FHLB, Bank-owned FHLB capital stock, and investment securities held at the FHLB and a blanket lien on certain loans.

Other long-term debt includes subordinated debentures consisting of guaranteed payments on trust preferred securities issued by Ashley Bancstock Statutory Trust I (Trust), a statutory business trust. The Trust was organized for the sole purpose of issuing trust securities and investing the proceeds thereof in subordinated debentures of the Company, the sole asset of the Trust. The securities of the Trust represent preferred beneficial interests in the assets of the Trust and are subject to mandatory redemption upon payment of the subordinated debentures held by the Trust. The common securities of the Trust are wholly owned by the Company, carried at a cost of $254,000 and included in other assets in the accompanying consolidated balance sheets. The Trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payments on the related subordinated debentures. The Company's obligations under the subordinated debentures and indenture agreement constitute a full and unconditional guarantee by the Company of the Trust's obligations under the securities issued by the Trust. These subordinated debentures and common securities were assumed in the business combination transaction in 2018.

At December 31, 2018, all of the Company's subordinated debentures due to the Trust were floating rate securities for which interest resets quarterly at 1.8% above the 3-month LIBOR (2.797% at December 31, 2018). All of the debentures are currently callable, subject to regulatory approval, without penalty and mature in December 2036.

Under the terms of the indenture agreement, the Company may defer interest payments for up to 20 consecutive quarterly periods without causing an event of default. No deferred interest was due at December 31, 2018.

18. Long-Term Debt (Continued)

Total long-term debt at the respective dates is summarized as follows:

(In thousands)	Interest Rate	Settlement Date	Maturity Date	December 31, 2018	December 31, 2017
Subordinated note	4.59%	11/7/2006	12/15/2036	$ 8,454	$ -
Federal Home Loan Bank floating-rate advance	1.56%	12/15/2017	12/13/2019	-	22,000
Federal Home Loan Bank fixed-rate advance	3.23%	9/22/2010	10/1/2020	88	134
Total Long-Term Debt				$ 8,542	$ 22,134

19. Earnings Per Share

Basic and diluted earnings per share are calculated as follows:

	Years Ended December 31 2018	2017
Basic Earnings per Share:		
Net income	$ 3,310,000	$ 2,355,000
Weighted average common shares outstanding	1,232,563	1,148,419
Basic Earnings per Share	$ 2.69	$ 2.05
Diluted Earnings per Share:		
Net income	$ 3,310,000	$ 2,355,000
Weighted average common shares outstanding	1,232,563	1,148,419
Effect of dilutive securities	38,749	41,829
Weighted average common shares outstanding - diluted	1,271,312	1,190,247
Diluted Earnings per Share	$ 2.60	$ 1.98

Earnings per share are based on the weighted-average number of shares outstanding during the year and have been adjusted for stock dividends paid.

20. Fair Value of Assets and Liabilities

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. 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 values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

20. <u>Fair Value of Assets and Liabilities</u> (Continued)

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

Fair Value Hierarchy

The Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1—Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- Level 2—Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 asset or liability.

- 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 the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

Securities

Where quoted prices are available in an active market, we classify the securities within level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include highly liquid government bonds and exchange-traded equities.

If quoted market prices are not available, we estimate fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, we classify those securities in level 3.

20. <u>Fair Value of Assets and Liabilities</u> (Continued)

Loans Receivable

The fair values for all loans are estimated using discounted cash flow analyses at market interest rates for comparable loans. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities

The fair values for noninterest- and interest-bearing checking, money market, and savings accounts are equal to the amount payable on demand at the reporting date, which is also equal to their carrying amounts. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings

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

Long-Term Borrowings

Current market rates for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. Fair value of long-term debt is based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Credit-Related Instruments

Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

20. **Fair Value of Assets and Liabilities (Continued)**

Items Measured at Fair Value on a Recurring Basis

For the Company, items recorded at fair value on a recurring basis are securities available for sale and loans held for sale. These securities consist primarily of mortgage-backed (including Agency) securities. When available, the Company uses quoted market prices of identical assets on active exchanges (Level 1 measurements). Where such quoted market prices are not available, the Company typically employs quoted market prices of similar instruments (including matrix pricing) and/or discounted cash flows to estimate a value of these securities (Level 2 measurements). Level 3 measurements include discounted cash flow analyses based on assumptions that are not readily observable in the market place, including projections of future cash flows, loss assumptions, and discount rates.

