BANKFIRST CAPITAL

2017

ANNUAL REPORT

BankFirst Capital Corporation
December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
BankFirst Capital Corporation
Macon, Mississippi

We have audited the accompanying consolidated financial statements of BankFirst Capital Corporation and its Subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Board of Directors and Stockholder
BankFirst Capital Corporation

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BankFirst Capital Corporation and its Subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

T.E. Lott & Company

Starkville, Mississippi
March 20, 2018

BankFirst Capital Corporation

Consolidated Balance Sheets

December 31, 2017 and 2016

(In Thousands, Except Per Share Data)

	2017	2016
Assets		
Cash and due from banks	$ 19,068	$ 21,181
Interest bearing bank balances	12,631	5,267
Federal funds sold	1,000	-
Available-for-sale securities	118,413	117,644
Loans	758,398	735,254
Allowance for loan losses	(7,027)	(7,085)
Loans, net of allowance for loan losses	751,371	728,169
Premises and equipment	17,430	16,338
Interest receivable	3,523	3,187
Goodwill	2,485	2,485
Intangible assets	1,780	2,012
Other	31,405	32,138
Total assets	$ 959,106	$ 928,421
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 828,214	$ 832,407
Short-term borrowings	-	2,888
Notes payable	27,803	10,314
Subordinated debentures	13,686	16,186
Interest payable	425	484
Other	6,555	5,680
Total liabilities	876,683	867,959
Stockholders' Equity		
Common stock, $0.30 par value, 6,000,000 shares authorized,		
Class A voting common stock, 2,915,120 (2016) shares issued and outstanding	-	874
Class B non-voting common stock, 199,116 (2016) shares issued and outstanding	-	60
Common stock, $0.30 par value, 15,000,000 shares authorized, 3,855,074 issued and outstanding at 12/31/2017	1,157	-
Additional paid-in capital	29,379	13,560
Retained earnings	52,101	47,397
Accumulated other comprehensive income (loss)	(214)	(1,429)
Total stockholders' equity	82,423	60,462
Total liabilities and stockholders' equity	$ 959,106	$ 928,421

BankFirst Capital Corporation

Consolidated Statements of Income

Years Ended December 31, 2017 and 2016

(In Thousands, Except Per Share Data)

	2017	2016
Interest Income		
Interest and fees on loans	$ 32,768	$ 31,495
Taxable securities	1,720	1,863
Tax-exempt securities	958	653
Federal funds sold	30	48
Interest bearing bank balances	40	51
Total interest income	35,516	34,110
Interest Expense		
Deposits	3,504	3,514
Short-term borrowings	60	14
Federal Home Loan Bank advances	118	62
Other borrowings	862	895
Total interest expense	4,544	4,485
Net Interest Income	30,972	29,625
Provision for Loan Losses	1,470	1,090
Net Interest Income After Provision for Loan Losses	29,502	28,535
Noninterest Income		
Service charges on deposit accounts	5,776	5,655
Mortgage income	836	978
Net realized gains (losses) on available-for-sale securities	150	78
Other	1,400	1,437
Total noninterest income	8,162	8,148
Noninterest Expense		
Salaries and employee benefits	14,363	14,186
Net occupancy expenses	1,684	1,716
Equipment and data processing expenses	720	663
Other	10,421	10,094
Total noninterest expense	27,188	26,659
Income Before Income Taxes	10,476	10,024
Provision for Income Taxes	4,345	3,418
Net Income	$ 6,131	$ 6,606
Basic Earnings Per Common Share	$ 1.96	$ 2.12
Diluted Earnings Per Common Share	$ 1.94	$ 2.12

BankFirst Capital Corporation

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016

(In Thousands, Except Per Share Data)

	2017	2016
Net Income	$ 6,131	$ 6,606
Other Comprehensive Income (Loss)		
Available-for-sale securities		
Net unrealized gains (losses), net of taxes of $(780) and $618	1,309	(1,040)
Less: reclassification adjustment for net realized (gains) losses included in net income, net of taxes of $56 and $29	(94)	(49)
Total other comprehensive income (loss)	1,215	(1,089)
Comprehensive Income	$ 7,346	$ 5,517

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2016

(In Thousands, Except Per Share Data)

	Class A Common Stock		Class B Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balance, January 1, 2016	2,912,606	$ 874	199,116	$ 60	$ 13,478	$ 42,143	$ (340)	$ 56,215
Net income	-	-	-	-	-	6,606	-	6,606
Other comprehensive loss	-	-	-	-	-	-	(1,089)	(1,089)
Restricted stock grants vested	2,514	-	-	-	82	-	-	82
Dividends on common stock								
Class A ($.425 per share)	-	-	-	-	-	(1,259)	-	(1,259)
Class B ($.47 per share)	-	-	-	-	-	(93)	-	(93)
Balance, December 31, 2016	2,915,120	$ 874	199,116	$ 60	$ 13,560	$ 47,397	$ (1,429)	$ 60,462

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2017

(In Thousands, Except Per Share Data)

	Class A Common Stock		Class B Common Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**				
Balance, January 1, 2017	2,915,120	$ 874	199,116	$ 60	-	$ -	$ 13,560	$ 47,397	$ (1,429)	$ 60,462
Reclass of common stock	(2,915,120)	(874)	(199,116)	(60)	3,114,236	934	-	-	-	-
Issuance of 736,227 common shares	-	-	-	-	736,227	221	15,643			15,864
Net income	-	-	-	-	-	-	-	6,131	-	6,131
Other comprehensive gain	-	-	-	-	-	-	-	-	1,215	1,215
Restricted stock grants vested	-	-	-	-	4,611	2	176	-	-	178
Dividends on common stock	-	-	-	-	-	-	-	(1,427)	-	(1,427)
Balance, December 31, 2017	-	$ -	-	$ -	3,855,074	$ 1,157	$ 29,379	$ 52,101	$ (214)	$ 82,423

BankFirst Capital Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

(In Thousands, Except Per Share Data)

