BANKFIRST CAPITAL

2016

ANNUAL REPORT

BankFirst Capital Corporation

December 31, 2016 and 2015

Contents

T. E. LOTT & COMPANY
CPAs and Business Advisors since 1926
91 YEARS
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INDEPENDENT AUDITORS' REPORT

T. E. Lott, CPA (1889-1971)
T. E. Lott, Jr., CPA
Charles M. Hawkins, CPA, CBA
Jeffry H. Read, CPA
Thomas J. Buckley, CPA
Vivian L. Yeatman, CPA
Bobby G. Shaw, CPA, CBA
Debby H. Gray, CPA, CPC
Clayton H. Richardson, III, CPA, CVA
J. Michael Prince, CPA, CSEP
Mark A. Vickers, CPA, CVA
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Leslie W. Wood, CPA
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Katherine W. Little, CPA, CSEP
Lacie B. Junkin, CPA
Michael D. Watkins, CPA
Robert M. Whitaker, CPA
Trent F. Yeatman, CPA
Camille G. Watkins, CPA
A. Tyler Morgan, CPA
Nataliya Winters, CPA

COLUMBUS
221 North Seventh St.
P. O. Box 471
Columbus, MS 39703-0471
Tel: 662.328.5387
Fax: 662.329.4993

STARKVILLE
106 B South Washington St.
P. O. Box 80282
Starkville, MS 39759-0282
Tel: 662.323.1234
Fax: 662.323.1284

TUSCALOOSA
6834 Hwy. 69 South
Tuscaloosa, AL 35405
Tel: 205.759.4195
Fax: 205.759.1018

www.telott.com
info@telott.com

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 sheet as of December 31, 2016, and the related consolidated statement of income, comprehensive income, stockholders' equity and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Stockholders
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, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of BankFirst Capital Corporation and its Subsidiary for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on March 29, 2016.

T.E. Lott & Company

Starkville, Mississippi
March 14, 2017

BankFirst Capital Corporation

Consolidated Balance Sheets
December 31, 2016 and 2015
(In Thousands, Except Per Share Data)

	2016	2015
Assets		
Cash and due from banks	$ 21,181	$ 19,019
Interest bearing bank balances	5,267	4,213
Available-for-sale securities	117,644	115,110
Loans	735,254	713,765
Allowance for loan losses	(7,085)	(7,050)
Loans, net of allowance for loan losses	728,169	706,715
Premises and equipment	16,338	16,000
Interest receivable	3,187	3,103
Goodwill	2,485	2,635
Intangible assets	2,012	2,244
Other	32,138	31,873
Total assets	$ 928,421	$ 900,912
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 832,407	$ 804,337
Short-term borrowings	2,888	2,586
Federal funds purchased	-	3,825
Notes payable	10,314	14,807
Subordinated debentures	16,186	13,686
Interest payable	484	423
Other	5,680	5,033
Total liabilities	867,959	844,697
Stockholders' Equity		
Common stock, $0.60 par value, 3,000,000 shares authorized,		
Class A voting common stock, 1,457,560 (2016) and 1,456,303 (2015) shares issued and outstanding	874	874
Class B non-voting common stock, 99,558 shares issued and outstanding	60	60
Additional paid-in capital	13,560	13,478
Retained earnings	47,397	42,143
Accumulated other comprehensive income (loss)	(1,429)	(340)
Total stockholders' equity	60,462	56,215
Total liabilities and stockholders' equity	$ 928,421	$ 900,912

BankFirst Capital Corporation

Consolidated Statements of Income

Years Ended December 31, 2016 and 2015

(In Thousands, Except Per Share Data)