The following table presents financial assets measured at fair value on a recurring basis at December 31, 2018 and 2017:

	December 31, 2018			
(In thousands)	Level 1	Level 2	Level 3	Estimated Fair Value
Securities available for sale:				
FHLMC certificates	$ -	$ 92	$ -	$ 92
GNMA certificates	-	2	-	2
FHR certificates	-	6	-	6
FNMA certificates	-	247	-	247
FNR certificates	-	4	-	4
Total securities available for sale	-	351	-	351
Loans held for sale	-	1,203	-	1,203
Total assets at fair value	$ -	$ 1,554	$ -	$ 1,554

	December 31, 2017			
(In thousands)	Level 1	Level 2	Level 3	Estimated Fair Value
Securities available for sale:				
FHLMC certificates	$ -	$ 120	$ -	$ 120
GNMA certificates	-	3	-	3
FHR certificates	-	7	-	7
FNMA certificates	-	336	-	336
FNR certificates	-	5	-	5
Municipal securities	-	-	-	-
Total securities available for sale	-	471	-	471
Loans held for sale	-	497	-	497
Total assets at fair value	$ -	$ 968	$ -	$ 968

20. Fair Value of Assets and Liabilities (Continued)

Items Measured at Fair Value on a Non-Recurring Basis

From time to time, certain assets may be recorded at fair value on a non-recurring basis, typically as a result of the application of lower of cost or fair value accounting or a write-down occurring during the period. The only item recorded at fair value on a non-recurring basis is foreclosed assets, which is recorded at the estimated fair value less estimated costs to sell. Fair value is determined by reference to appraisals (performed either by the Bank or by independent appraisers) on the subject property, using market prices of similar real estate assets (Level 2 measurements). The Bank held foreclosed assets with an estimated fair value of $957,000 at December 31, 2018. The Bank had no foreclosed assets at December 31, 2017.

Fair value of assets and liabilities measured on a non-recurring basis at the dates presented are as follows:

(In thousands)	Level 1	Level 2	Level 3	Estimated Fair Value
December 31, 2018				
Other foreclosed assets	$ -	$ 957	$ -	$ 957
December 31, 2017				
Other foreclosed assets	$ -	$ -	$ -	$ -

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

	December 31, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and balances due from banks	$ 51,679	$ 51,679	$ 30,611	$ 30,611
Federal funds sold	2,775	2,775	-	-
Securities available for sale	351	351	471	471
Securities held to maturity	685	685	686	695
Federal Home Loan Bank stock	1,469	1,469	1,137	1,137
Other equity investments	453	453	320	320
Loans held for sale	1,203	1,203	497	497
Loans, net of unearned income	376,705	376,103	238,920	238,538
Accrued interest receivable	1,752	1,752	998	998
Cash surrender value of bank-owned life insurance	10,660	10,660	5,120	5,120
Total financial assets	$ 447,733	$ 447,130	$ 278,760	$ 278,387
Financial liabilities:				
Deposits	$ 383,320	$ 383,018	$ 227,922	$ 230,222
Short-term borrowings	22,000	21,989	3,250	3,250
Long-term borrowings	8,542	8,568	22,134	21,813
Accrued interest payable	320	320	176	176
Total financial liabilitites	$ 414,182	$ 413,895	$ 253,482	$ 255,461
Off-balance sheet credit related to financial instruments:				
Standby letters of credit	-	86	-	22
Commitments to extend credit	-	76	-	40

21. Subsequent Events

The Bank is required to evaluate events or transactions that may occur after the balance sheet date for potential recognition or disclosure in the financial statements. The Bank performed such an evaluation through the date which the financial statements were available to be issued, and noted no such subsequent events.