	2017	2016
Operating Activities		
Net income	$ 6,131	$ 6,606
Items not requiring (providing) cash		
Provision for loan losses	1,470	1,090
Depreciation	1,056	989
Net amortization on securities	1,590	1,220
Net amortization on intangible assets	232	232
Provision for losses on foreclosed assets held for sale	106	191
Net realized (gains) losses on		
Sales of available-for-sale securities	(149)	(78)
Sales of foreclosed assets held for sale	2	44
Deferred income taxes	2,539	(163)
Changes in		
Interest receivable	(336)	(84)
Interest payable	(59)	61
Other	(1,940)	426
Net cash provided by operating activities	10,642	10,534
Investing Activities		
Purchases of available-for-sale securities	(49,538)	(61,387)
Proceeds from maturities of available-for-sale securities	21,571	26,914
Proceeds from the sales of available-for-sale securities	27,695	29,061
Purchases of premises and equipment	(2,148)	(1,676)
Proceeds from sales of premises and equipment	-	349
Net (increase) decrease in		
Interest bearing bank balances	(7,364)	(1,579)
Federal funds sold	(1,000)	525
Loans	(25,105)	(22,832)
Federal Home Loan Bank stock transactions	(282)	-
Proceeds from the sale of foreclosed assets held for sale	894	969
Net cash used in investing activities	(35,277)	(29,656)

BankFirst Capital Corporation

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2017 and 2016

(In Thousands, Except Per Share Data)

	2017	2016
Financing Activities		
Net increase (decrease) in		
Noninterest bearing deposits	$ 16,422	$ 2,105
Money market, NOW and savings accounts	4,532	23,646
Certificates of deposit	(12,405)	(10,107)
Insured cash sweep deposits	(12,742)	12,426
Short-term borrowings	(2,888)	(3,523)
Advances of Federal Home Loan Bank advances	19,000	-
Repayment of Federal Home Loan Bank advances	(511)	(493)
Proceeds from issuance of common stock	15,864	-
Repayment of notes payable	(1,000)	(4,000)
Subordinated debentures issued	-	5,000
Subordinated debenture redeemed	(2,500)	(2,500)
Restricted stock grants issued	177	82
Dividends paid on common stock	(1,427)	(1,352)
Net cash provided by financing activities	22,522	21,284
Change in Cash and Due From Banks	(2,113)	2,162
Cash and Due From Banks, Beginning of Year	21,181	19,019
Cash and Due From Banks, End of Year	$ 19,068	$ 21,181

	2017	2016
Supplemental Cash Flows Information		
Interest paid	$ 4,603	$ 4,424
Income taxes paid	2,750	2,900
Foreclosed assets acquired in settlement of loans	433	288

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

BankFirst Capital Corporation (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, BankFirst Financial Services (the Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in east central and central Mississippi and west Alabama. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. As discussed in Note 12, the Company owns 100% of the common trust securities of various statutory trusts. The trusts are VIEs for which the Company is not the primary beneficiary and, accordingly, the trusts have not been consolidated into the Company's consolidated financial statements.

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 reporting 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 loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, other-than-temporary impairment and fair values of financial instruments.

Cash Equivalents

The Company has defined cash equivalents as those amounts included in the consolidated balance sheets caption "cash and due from banks."

The Company had deposits with correspondent banks that exceeded federally insured limits by $888 at December 31, 2017.

Interest Bearing Bank Balances

Interest bearing bank balances mature within one year and are carried at cost.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, the Company recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in accumulated other comprehensive income (loss).

The Company's consolidated statements of income reflect the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The Company has not recognized any impairment losses in earnings during the years ended December 31, 2017 or 2016.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are 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 is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	15 - 40 years
Furniture, fixtures and equipment	3 - 10 years

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2017 or 2016.

Goodwill

A qualitative assessment is performed on an annual basis to determine whether it is considered more likely than not the fair value is less than the carrying amount, including goodwill. If it is determined that it is more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over a period of 10 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Federal Home Loan Bank Stock

Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of the FHLB system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

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

Stock-based Compensation Plans

The Company has share-based employee compensation plans which are described more fully in Note 19.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The two components of income tax expense are current and deferred income tax expense. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment.

The Company and the Bank file consolidated U.S. federal, Alabama, and Mississippi income tax returns. With a few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2014.

The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) establishes a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, and (v) eliminates or reduces certain deductions related to meals and entertainment expenses. As a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017, and, as required by US GAAP, we remeasured our deferred tax assets and liabilities based upon the newly enacted U.S. statutory federal income tax rate of 21%, which is the tax rate at which these assets and liabilities are expected to reverse in the future. We recognized a net tax expense related to the remeasurement of our deferred tax assets and liabilities totaling approximately $1,071,000. As a result, the Bank's unrealized loss balance in AOCI was not revalued to reflect the new corporate tax rate. This impact, commonly referred to as the "stranded tax effect," was taken under consideration by the FASB in January 2018 to address concerns primarily raised by banking institutions, including distortion of net income and regulatory capital. In February 2018, to address the "stranded tax effect," the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which provides entities the election to reclassify the difference between the new and old corporate tax rates resulting from the 2017 Tax Legislation between retained earnings and AOCI for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company intends to adopt ASU 2018-02 in 2018 and the impact will result in a reclassification between AOCI and retained earnings of approximately $42,000.

Earnings Per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits through the date of issuance of the financial statements.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains (losses) on available-for-sale securities.

Recent Accounting Pronouncements

FASB ASC Topic 842 "*Leases*" Update No. 2016-02. Issued in February 2016, this update affects any entity that enters into a lease (as that term is defined in this update), with some specified scope exemptions. The core principle of this update is that a lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease have not significantly changed from previous GAAP. In addition, the accounting applied by a lessor is largely unchanged from that applied under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2019. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASC Topic 326 "*Financial Instruments - Credit Losses*" Update No. 2016-13. Issued in June 2016, this update was intended to provide financial statement users with more decision - useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, 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. The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this update are effective for fiscal years beginning after December 15, 2020. The Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

FASB ASC Topic 230 "*Statement of Cash Flows*" Update No. 2016-15. Issued in August 2016, this update is intended to reduce diversity of practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update provide guidance on the following eight specific cash flow issues; (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the Predominance Principle. The amendments in this topic provide guidance for these eight issues, thereby reducing the current and potential future diversity in practice. The amendments in this update are effective for fiscal years beginning after December 15, 2018. Earlier adoption is permitted, including interim reporting periods within that reporting period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statement.

FASB ASC Topic 350 "*Intangibles- Goodwill and Other*" Update No. 2017-04. Issued in January 2017, this update is intended to amend existing guidance to simplify subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments in this update are effective for fiscal years beginning after December 15, 2021. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASC Topic 718 "*Compensation - Stock Compensation*" Update No. 2017-09. Issued in May 2017, this update clarifies when changes to the terms or conditions of a share-based payment must be accounted for as modifications. Under this update, an entity should account for changes to the terms or conditions of a share-based payment as a modification unless all of the following are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before modification, 2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before modification and 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before modification. This accounting update will be effective on January 1, 2018, and is not expected to have a significant impact on our consolidated financial statements.