	2016	2015
Interest Income		
Interest and fees on loans	$ 31,495	$ 29,080
Taxable securities	1,863	1,491
Tax-exempt securities	653	536
Federal funds sold	48	40
Interest bearing bank balances	51	38
Total interest income	34,110	31,185
Interest Expense		
Deposits	3,514	3,268
Short-term borrowings	14	10
Federal Home Loan Bank advances	62	96
Other borrowings	895	637
Total interest expense	4,485	4,011
Net Interest Income	29,625	27,174
Provision for Loan Losses	1,090	1,228
Net Interest Income After Provision for Loan Losses	28,535	25,946
Noninterest Income		
Service charges on deposit accounts	5,655	4,461
Mortgage income	978	869
Net realized gains (losses) on available-for-sale securities	78	-
Other	1,437	677
Total noninterest income	8,148	6,007
Noninterest Expense		
Salaries and employee benefits	14,186	13,142
Net occupancy expenses	1,716	1,488
Equipment and data processing expenses	663	594
Other	10,094	9,105
Total noninterest expense	26,659	24,329
Income Before Income Taxes	10,024	7,624
Provision for Income Taxes	3,418	2,609
Net Income	$ 6,606	$ 5,015
Basic Earnings Per Common Share	$ 4.24	$ 3.23
Diluted Earnings Per Common Share	$ 4.22	$ 3.21

BankFirst Capital Corporation

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015

(In Thousands, Except Per Share Data)

	2016	2015
Net Income	$ 6,606	$ 5,015
Other Comprehensive Income (Loss)		
Available-for-sale securities		
Net unrealized gains (losses), net of taxes of $647 and $(587)	(1,138)	(988)
Reclassification adjustment for net realized gains (losses) included in net income, net of taxes of $29 and $0	49	-
Total other comprehensive income (loss)	(1,089)	(988)
Comprehensive Income	$ 5,517	$ 4,027

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2015

(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, 2015	1,454,674	$ 872	99,558	$ 60	$ 13,425	$ 38,394	$ 648	$ 53,399
Net income	-	-	-	-	-	5,015	-	5,015
Other comprehensive income	-	-	-	-	-	-	(988)	(988)
Restricted stock grants vested	1,629	2	-	-	53	-	-	55
Dividends on common stock								
Class A ($.80 per share)	-	-	-	-	-	(1,178)	-	(1,178)
Class B ($.88 per share)	-	-	-	-	-	(88)	-	(88)
Balance, December 31, 2015	1,456,303	$ 874	99,558	$ 60	$ 13,478	$ 42,143	$ (340)	$ 56,215

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	1,456,303	$ 874	99,558	$ 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	1,257	-	-	-	82	-	-	82
Dividends on common stock								
Class A ($.85 per share)	-	-	-	-	-	(1,259)	-	(1,259)
Class B ($.94 per share)	-	-	-	-	-	(93)	-	(93)
Balance, December 31, 2016	1,457,560	$ 874	99,558	$ 60	$ 13,560	$ 47,397	$ (1,429)	$ 60,462

BankFirst Capital Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

(In Thousands, Except Per Share Data)

	2016	2015
Operating Activities		
Net income	$ 6,606	$ 5,015
Items not requiring (providing) cash		
Provision for loan losses	1,090	1,228
Depreciation	989	858
Net amortization on securities	1,220	874
Net amortization on intangible assets	232	77
Provision for losses on foreclosed assets held for sale	191	10
Net realized (gains) losses on		
Sales of available-for-sale securities	(78)	-
Sales of foreclosed assets held for sale	44	36
Sales of fixed assets	-	-
Deferred income taxes	(163)	602
Changes in		
Interest receivable	(84)	(596)
Interest payable	61	30
Other	426	161
Net cash provided by operating activities	10,534	8,295
Investing Activities		
Purchases of available-for-sale securities	(61,387)	(21,381)
Proceeds from maturities of available-for-sale securities	26,914	18,876
Proceeds from the sales of available-for-sale securities	29,061	3,264
Purchases of premises and equipment	(1,676)	(895)
Proceeds from sales of premises and equipment	349	661
Payment for purchase of Newton County Bancorporation, Inc.,	-	
net of cash acquired	-	(13,611)
Net (increase) decrease in	-	
Interest bearing bank balances	(1,579)	49,497
Federal funds sold	525	-
Loans	(22,832)	(52,477)
Bank owned life insurance	-	(770)
Federal Home Loan Bank stock transactions	-	(101)
Proceeds from the sale of foreclosed assets held for sale	969	1,258
Net cash used in investing activities	(29,656)	(15,679)