22. Business Combination

On November 1, 2018, the Company acquired 100% of the outstanding common shares of Ashley Bancstock Company ("ABC"). Under the terms of the Merger Agreement, shareholders of ABC received 1.8052 shares of the Company's common stock for each share of ABC common stock. The acquisition included First National Bank of Crossett "FNBC" the wholly owned subsidiary of ABC. Upon completion of the combination, ABC was merged into the Company and FNBC was merged into Century Next Bank, the wholly-owned subsidiary of the Company. At the date of combination, total consolidated assets were $458 million, with net loans of $359 million and deposits of $379 million. With the acquisition, the Company expanded its market area to Southeast Arkansas and enhanced its branch network with four additional banking locations. The Company branch system expanded to seven banking locations. FNBC results of operations were included in the Company's results beginning November 1, 2018. Acquisition-related costs of approximately $563,000 were included in the Company's consolidated income statement for the year ended December 31, 2018. The fair value of the common shares issued at the date of acquisition to exchange for common shares of ABC was determined using a valuation of the Company's common shares prepared by an independent appraiser. The price per share used in the acquisition to determine the number of shares to be issued was $33.50. Goodwill of $2.3 million was recorded as a result of the acquisition effective November 1, 2018. An intangible asset related to the core deposits of the acquired company was determined by an independent firm specializing in valuations of bank assets and liabilities in an acquisition using the relevant accounting guidance in effect.

The following table summarizes the consideration paid for the acquired entity and its wholly owned subsidiary and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

(In thousands)	November 1, 2018
Consideration:	
Cash	$ 3
Common equity	14,246
Fair value of consideration transferred	$ 14,249
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	$ 36,151
Other investments	133
Loans, net of unearned income	110,462
Premises and equipment	2,860
Foreclosed assets	393
Cash surrender value of bank-owned life insurance	5,148
Core deposits intangible	2,458
Other assets	1,855
Total assets acquired	159,460
Deposits	138,189
Subordinated debenture	8,454
Other liabilities	851
Total liabilities assumed	147,494
Total indentifiable net assets	11,966
Goodwill	$ 2,283

23. Parent Company Financial Statements

Financial information pertaining only to Century Next Financial Corporation as of December 31, 2018 and 2017 is as follows:

CENTURY NEXT FINANCIAL CORPORATION
CONDENSED BALANCE SHEETS

(In thousands)	December 2018	December 2017
ASSETS		
Cash and cash equivalents	$ 2,956	$ 1,799
Investment in subsidiary	49,113	25,879
Note receivable-subsidiary for ESOP	443	472
Other assets	866	2
TOTAL ASSETS	53,378	28,152
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Long-term debt	8,454	-
Accrued interest payable and other liabilities	73	-
Total Liabilities	8,527	-
Stockholders' Equity	44,851	28,152
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 53,378	$ 28,152

CENTURY NEXT FINANCIAL CORPORATION
CONDENSED STATEMENTS OF INCOME

(In thousands)	Years Ended December 31 2018	Years Ended December 31 2017
INCOME		
Interest and dividend income	$ 20	$ 16
Total Income	20	16
EXPENSE		
Interest expense	61	-
Professional expense	606	22
Other noninterest expense	2	-
Total Expense	669	22
Income (loss) Before Taxes	(649)	(6)
Applicable income taxes (benefit)	(106)	(2)
Net Income (loss) before equity in undistributed income of subsidiary	(543)	(4)
Equity in subsidiary earnings	3,853	2,359
NET INCOME	$ 3,310	$ 2,355

23. Parent Company Financial Statements (Continued)

CENTURY NEXT FINANCIAL CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31, 2018	2017
Cash flows from operating activities:		
Net Income	$ 3,310	$ 2,355
Adjustments to reconcile net income		
to net cash provided (used) by operating activities:		
Equity in undistributed earnings of subsidiary	(3,853)	(2,359)
Net increase in accrued interest and other liabilities	73	-
Net (increase) decrease in notes receivable and other assets	(835)	30
Total adjustments	(4,615)	(2,329)
Net cash provided (used) by operating activities	(1,305)	26
Cash flows from investing activities:		
Investment in subsidiary	(19,258)	-
Net cash used by investing activities	(19,258)	-
Cash flows from financing activities:		
Net increase in other borrowings	8,454	-
Proceeds from issuance of common stock	14,247	-
Expenditures from cash out of stock options	(63)	(67)
Proceeds from exercise of stock options, including tax benefit	147	-
Stock repurchases from dissenting shareholders in acquisition	(760)	-
Cash paid to fractional shareholders for stock dividend	(4)	-
Cash dividends paid on common stock	(301)	(153)
Net cash used by financing activities	21,720	(220)
Net increase (decrease) in cash and cash equivalents	1,157	(194)
Cash and cash equivalents, at beginning of period	1,799	1,993
Cash and cash equivalents, at end of period	$ 2,956	$ 1,799