FASB ASC Topic 815 "*Derivatives and Hedging*" Update No. 2017-12. Issued in August 2017, this update targeted improvements to Accounting for Hedging Activities and amends the hedge accounting recognition and presentation requirements to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities to better align the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting. This accounting update will be effective on January 1, 2020, and is not expected to have a significant impact on our consolidated financial statements.

FASB ASC Topic 220 "*Income Statement – Reporting Comprehensive Income*" Update No. 2018-02. Issued in February 2018, this update provides financial statement preparers with an option to reclassify stranded tax effects within Accumulated Other Comprehensive Income (AOCI) to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. We intend to adopt this standard in 2018 and the impact will result in a reclassification within AOCI and retained earnings of $42.

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 consolidated financial statement presentation. These reclassifications had no effect on net income.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditors' Report, which is the date the consolidated financial statements were available to be issued.

(In Thousands, Except Per Share Data)

Note 2: Available-for-sale Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows. Mortgage-backed securities consist of residential and commercial mortgage-backed securities issued by U.S. government-sponsored enterprises (GSEs).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
U.S. Treasury	$ 1,955	$ -	$ 5	$ 1,950
U.S. GSEs	22,212	60	87	22,185
Commercial mortgage-backed securities	9,393	-	138	9,255
Residential mortgage-backed securities	46,293	107	527	45,873
State and political subdivisions	36,206	512	83	36,635
Corporate debt securities	500	-	-	500
Collateralized debt obligations	2,195	170	350	2,015
	$ 118,754	$ 849	$ 1,190	$ 118,413
December 31, 2016				
U.S. Treasury	$ 1,945	$ 10	$ -	$ 1,955
U.S. GSEs	14,308	3	118	14,193
Commercial mortgage-backed securities	2,171	-	105	2,066
Residential mortgage-backed securities	60,387	282	647	60,022
State and political subdivisions	33,160	293	515	32,938
Corporate debt securities	2,516	12	3	2,525
Collateralized debt obligations	5,437	195	1,687	3,945
	$ 119,924	$ 795	$ 3,075	$ 117,644

The amortized cost and fair value of available-for-sale securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 2,272	$ 2,276
One to five years	17,652	17,715
Five to ten years	6,505	6,628
After ten years	36,639	36,666
	63,068	63,285
Mortgage-backed securities	55,686	55,128
	$ 118,754	$ 118,413

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $64,178 at December 31, 2017, and $49,243 at December 31, 2016.

(In Thousands, Except Per Share Data)

Gross gains of $678 and $138 and gross losses of $528 and $60 resulting from sales of available-for-sale securities were realized for 2017 and 2016, respectively.

The following table shows the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2017						
U.S. Treasury	$ 1,951	$ 5	$ -	$ -	$ 1,951	$ 5
U.S. GSEs	9,026	65	1,512	22	10,538	87
Mortgage-backed securities	21,461	199	22,507	466	43,968	665
State and political subdivisions	5,364	35	5,313	48	10,677	83
Collateralized debt obligations	-	-	1,845	350	1,845	350
	$ 37,802	$ 304	$ 31,177	$ 886	$ 68,979	$ 1,190
December 31, 2016						
U.S. GSEs	$ 10,989	$ 111	$ 1,708	$ 7	$ 12,697	$ 118
Mortgage-backed securities	42,593	676	3,800	76	46,393	752
State and political subdivisions	20,114	514	439	1	20,553	515
Corporate debt obligations	206	2	504	1	710	3
Collateralized debt obligations	-	-	2,848	1,687	2,848	1,687
	$ 73,902	$ 1,303	$ 9,299	$ 1,772	$ 83,201	$ 3,075

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. These unrealized losses on the Company's investments were caused by interest rate increases. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2017.

(In Thousands, Except Per Share Data)

Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31 include:

	2017	2016
Secured by real estate		
Construction	$ 74,936	$ 65,057
Farmland	45,078	45,998
Residential real estate	189,292	172,216
Commercial real estate	324,636	318,506
Consumer	13,063	15,127
Commercial and other	111,393	118,350
	758,398	735,254
Allowance for loan losses	(7,027)	(7,085)
Loans, net	$ 751,371	$ 728,169

The following table presents the recorded investment in loans individually and collectively evaluated for impairment by loan class:

	December 31, 2017 Loans Evaluated for Impairment			December 31, 2016 Loans Evaluated for Impairment		
	Individually	Collectively	Total	Individually	Collectively	Total
Secured by real estate						
Construction	$ 4,915	$ 70,021	$ 74,936	$ 8,174	$ 56,883	$ 65,057
Farmland	-	45,078	45,078	-	45,998	45,998
Residential real estate	1,823	187,469	189,292	2,147	170,069	172,216
Commercial real estate	477	324,159	324,636	2,457	316,049	318,506
Consumer	2	13,061	13,063	-	15,127	15,127
Commercial and other	3,091	108,302	111,393	2,804	115,546	118,350
	$ 10,308	$ 748,090	$ 758,398	$ 15,582	$ 719,672	$ 735,254

(In Thousands, Except Per Share Data)

Activity in the allowance for loan losses based on loan class was as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance
Year Ended December 31, 2017					
Secured by real estate					
Construction	$ 1,027	$ (386)	$ -	$ 412	$ 1,053
Farmland	29	-	50	32	111
Residential real estate	830	(238)	5	428	1,025
Commercial real estate	1,138	-	-	42	1,180
Consumer	180	(482)	162	388	248
Commercial and other	2,637	(657)	18	(529)	1,469
Unallocated	1,244	-	-	697	1,941
	$ 7,085	$ (1,763)	$ 235	$ 1,470	$ 7,027
Year Ended December 31, 2016					
Secured by real estate					
Construction	$ 1,325	$ (552)	$ 187	$ 67	$ 1,027
Farmland	16	-	-	13	29
Residential real estate	935	(198)	6	87	830
Commercial real estate	1,176	(103)	8	57	1,138
Consumer	559	(328)	171	(222)	180
Commercial and other	2,813	(413)	167	70	2,637
Unallocated	226	-	-	1,018	1,244
	$ 7,050	$ (1,594)	$ 539	$ 1,090	$ 7,085

(In Thousands, Except Per Share Data)

The following tables present the balance in the allowance for loan losses based on loan class and impairment method at December 31:

	December 31, 2017 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment			December 31, 2016 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment		
	Individually	Collectively	Total	Individually	Collectively	Total
Secured by real estate						
Construction	$ 429	$ 624	$ 1,053	$ 724	$ 303	$ 1,027
Farmland	-	111	111	-	29	29
Residential real estate	239	786	1,025	170	660	830
Commercial real estate	42	1,138	1,180	-	1,138	1,138
Consumer	2	246	248	-	180	180
Commercial and other	715	754	1,469	573	2,064	2,637
Unallocated	-	1,941	1,941	-	1,244	1,244
	$ 1,427	$ 5,600	$ 7,027	$ 1,467	$ 5,618	$ 7,085

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Construction Real Estate: Construction loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Farmland: Loans secured by farmland are generally made for the purpose of acquiring land devoted to crop production, cattle or poultry, the growth and management of timber or the operation of a similar type of business on the secured property. Sources of repayment for these loans generally include income generated from operations of a business on the property, rental income or sales of the property. Credit risk in these loans may be impacted by crop and commodity prices, the creditworthiness of a borrower, changes in economic conditions which might affect underlying property values and the local economies in the Company's market areas.