BankFirst Capital Corporation

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2016 and 2015

(In Thousands, Except Per Share Data)

	2016	2015
Financing Activities		
Net increase (decrease) in		
Noninterest bearing deposits	$ 2,105	$ 2,689
Money market, NOW and savings accounts	23,646	17,956
Certificates of deposit	(10,107)	(4,946)
Insured cash sweep deposits	12,426	(15,216)
Short-term borrowings	(3,523)	34
Federal funds purchased	-	3,825
Repayment of Federal Home Loan Bank advances	(493)	(476)
Proceeds from notes payable	-	13,000
Repayment of notes payable	(4,000)	(1,450)
Subordinated debentures issued	5,000	-
Subordinated debenture redeemed	(2,500)	(2,500)
Restricted stock grants issued	82	55
Dividends paid on common stock	(1,352)	(1,266)
Net cash provided by financing activities	21,284	11,705
Change in Cash and Due From Banks	2,162	4,321
Cash and Due From Banks, Beginning of Year	19,019	14,698
Cash and Due From Banks, End of Year	$ 21,181	$ 19,019

	2016	2015
Supplemental Cash Flows Information		
Interest paid	$ 4,424	$ 3,981
Income taxes paid	2,488	3,250
Income tax refunds	2,900	2,300
Foreclosed assets acquired in settlement of loans	288	1,961
Fair value of assets acquired, net of cash and due from banks	-	155,414
Fair value of liabilities assumed	-	141,803

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 $1,325 at December 31, 2016.

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 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 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, 2016 or 2015.

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 are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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 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, 2016 or 2015.

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 net 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 20.

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 2013.

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 Subtopic 205-40 "*Presentation of Financial Statements - Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*" Update No. 2014-15. Issued in August 2014, the purpose of this update is to provide guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The adoption of this standard for the reporting period ending December 31, 2016 did not have a material impact on the Company's consolidated financial statements.

FASB ASC Subtopic 225-20 "*Income Statement – Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*" Update No. 2015-01. Issued in January 2015, the purpose of this update is to eliminate from GAAP the concept of extraordinary items. The adoption of this standard on January 1, 2016 did not have a material impact on the Company's consolidated financial statements.

FASB ASC Topic 805 "*Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments*" Update No. 2015-16. Issued in September 2015, the purpose of this update is to eliminate the requirement that acquirers in business combinations retrospectively apply adjustments made to provisional amounts recognized in a business combination. The amendments in the update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments are effective for public business entities for reporting periods beginning after December 15, 2015. For nonpublic entities, the amendments are effective for reporting periods beginning after December 15, 2016. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

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. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, 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. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with earlier adoption permitted as of fiscal years beginning after December 15, 2018, including interim periods with those fiscal years. For all other entities, 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. For public business entities, the amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 31, 2017. For all other entities, 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 position.

Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 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, 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
December 31, 2015				
U.S. Treasury	$ 250	$ 1	$ -	$ 251
U.S. GSEs	16,781	66	53	16,794
Commercial mortgage-backed securities	284	-	2	282
Residential mortgage-backed securities	60,587	417	515	60,489
State and political subdivisions	29,424	645	35	30,034
Corporate debt securities	2,891	-	8	2,883
Collateralized debt obligations	5,437	331	1,391	4,377
	$ 115,654	$ 1,460	$ 2,004	$ 115,110

The amortized cost and fair value of available-for-sale securities at December 31, 2016, 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	$ 4,788	$ 4,787
One to five years	13,950	14,074
Five to ten years	11,906	11,954
After ten years	26,722	24,741
	57,366	55,556
Mortgage-backed securities	62,558	62,088
	$ 119,924	$ 117,644

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $49,243 at December 31, 2016, and $57,364 at December 31, 2015.