Residential Real Estate: The residential real estate loan portfolio consists of residential loans for single and multifamily properties. Residential loans are generally secured by owner occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Commercial and other: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line-of-credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

The Company utilizes a risk grading system to assign a grade to each of its loans when originated. This grade is updated as factors related to quality of a loan change. Loan grades A, B and C are considered satisfactory grades. A description of the six risk grades follows.

Excellent (A): Loans with very little, if any, repayment risk and generally include the following attributes: past due status not over 30 days, seasoned customer, less than 70% loan-to-value or excellent payment record. These loans will generally be secured by deposits in the bank or by government securities.

Good (B): Loans that have excellent sources of repayment, no identifiable risk of collection and have not been over 45 days past due in the past year. These loans conform in all respects to bank policy and regulatory requirements.

Acceptable (C): Loans have adequate sources of repayment with little identifiable repayment risk and have not been over 60 days past due in the past year. These loans conform to bank policy and regulatory requirements with minimal credit or collateral exceptions that do not represent repayment risk.

Acceptable with Care (W): Loans that are fundamentally sound and warrant grade W but have a weakness or issue which may or may not affect the orderly repayment of the loan. The weakness or issue could include a policy, credit or collateral exception. These loans may have repayment issues requiring close attention.

Substandard (D): Loans inadequately protected by the current sound net worth or paying capacity of the obligor or pledged collateral. Substandard loans will generally be dependent upon collateral for repayment. These loans have well-defined weaknesses jeopardizing orderly liquidation. Substandard loans may or may not be impaired.

Doubtful (F): Loans with weaknesses inherent in the substandard classification and where collection in full is very questionable. Doubtful loans will have some recognizable impairment. These loans must be placed on nonaccrual, and collection activity will usually have been started.

The Company evaluates the risk grading system and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during 2017 or 2016.

(In Thousands, Except Per Share Data)

The following table details the amount of loans by loan grade and loan class:

	Grades (A,B,C)	Watch (W)	Substandard (D)	Doubtful (F)	Total Loans
December 31, 2017					
Secured by real estate					
Construction	$ 69,532	$ 679	$ 4,725	$ -	$ 74,936
Farmland	41,668	3,057	353	-	45,078
Residential real estate	179,436	5,872	3,984	-	189,292
Commercial real estate	317,715	5,918	1,003	-	324,636
Consumer	12,748	172	143	-	13,063
Commercial and other	106,770	992	3,631	-	111,393
	$ 727,869	$ 16,690	$ 13,839	$ -	$ 758,398
December 31, 2016					
Secured by real estate					
Construction	$ 56,953	$ 387	$ 7,717	$ -	$ 65,057
Farmland	42,101	3,440	457	-	45,998
Residential real estate	160,472	7,709	4,035	-	172,216
Commercial real estate	310,518	5,003	2,985	-	318,506
Consumer	14,662	191	274	-	15,127
Commercial and other	111,680	3,571	3,099	-	118,350
	$ 696,386	$ 20,301	$ 18,567	$ -	$ 735,254

(In Thousands, Except Per Share Data)

The following tables present the loan portfolio aging analysis of the recorded investment in loans by loan class:

	Accruing Loans Past Due			Total		
	30 - 89 Days	90 Days or More	Non-accrual	Past Due and Nonaccrual	Current Loans	Total Loans
December 31, 2017						
Secured by real estate						
Construction	$ 410	$ -	$ 4,518	$ 4,928	$ 70,008	$ 74,936
Farmland	486	-	72	558	44,520	45,078
Residential real estate	1,353	-	1,734	3,087	186,205	189,292
Commercial real estate	671	-	172	843	323,793	324,636
Consumer	116	7	18	141	12,922	13,063
Commercial and other	553	-	2,589	3,142	108,251	111,393
	$ 3,589	$ 7	$ 9,103	$ 12,699	$ 745,699	$ 758,398
December 31, 2016						
Secured by real estate						
Construction	$ 342	$ -	$ 7,828	$ 8,170	$ 56,887	$ 65,057
Farmland	285	-	35	320	45,678	45,998
Residential real estate	1,583	419	1,235	3,237	168,979	172,216
Commercial real estate	248	-	215	463	318,043	318,506
Consumer	251	83	7	341	14,786	15,127
Commercial and other	118	70	2,646	2,834	115,516	118,350
	$ 2,827	$ 572	$ 11,966	$ 15,365	$ 719,889	$ 735,254

(In Thousands, Except Per Share Data)

Impaired loans include nonperforming loans and loans modified in troubled debt restructurings, if applicable. The following table presents loans evaluated for impairment by loan class.

	Unpaid Principal Balance	Recorded Loan Balance: With No Specific Allowance	Recorded Loan Balance: With a Specific Allowance	Recorded Loan Balance: Total	Specific Allowance	Average Recorded Loan Balance
December 31, 2017						
Secured by real estate						
Construction	$ 5,765	$ 1,686	$ 3,229	$ 4,915	$ 414	$ 6,545
Farmland	-	-	-	-	-	-
Residential real estate	1,823	999	824	1,823	235	1,985
Commercial real estate	477	351	126	477	41	1,467
Consumer	2	-	2	2	2	1
Commercial and other	3,382	391	2,700	3,091	712	2,947
	$ 11,449	$ 3,427	$ 6,881	$ 10,308	$ 1,404	$ 12,945
December 31, 2016						
Secured by real estate						
Construction	$ 8,574	$ 3,153	$ 5,021	$ 8,174	$ 724	$ 9,595
Farmland	-	-	-	-	-	-
Residential real estate	2,147	1,249	898	2,147	170	2,143
Commercial real estate	2,462	2,457	-	2,457	-	2,637
Consumer	-	-	-	-	-	-
Commercial and other	2,927	404	2,400	2,804	573	2,546
	$ 16,110	$ 7,263	$ 8,319	$ 15,582	$ 1,467	$ 16,921

The Company recognized interest income of $154 in 2017 and $320 in 2016 on loans evaluated for impairment that had specific allowances.

The restructuring of a loan is considered a "troubled debt restructuring" (TDR) if both (1) the borrower is experiencing financial difficulties and (2) the creditor has granted a concession. Concessions may include interest rate reductions below market interest rates compared to debt with similar characteristics, principal forgiveness, restructuring amortization of the debt and other actions to minimize potential losses.

At December 31, 2017, the Company held a total $3,790 of loans modified in troubled debt restructurings, principally commercial real estate loans. There were no additional loans modified in troubled debt restructurings during 2017.

At December 31, 2016, the Company held a total $5,302 of loans modified in troubled debt restructurings, principally commercial real estate loans. There were no additional loans modified in troubled debt restructurings during 2016.

(In Thousands, Except Per Share Data)

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, follow.

	2017	2016
Land	$ 4,436	$ 3,686
Buildings and improvements	18,625	17,739
Furniture, fixtures and equipment	5,893	5,412
	28,954	26,837
Less accumulated depreciation	(11,524)	(10,499)
Net premises and equipment	$ 17,430	$ 16,338

Note 5: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016, were:

	2017	2016
Beginning balance	$ 2,485	$ 2,635
Changes to goodwill	-	(150)
Accumulated impairment losses	-	-
Ending balance	$ 2,485	$ 2,485

Note 6: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2017 and 2016, were:

	2017		2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangible	$ 2,321	$ 541	$ 2,321	$ 309

(In Thousands, Except Per Share Data)

Amortization expense for the years ended December 31, 2017 and 2016, was $232 and $232, respectively. Estimated amortization expense for each of the following five years is:

2018	$ 232
2019	232
2020	232
2021	232
2022	232
	$ 1,160

Note 7: Other Assets

A summary of other assets at December 31 follows:

	2017	2016
Cash surrender value of life insurance	$ 21,382	$ 21,174
Foreclosed assets held for sale, net	791	1,360
FHLB stock	1,204	913
Deferred income taxes	2,251	5,047
Other	5,777	3,644
	$ 31,405	$ 32,138

(In Thousands, Except Per Share Data)

Note 8: Deposits

Categories of deposits at December 31 follow:

	2017	2016
Noninterest bearing deposits	$ 155,200	$ 138,778
Interest bearing deposits		
Money market, NOW and savings accounts	424,928	420,396
Certificates of deposit of $250 thousand or more	36,711	41,308
Other certificates of deposit	179,960	187,768
Insured cash sweep deposits	31,415	44,157
Total interest bearing deposits	673,014	693,629
Total deposits	$ 828,214	$ 832,407

At December 31, 2017, the scheduled maturities of certificates of deposit follow:

2018	$ 119,459
2019	43,056
2020	27,152
2021	13,446
2022	13,558
	$ 216,671

(In Thousands, Except Per Share Data)

Note 9: Short-term Borrowings

All of the Company's short-term borrowings are securities sold under repurchase agreements, which represent obligations of the Company to other parties. These obligations are secured by U.S. GSEs and mortgaged-backed securities, and such collateral is held by a third-party safekeeping agent. Securities sold under repurchase agreements generally have a maturity of one day. Short-term borrowings included the following as of and for the years ended December 31:

	Balance Outstanding			Weighted Average Rate	
	Maximum Month-end	Average Daily	At Year-end	During Year	At Year-end
2017	$ 1,637	$ 626	$ -	0.05%	0.20%
2016	$ 3,412	$ 2,922	$ 2,888	0.16%	0.20%

Note 10: Notes Payable

Categories of notes payable at December 31 follow:

	2017	2016
Bank's FHLB advances	$ 20,053	$ 1,564
Company's note payable - Trustmark	7,750	8,750
	$ 27,803	$ 10,314

(In Thousands, Except Per Share Data)

The Company has advances from FHLB, which are collateralized by a blanket lien on first mortgage and other qualifying loans. The Company may not prepay certain of these single payment advances without paying a prepayment penalty. Certain of these single payment advances are subject to quarterly calls until maturity by FHLB. The following is a summary of these advances at December 31:

	2017	2016
Single payment advances maturing within 12 months		
Balance	$ 19,000	$ -
Range of fixed interest rates	1.57% - 1.59%	0.00%
Monthly payment advances		
Balance	$ 1,053	$ 1,564
Approximate monthly payment	31	41
Range of fixed interest rates	3.12% - 5.16%	3.12% - 5.16%
Range of maturities	2018 - 2024	2018 - 2024

Scheduled principal payments of FHLB advances at December 31, 2017, follow:

2018	$ 19,327
2019	328
2020	339
2021	36
2022	8
Thereafter	15
	$ 20,053

In 2015, the Company entered into a credit agreement (the Agreement) with a bank consisting of a $3,000,000 revolving line of credit (line of credit) as well as a $10,000,000 term loan. The line of credit bears interest at 30 day LIBOR plus 250 basis points, which was 4.07% and 3.27% at December 31, 2017 and 2016, respectively, and requires monthly interest payments. The term loan has a fixed interest rate of 3.56% until maturity at August 27, 2022. The Agreement required the line of credit to be paid in full at maturity on August 27, 2017. At maturity, the Agreement was amended and the line of credit was extended for an additional two years and the revolving line of credit was increased to $5,000,000. The Agreement requires the term loan to be paid based on a 10 year amortization. This line of credit and term loan is secured by 53,264 shares of BankFirst Financial Services Stock. The balance at December 31 of the line of credit was $0 and $0, and the term loan was $7,750 and $8,750, for 2017 and 2016, respectively.

(In Thousands, Except Per Share Data)

Note 11: Subordinated Debentures

The following is a summary of subordinated debentures at December 31:

	2017	2016
Subordinated promissory notes	$ 7,500	$ 10,000
Subordinated debentures payable to statutory trusts	6,186	6,186
	$ 13,686	$ 16,186

Subordinated Promissory Notes

The Company offered subordinated promissory notes to a limited number of individuals and financial institutions, each of whom is exempted under applicable securities laws as of December 31, 2016. The terms of the notes are four separate series maturing annually from July 15, 2016 through July 15, 2020, paying interest on a semiannual basis.