(In Thousands, Except Per Share Data)

Gross gains of $138 and $21 and gross losses of $60 and $21 resulting from sales of available-for-sale securities were realized for 2016 and 2015, 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, 2016 and 2015:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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
December 31, 2015						
U.S. GSEs	$ 7,977	$ 32	$ 1,480	$ 20	$ 9,457	$ 53
Mortgage-backed securities	33,208	320	10,410	197	43,618	517
State and political subdivisions	9,200	23	406	12	9,606	35
Corporate debt obligations	1,786	8	-		1,786	8
Collateralized debt obligations	3,141	1,391	-	-	3,141	1,391
	$ 55,312	$ 1,774	$ 12,296	$ 229	$ 67,608	$ 2,004

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, 2016.

(In Thousands, Except Per Share Data)

Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31 include:

	2016	2015
Secured by real estate		
Construction	$ 65,057	$ 93,403
Farmland	45,998	42,699
Residential real estate	172,216	157,978
Commercial real estate	318,506	281,675
Consumer	15,127	19,415
Commercial and other	118,350	118,595
	735,254	713,765
Allowance for loan losses	(7,085)	(7,050)
Loans, net	$ 728,169	$ 706,715

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

	December 31, 2016 Loans Evaluated for Impairment			December 31, 2015 Loans Evaluated for Impairment		
	Individually	Collectively	Total	Individually	Collectively	Total
Secured by real estate						
Construction	$ 8,174	$ 56,883	$ 65,057	$ 11,015	$ 82,388	$ 93,403
Farmland	-	45,998	45,998	-	42,699	42,699
Residential real estate	2,147	170,069	172,216	2,140	155,838	157,978
Commercial real estate	2,457	316,049	318,506	2,817	278,858	281,675
Consumer	-	15,127	15,127	-	19,415	19,415
Commercial and other	2,804	115,546	118,350	2,287	116,308	118,595
	$ 15,582	$ 719,672	$ 735,254	$ 18,259	$ 695,506	$ 713,765

(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, 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
Year Ended December 31, 2015					
Secured by real estate					
Construction	$ 2,339	$ (189)	$ 124	$ (949)	$ 1,325
Farmland	660	-	166	(810)	16
Residential real estate	1,093	(297)	42	97	935
Commercial real estate	1,031	(269)	2	412	1,176
Consumer	310	(289)	148	390	559
Commercial and other	2,948	(3,313)	78	3,100	2,813
Unallocated	1,238	-	-	(1,012)	226
	$ 9,619	$ (4,357)	$ 560	$ 1,228	$ 7,050

(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, 2016 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment			December 31, 2015 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment		
	Individually	**Collectively**	**Total**	**Individually**	**Collectively**	**Total**
Secured by real estate						
Construction	$ 724	$ 303	$ 1,027	$ 977	$ 348	$ 1,325
Farmland	-	29	29	-	16	16
Residential real estate	170	660	830	163	772	935
Commercial real estate	-	1,138	1,138	26	1,150	1,176
Consumer	-	180	180	-	559	559
Commercial and other	573	2,064	2,637	356	2,457	2,813
Unallocated	-	1,244	1,244	-	226	226
	$ 1,467	$ 5,618	$ 7,085	$ 1,522	$ 5,528	$ 7,050

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 2016 or 2015.

(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, 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
December 31, 2015					
Secured by real estate					
Construction	$ 82,705	$ 307	$ 10,391	$ -	$ 93,403
Farmland	41,951	411	337	-	42,699
Residential real estate	148,266	6,211	3,501	-	157,978
Commercial real estate	276,079	1,927	3,669	-	281,675
Consumer	19,102	151	161	1	19,415
Commercial and other	112,122	4,018	2,455	-	118,595
	$ 680,225	$ 13,025	$ 20,514	$ 1	$ 713,765

(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, 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
December 31, 2015						
Secured by real estate						
Construction	$ 677	$ -	$ 9,168	$ 9,845	$ 83,558	$ 93,403
Farmland	216	-	43	259	42,440	42,699
Residential real estate	2,867	611	491	3,969	154,009	157,978
Commercial real estate	420	-	343	763	280,912	281,675
Consumer	802	73	27	902	18,513	19,415
Commercial and other	312	9	2,636	2,957	115,638	118,595
	$ 5,294	$ 693	$ 12,708	$ 18,695	$ 695,070	$ 713,765

(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.