The following is a summary of subordinated promissory notes at December 31:

	Year of Maturity	Interest Rate	2017	2016
Series 2017	2017	3.75%	$ -	$ 2,500
Series 2018	2018	4.50%	2,500	2,500
Series 2019	2019	3.50%	2,500	2,500
Series 2020	2020	4.00%	2,500	2,500
			$ 7,500	$ 10,000

Subordinated Debentures Payable to Statutory Trusts

The Company owns the outstanding common stock of business trusts that have issued preferred capital securities to third parties. These preferred capital securities qualify as Tier I capital for the Company, subject to regulatory rules and limits. These trusts used the proceeds from the issuance of the common stock and the preferred capital securities to purchase debentures issued by the Company. These debentures are these trusts' only assets, and quarterly interest payments on these debentures are the sole source of cash for these trusts to pay quarterly distributions on the common stock and preferred capital securities. The Company has fully and unconditionally guaranteed the trusts' obligation with respect to the preferred capital securities.

Although the Company has not elected to do so, the Company has the right to defer the payment of interest on the subordinated debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on the subordinated debentures are deferred, the distributions on the preferred capital securities are also deferred. Interest on the subordinated debentures and distributions on the preferred capital securities are cumulative.

(In Thousands, Except Per Share Data)

The Company has the right to redeem the debentures prior to maturity. Upon redemption of the subordinated debentures payable to a statutory trust, the trust will also liquidate its common stock and preferred capital securities. The subordinated debentures payable to Trust I were redeemed by the Company on February 22, 2012. The subordinated debentures payable to Trust II have been eligible for redemption by the Company since September 15, 2008. The subordinated debentures payable to Trust III have been eligible for redemption by the Company since December 15, 2010.

The following is a summary of debentures payable to statutory trusts as of December 31, 2017 and 2016. Interest rates adjust quarterly for the debentures whose rates are indexed with LIBOR.

	Year of Maturity	Interest Rate	2017	2016
BankFirst Capital Statutory Trust II	2033	3-month LIBOR, plus 2.95% 4.64% (2017) and 3.94% (2016)	$ 3,093	$ 3,093
BankFirst Capital Statutory Trust III	2035	3-month LIBOR, plus 1.45% 3.14% (2017) and 2.41% (2016)	3,093	3,093
			$ 6,186	$ 6,186

(In Thousands, Except Per Share Data)

Note 12: Other Expenses

A summary of other expenses at December 31 follows:

	2017	2016
Advertising and promotions	$ 657	$ 728
Directors' fees and expenses	340	227
Legal and professional expenses	1,068	850
Supplies	323	318
Expenses on foreclosed assets held for sale	184	290
Other	7,849	7,681
	$ 10,421	$ 10,094

Note 13: Income Taxes

The Tax Cut and Jobs Act (the "Tax Act") enacted in December 2017, reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the Tax Act, the bank recorded a $1.07 million write-off of our net deferred tax asset, which was recorded as additional income tax expense during 2017.

The bank reported gross deferred tax assets of $3,155 thousand and $5,911 thousand at December 31, 2017 and 2016, respectively, which related primarily to our allowance for loan losses, loan origination fees and stock compensation.

The provision (credit) for income taxes includes these components:

	2017	2016
Taxes currently payable	$ 2,273	$ 3,581
Deferred income taxes	1,001	(163)
DTA write-down due to the Tax Cuts & Jobs Act - net future deductions	1,029	-
DTA write-down due to the Tax Cuts & Jobs Act - unrealized gain/loss on AFS securities	42	-
	$ 4,345	$ 3,418

(In Thousands, Except Per Share Data)

A reconciliation of income tax expense at the statutory rate of 34% to the Company's actual income tax expense is shown below:

	2017	2016
Computed at the statutory rate	$ 3,503	$ 3,411
Increase (decrease) resulting from		
Tax-exempt interest	(293)	(203)
Life insurance income	(153)	(158)
State income taxes	181	334
DTA write-down due to the Tax Cuts & Jobs Act	1,071	-
Other	36	34
	$ 4,345	$ 3,418

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets follow:

	2017	2016
Deferred tax assets		
Allowance for loan losses	$ 1,753	$ 2,643
Foreclosed assets held for sale	34	148
Stock based compensation	92	100
Deferred compensation	816	1,170
Accrued expenses	190	531
Unrealized losses on available-for-sale securities	85	851
Other	185	468
	3,155	5,911
Deferred tax liabilities		
Depreciation and amortization	(727)	(662)
FHLB stock dividends	(13)	(16)
Prepaid expenses	(60)	(93)
Other	(104)	(93)
	(904)	(864)
Net deferred tax asset	$ 2,251	$ 5,047

(In Thousands, Except Per Share Data)

Management believes it is more likely than not that all of the deferred tax assets will be realized. The Bank's net deferred tax assets are included in other assets in the consolidated balance sheets.

Note 14: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity follow:

	Unrealized Gains (Losses) on Available-for-sale Securities		
	Amount	**Tax Effect**	**Net of Tax**
Balance, January 1, 2016	$ (544)	$ 204	$ (340)
Included in comprehensive income			
Net unrealized gains on available-for-sale securities	(1,736)	647	(1,089)
Other comprehensive income (loss)	(1,736)	647	(1,089)
Balance, December 31, 2016	(2,280)	851	(1,429)
Included in comprehensive income			
Net unrealized losses on available-for-sale securities	1,939	(766)	1,173
Other comprehensive income (loss)	1,939	(766)	1,173
Balance, December 31, 2017	$ (341)	$ 85	$ (256)

Note 15: Stockholders' Equity

Common Stock

Class B common stock is nonvoting except with regard to a vote on a merger or a transaction which would otherwise result in a change of control. Holders of Class B common stock share in distribution of the assets with the holders of Class A common stock upon liquidation or dissolution of the Company. Class B common stockholders are entitled to receive dividends, if any are declared, and receive an additional 10% per share dividend over the dividends paid on Class A common shares.

In 2017, Class A and Class B common stock were combined into one class of common stock.

In 2017 the Company issued 736,227 shares of common stock through a private placement offering. The offering was made solely to "accredited investors" as defined in Rule 501(a) promulgated by the Securities and Exchange Commission and to our employees through their participation in our BankFirst Financial Services 401(k) Profit Sharing Plan. As of the end of 2017, the Company had raised $16,013 in newly issued capital. The majority of the shares were issued to current shareholders, employees, and investors in our local markets.

Note 16: Regulatory Matters

The Bank may be required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. At December 31, 2017, $0 reserve was required.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2017 is 1.25%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017 and 2016, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2017, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I risk based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios are also presented in the table.