		Recorded Loan Balance				Average
	Unpaid Principal Balance	With No Specific Allowance	With a Specific Allowance	Total	Specific Allowance	Recorded Loan Balance
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
December 31, 2015						
Secured by real estate						
Construction	$ 12,053	$ 1,633	$ 9,382	$ 11,015	$ 977	$ 11,353
Farmland	-	-	-	-	-	-
Residential real estate	2,140	1,464	676	2,140	163	2,412
Commercial real estate	2,817	2,709	108	2,817	26	2,258
Consumer	-	-	-	-	-	-
Commercial and other	2,471	-	2,287	2,287	356	4,034
	$ 19,481	$ 5,806	$ 12,453	$ 18,259	$ 1,522	$ 20,057

The Company recognized interest income of $320 in 2016 and $352 in 2015 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, 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.

At December 31, 2015, the Company held a total $5,810 of loans modified in troubled debt restructurings, principally commercial real estate loans. One loan was modified in 2015 without any reduction in the outstanding recorded loan balance. Loan payment terms were modified to reduce principal payments or convert to interest only payments for a specified period of time. There were no loans modified in troubled debt restructurings during 2015 that became past due subsequent to modification.

(In Thousands, Except Per Share Data)

Note 4: Premises and Equipment

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

	2016	2015
Land	$ 3,686	$ 3,747
Buildings and improvements	17,739	17,134
Furniture, fixtures and equipment	5,412	4,779
	26,837	25,660
Less accumulated depreciation	(10,499)	(9,660)
Net premises and equipment	$ 16,338	$ 16,000

Note 5: Business Combination

The Company accounts for its business combinations using the acquisition method. Acquisition accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets that must be recognized. This allocation may result in the purchase price exceeding the fair value of net assets acquired, which is recorded as goodwill. Core deposit intangibles are a measure of the value of checking, money market and savings deposits acquired in business combinations accounted for under the acquisition method. Core deposit intangibles and other identified intangibles with finite useful lives are amortized using the straight line method over their estimated useful lives of up to ten years. Loans that the Company acquires in connection with acquisitions are recorded at fair value with no carryover of the related allowance for credit losses. Fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. The excess or deficit of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount or amortizable premium and is recognized into interest income over the remaining life of the loan.

Newton County Bancorporation, Inc.

On August 31, 2015, the Company paid cash to acquire all of the outstanding shares of Newton County Bank, a wholly-owned subsidiary of Newton County Bancorporation, Inc., a Mississippi corporation, which included five (5) production branches. The primary reasons for the business combination were excess deposits, cost synergies, and the ability to enter a new market. The total goodwill will be amortized over 15 years for tax purposes. The Company spent approximately $800 in acquisition related costs, these costs were expensed as they were incurred.

In connection with the acquisition, the Company originally recorded $2.6 million of goodwill and $2.3 million of core deposit intangible. The core deposit intangible will be amortized over 10 years. The Company acquired the $86 million loan portfolio at a fair value discount of $1.6 million which included a credit mark discount of $1.1 million. During 2016, adjustments to Goodwill were made to account for split dollar life insurance and a change in the fair value mark for loans acquired. The change was $150.

The discount represents expected credit losses, adjustments to market interest rates and liquidity adjustments.