(In Thousands, Except Per Share Data)

The following table presents actual and required capital ratios as of December 31, 2017 and 2016, for the Company and Bank under the capital regulatory rules then in effect:

	Actual		Minimum Capital Requirements		Minimum To Be Well-capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**		
December 31, 2017						
Company						
Common equity tier I	$ 78,728	10.3%	$ 34,419	4.5%	Not applicable	
Total capital (to risk-weighted assets)	91,755	12.0%	61,208	8.0%	Not applicable	
Tier I capital (to risk-weighted assets)	84,728	11.1%	45,906	6.0%	Not applicable	
Tier I capital (to average assets)	84,728	9.0%	37,965	4.0%	Not applicable	
Bank						
Common equity tier I	97,363	12.7%	34,419	4.5%	49,717	6.5%
Total capital (to risk-weighted assets)	104,390	13.7%	61,190	8.0%	76,487	10.0%
Tier I capital (to risk-weighted assets)	97,363	12.7%	45,892	6.0%	61,190	8.0%
Tier I capital (to average assets)	97,363	10.3%	37,956	4.0%	47,445	5.0%
December 31, 2016						
Company						
Common equity tier I	$ 58,199	7.7%	$ 33,921	4.5%	Not applicable	
Total capital (to risk-weighted assets)	71,284	9.5%	60,305	8.0%	Not applicable	
Tier I capital (to risk-weighted assets)	64,199	8.5%	45,229	6.0%	Not applicable	
Tier I capital (to average assets)	64,199	7.0%	36,909	4.0%	Not applicable	
Bank						
Common equity tier I	81,668	10.8%	33,905	4.5%	48,973	6.5%
Total capital (to risk-weighted assets)	88,753	11.8%	60,275	8.0%	75,344	10.0%
Tier I capital (to risk-weighted assets)	81,668	10.8%	45,206	6.0%	60,275	8.0%
Tier I capital (to average assets)	81,668	8.8%	36,894	4.0%	46,117	5.0%

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to its stockholders and for other cash needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the Bank. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items, and, as a result, capital adequacy considerations could further limit the availability of dividends from the Bank. These restrictions are not anticipated to have a material effect on the ability of the Bank to pay dividends to the Company.

(In Thousands, Except Per Share Data)

Note 17: Related Party Transactions

The Company had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) at December 31, 2017 and 2016. In addition to these loans, the Company has commitments to extend credit to these related parties which amounted to $1,520 and $1,343 at December 31, 2017 and 2016, respectively. The following is a summary of activity in related party loans:

	2017	2016
Balance, beginning of year	$ 875	$ 1,234
Advances	1,061	74
Change in composition of related parties	1,400	-
Repayments	(721)	(433)
Balance, end of year	$ 2,615	$ 875

Deposits from related parties held by the Company at December 31, 2017 and 2016, totaled $44,733 and $47,687, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Note 18: Employee Benefits

401(k) Plan

The Company has a 401(k) plan covering substantially all full time employees of the Company and the Bank. Participants may make contributions to the plan in accordance with applicable regulations and the plan's provisions. The Company makes discretionary matching contributions and additional employer contributions at the discretion of the Board of Directors. The Company contributed $340 and $320 to the plan in 2017 and 2016, respectively.

Split-dollar Life Insurance Arrangements

For endorsement split-dollar life insurance arrangements, an employer must recognize the liability for future benefits based on the substantive agreement with the employee. The total accrued liability at December 31, 2017 and 2016 amounted to $668 and $626, respectively, and is included in other liabilities on the balance sheets.

(In Thousands, Except Per Share Data)

Deferred Compensation Plan

The Company has deferred retirement arrangements for the benefit of certain directors, which generally provide for the payment of monthly benefits to participants at age 70 for a specified period of years. The Company is accruing the present value of the projected benefits to the date of retirement of the respective participants using a discount rate of 3.75%. The deferred compensation liability is recorded in other liabilities on the balance sheets.

The following is a summary of the deferred compensation liability:

	2017	2016
Beginning balance	$ 3,265	$ 3,531
Expense accrued	251	114
Payments	(402)	(380)
Ending balance	$ 3,114	$ 3,265

Note 19: Stock-based Compensation

Restricted Stock Plan

The Company has issued restricted stock agreements related to Common Stock. 52,600 shares of common stock have been issued and are outstanding. Of these shares, 41,500 shares vest at 10% per year from their respective grant dates and 11,100 shares vest at the end of a three year period. Compensation is being recognized on the straight-line method over the vesting period. These shares would become fully vested in the event of death of a participant or upon a change in control. Participants are entitled to receive dividends as compensation and to vote the restricted shares. Restricted shares may not be transferred by the participants. The Company recognized compensation expense of $175 and $82 related to these restricted shares during 2017 and 2016, respectively. Future expense related to these restricted shares was $566 and $534 at December 31, 2017 and 2016, respectively.

(In Thousands, Except Per Share Data)

Note 20: Earnings Per Common Share

Basic earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock grants as discussed in Note 19 and are determined using the treasury stock method.

Earnings per common share were computed as follows:

	2017	2016
Basic earnings per common share		
Net income available to common stockholders	$ 6,131	$ 6,606
Weighted-average basic common shares outstanding	3,135,693	3,113,554
Basic earnings per common share	$ 1.96	$ 2.12
Diluted earnings per common share		
Net income available to common stockholders	$ 6,131	$ 6,606
Weighted-average basic common shares outstanding	3,135,693	3,113,554
Effect of dilutive restricted stock grants	26,561	6,830
Weighted-average diluted common shares outstanding	3,162,254	3,120,384
Diluted earnings per common share	$ 1.94	$ 2.12

Note 21: Disclosures About Fair Value of Assets and Liabilities

Fair value 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 measurements maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

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

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

(In Thousands, Except Per Share Data)

Recurring Measurements

The following table presents the fair value measurement of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2017				
Available-for-sale securities				
U.S. Treasury	$ 1,950	$ 1,950	$ -	$ -
U.S. GSEs	22,185	-	22,185	-
Mortgage-backed securities	55,128	-	55,128	-
State and political subdivisions	36,635	-	36,635	-
Corporate debt securities	500	-	500	-
Collateralized debt obligations	2,015	-	2,015	-
	$ 118,413	$ 1,950	$ 116,463	$ -
December 31, 2016				
Available-for-sale securities				
U.S. Treasury	$ 1,955	$ 1,955	$ -	$ -
U.S. GSEs	14,193	-	14,193	-
Mortgage-backed securities	62,088	-	62,088	-
State and political subdivisions	32,938	-	32,938	-
Corporate debt securities	2,525	-	2,525	-
Collateralized debt obligations	3,945	-	3,945	-
	$ 117,644	$ 1,955	$ 115,689	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2017 or 2016.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include the remainder of the

(In Thousands, Except Per Share Data)

Company's available-for-sale securities. For these securities the Company obtains fair value measurements from an independent pricing service that considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, valuation matrices, credit information and the bond's terms and conditions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities.

Nonrecurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Impaired loans (collateral dependent), net of allowance for loan losses	$ 5,477	$ -	$ -	$ 5,477
Foreclosed assets held for sale	791	-	-	791
December 31, 2016				
Impaired loans (collateral dependent), net of allowance for loan losses	$ 6,852	$ -	$ -	$ 6,852
Foreclosed assets held for sale	1,360	-	-	1,360

Following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2017 or 2016.

Impaired Loans (Collateral Dependent)

The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral dependent impaired loans are classified within Level 3 of the fair value hierarchy.

(In Thousands, Except Per Share Data)

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value is determined on the basis of appraisals and evaluations. The Company's foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals are obtained when the real estate is acquired and subsequently as deemed necessary by management. Appraisers are selected from the list of approved appraisers maintained by management.

Another unobservable input used in the fair value measurement of collateral for collateral dependent impaired loans and foreclosed assets held for sale relates to the discounting criteria used to consider lack of marketability and estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results. During 2017 and 2016, collateral discounts ranged from 0% to 100%, with an average discount of approximately 20% per property.

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2017 and 2016.

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	$ 19,068	$ 19,068	$ 21,181	$ 21,181
Interest bearing bank balances	12,631	12,631	5,267	5,267
Available-for-sale securities	118,413	118,413	117,644	117,644
Loans, net	751,371	750,762	728,169	727,744
Interest receivable	3,523	3,523	3,187	3,187
FHLB stock	1,204	1,204	913	913
Financial liabilities				
Deposits	828,214	829,137	832,407	833,300
Short-term borrowings	-	-	2,888	2,888
Notes payable	27,803	27,058	10,314	10,385
Subordinated debentures	13,686	13,686	16,186	16,186
Interest payable	425	425	484	484

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Due from Banks, Interest Bearing Bank Balances, Federal Funds Sold and Purchased and FHLB Stock

The carrying amount approximates fair value.

Loans and Interest Receivable

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity and the structure and term of the loans along with local economic and market conditions. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of interest receivable approximates its fair value.

Deposits

Deposits include demand deposits, money market, NOW and savings accounts. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Short-term Borrowings and Interest Payable

The carrying amount approximates fair value.

Notes Payable and Subordinated Debentures

The fair values of the Company’s FHLB advances and subordinated debentures are based on the discounted value of contractual cash flows using current rates for debt with similar terms and remaining maturities for discounting purposes. The carrying amount of subordinated debentures approximates fair value, since the majority of these instruments have variable interest rates.

Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. In the opinion of management, the fair value of these financial instruments is not material.

Note 22: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and loan concentrations are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. In management's opinion, the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Note 23: Commitments and Credit Risk

The Company's loan portfolio includes commercial, agricultural and real estate loans to borrowers primarily in its market area in east central and central Mississippi. Although the Company has a diversified loan portfolio, the Company has concentrations of credit risks related to the real estate market, the agricultural economy and general economic conditions in the Company's market area. Categories of loans are disclosed in Note 3.

As disclosed in Note 3, at December 31, 2017, the Company held $324,636 in loans collateralized by commercial real estate and $74,936 in loans collateralized by construction real estate primarily in the Company's geographic area.

Commitments to Originate Loans

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

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Credit card arrangements represent the amount that preapproved credit limits exceed actual balances. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer’s creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management’s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

The Company had total outstanding standby letters of credit of approximately $1,373 and $1,218, had unused lines of credit to residential borrowers of approximately $14,539 and $11,575, had credit card arrangements of approximately $9,385 and $9,644, and other unused lines of credit and commitments to originate loans of approximately $105,937 and $98,950, at December 31, 2017 and 2016, respectively.

(In Thousands, Except Per Share Data)

Note 24: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company.

Condensed Balance Sheets

	December 31, 2017	December 31, 2016
Assets		
Cash	$ 1,404	$ 343
Investment in subsidiary	101,058	83,931
Investment in statutory trusts	189	189
Other assets	1,374	1,146
Total assets	$ 104,025	$ 85,609
Liabilities		
Subordinated debentures	$ 13,686	$ 16,186
Notes payable	7,750	8,750
Other liabilities	166	211
Total liabilities	21,602	25,147
Stockholders' Equity	82,423	60,462
Total liabilities and stockholders' equity	$ 104,025	$ 85,609

(In Thousands, Except Per Share Data)

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31, 2017	2016
Income		
Other income	$ 7	$ 6
Total income	7	6
Expenses		
Interest expense	861	895
Other	156	363
Total expenses	1,017	1,258
Loss Before Income Tax and Equity in Undistributed Net Income of Subsidiary	(1,010)	(1,252)
Income Tax Benefit	376	464
Loss Before Equity in Undistributed Net Income of Subsidiary	(634)	(788)
Equity in Undistributed Net Income of Subsidiary	6,765	7,394
Net Income	6,131	6,606
Other Comprehensive Income (Loss)	1,215	(1,089)
Comprehensive Income	$ 7,346	$ 5,517

BankFirst Capital Corporation

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In Thousands, Except Per Share Data)

Condensed Statements of Cash Flows

	Years Ended December 31, 2017	Years Ended December 31, 2016
Operating Activities		
Net income	$ 6,131	$ 6,606
Items not requiring (providing) cash		
Equity in undistributed earnings of subsidiary	(6,765)	(7,394)
Other, net	(422)	(454)
Net cash used in operating activities	(1,056)	(1,242)
Investing Activities		
Dividends received from subsidiary	6,050	4,000
Decrease in investment in trust	-	-
Capital injected into subsidiary	(15,000)	-
Proceeds from the sale of foreclosed assets held for sale	130	-
Net cash provided by (used in) investing activities	(8,820)	4,000
Financing Activities		
Subordinated debentures issued	-	5,000
Subordinated debentures redeemed	(2,500)	(2,500)
Proceeds from a note payable	-	-
Note payable repaid	(1,000)	(4,000)
Common stock issued	15,864	-
Stock options exercised	-	-
Dividends paid on preferred stock	-	-
Dividends paid on common stock	(1,427)	(1,352)
Net cash provided by (used in) financing activities	10,937	(2,852)
Change in Cash	1,061	(94)
Cash, Beginning of Year	343	437
Cash, End of Year	$ 1,404	$ 343