The amounts of the acquired identifiable assets and liabilities as of the acquisition date were as follows (dollars in thousands):

	2015
Fair Value of Consideration Transferred:	
Cash	$ 20,500
Total	20,500
Identifiable assets:	
Cash and due from banks	6,889
Interest bearing bank balances	14,700
Federal funds sold	5,400
Investments	37,290
Loans and leases	84,300
Other real estate	286
Premises and equipment	1,975
Core deposit intangible	2,321
Other assets	6,507
Total assets	159,668
Identifiable liabilities:	
Deposits	140,458
Other liabilities	1,345
Total liabilities	141,803
Identifiable net assets acquired	17,865
Goodwill resulting from acquisition	$ 2,635

(In Thousands, Except Per Share Data)

Note 6: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2015, were:

	2016	2015
Beginning balance	$ 2,635	$ -
Changes to goodwill	(150)	2,635
Accumulated impairment losses	-	-
Ending balance	$ 2,485	$ 2,635

Note 7: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2016 and 2015, were:

	2016		2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangible	$ 2,321	$ 309	$ 2,321	$ 77

Amortization expense for the years ended December 31, 2016 and 2015, was $232 and $77, respectively. Estimated amortization expense for each of the following five years is:

2017	$ 232
2018	232
2019	232
2020	232
2021	232
	$ 1,160

(In Thousands, Except Per Share Data)

Note 8: Other Assets

A summary of other assets at December 31 follows:

	2016	2015
Cash surrender value of life insurance	$ 21,174	$ 20,943
Foreclosed assets held for sale, net	1,360	2,276
FHLB stock	913	908
Deferred income taxes	5,047	4,030
Other	3,644	3,716
	$ 32,138	$ 31,873

Note 9: Deposits

Categories of deposits at December 31 follow:

	2016	2015
Noninterest bearing deposits	$ 138,778	$ 136,673
Interest bearing deposits		
Money market, NOW and savings accounts	420,396	396,750
Certificates of deposit of $250 thousand or more	41,308	35,207
Other certificates of deposit	187,768	203,976
Insured cash sweep deposits	44,157	31,731
Total interest bearing deposits	693,629	667,664
Total deposits	$ 832,407	$ 804,337

At December 31, 2016, the scheduled maturities of certificates of deposit follow:

2017	$ 121,745
2018	46,713
2019	27,850
2020	21,095
2021	11,673
	$ 229,076

(In Thousands, Except Per Share Data)

Note 10: 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
2016	$ 3,412	$ 2,922	$ 2,888	0.16%	0.20%
2015	$ 3,435	$ 3,143	$ 2,586	0.16%	0.20%

Note 11: Notes Payable

Categories of notes payables at December 31 follow:

	2016	2015
Bank's FHLB advances	$ 1,564	$ 2,057
Line of Credit - Trustmark	-	3,000
Company's note payable - Trustmark	8,750	9,750
	$ 10,314	$ 14,807

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:

	2016	2015
Monthly payment advances		
Balance	$ 1,564	$ 2,057
Approximate monthly payment	41	41
Range of fixed interest rates	3.12% - 5.16%	3.12% - 5.16%
Range of maturities	2018 - 2024	2018 - 2024

(In Thousands, Except Per Share Data)

Scheduled principal payments of FHLB advances at December 31, 2016, follow:

2017	$	509
2018		353
2019		328
2020		339
2021		11
Thereafter		24
	$	1,564

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 3.27% and 2.93% at December 31, 2016 and 2015 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 requires the line to be paid in full at maturity on August 27, 2017. 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 $3,000,000 and the term loan was $8,750,000 and $9,750,000 for 2016 and 2015, respectively.

Note 12: Subordinated Debentures

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

		2016		2015
Subordinated promissory notes	$	10,000	$	7,500
Subordinated debentures payable to statutory trusts		6,186		6,186
	$	16,186	$	13,686

(In Thousands, Except Per Share Data)

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	2016	2015
Series 2016	2016	3.00%	$ -	$ 2,500
Series 2017	2017	3.75%	2,500	2,500
Series 2018	2018	4.50%	2,500	2,500
Series 2019	2019	3.50%	2,500	-
Series 2020	2020	4.00%	2,500	-
			$ 10,000	$ 7,500

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.

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.

(In Thousands, Except Per Share Data)

The following is a summary of debentures payable to statutory trusts as of December 31, 2016 and 2015. Interest rates adjust quarterly for the debentures whose rates are indexed with LIBOR.

	Year of Maturity	Interest Rate	2016	2015
BankFirst Capital Statutory Trust II	2033	3-month LIBOR, plus 2.95% 3.94% (2016) and 3.40% (2015)	$ 3,093	$ 3,093
BankFirst Capital Statutory Trust III	2035	3-month LIBOR, plus 1.45% 2.41% (2016) and 1.90% (2015)	3,093	3,093
			$ 6,186	$ 6,186

Note 13: Other Expenses

A summary of other expenses at December 31 follows:

	2016	2015
Advertising and promotions	$ 728	$ 730
Directors' fees and expenses	227	419
Legal and professional expenses	850	1,217
Supplies	318	254
Expenses on foreclosed assets held for sale	290	120
Other	7,681	6,365
	$ 10,094	$ 9,105

(In Thousands, Except Per Share Data)

Note 14: Income Taxes

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

	2016	2015
Taxes currently payable	$ 3,581	$ 2,007
Deferred income taxes	(163)	602
	$ 3,418	$ 2,609

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

	2016	2015
Computed at the statutory rate	$ 3,411	$ 2,590
Increase (decrease) resulting from		
Tax-exempt interest	(203)	(173)
Life insurance income	(158)	(134)
State income taxes	334	234
Other	34	92
	$ 3,418	$ 2,609

(In Thousands, Except Per Share Data)

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

	2016	2015
Deferred tax assets		
Allowance for loan losses	$ 2,643	$ 2,635
Foreclosed assets held for sale	148	97
Stock based compensation	100	83
Deferred compensation	1,170	976
Accrued expenses	531	484
Unrealized losses on available-for-sale securities	851	204
Other	468	130
	5,911	4,609
Deferred tax liabilities		
Depreciation and amortization	(662)	(398)
FHLB stock dividends	(16)	(27)
Prepaid expenses	(93)	(114)
Other	(93)	(40)
	(864)	(579)
Net deferred tax asset	$ 5,047	$ 4,030

(In Thousands, Except Per Share Data)

Note 15: 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, 2015	$ 1,031	$ (383)	$ 648
Included in comprehensive income			
Net unrealized gains on available-for-sale securities	(1,575)	587	(988)
Other comprehensive income (loss)	(1,575)	587	(988)
Balance, December 31, 2015	(544)	204	(340)
Included in comprehensive income			
Net unrealized losses 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)

Note 16: 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.

Note 17: 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, 2016, $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 2016 is 0.625%. 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, 2016 and 2015, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2016, 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, 2016 and 2015, 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, 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%
December 31, 2015						
Company						
Common equity tier I	$ 53,020	7.1%	$ 33,634	4.5%	Not applicable	
Total capital (to risk-weighted assets)	66,070	8.8%	59,793	8.0%	Not applicable	
Tier I capital (to risk-weighted assets)	59,020	7.9%	29,896	6.0%	Not applicable	
Tier I capital (to average assets)	59,020	6.5%	36,268	4.0%	Not applicable	
Bank						
Common equity tier I	78,319	10.5%	33,634	4.5%	58,582	6.5%
Total capital (to risk-weighted assets)	85,370	11.4%	59,793	8.0%	74,741	10.0%
Tier I capital (to risk-weighted assets)	78,319	10.5%	44,845	6.0%	59,793	8.0%
Tier I capital (to average assets)	78,319	8.6%	36,268	4.0%	45,335	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 18: Related Party Transactions

The Company had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) at December 31, 2016 and 2015. In addition to these loans, the Company has commitments to extend credit to these related parties which amounted to $1,343 and $1,407 at December 31, 2016 and 2015, respectively. The following is a summary of activity in related party loans:

	2016	2015
Balance, beginning of year	$ 1,234	$ 1,524
Advances	74	709
Repayments	(433)	(999)
Balance, end of year	$ 875	$ 1,234

Deposits from related parties held by the Company at December 31, 2016 and 2015, totaled $47,687 and $38,963, 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 19: 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 $320 and $468 to the plan in 2016 and 2015, 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, 2016 and 2015 amounted to $626 and $72, 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 provided 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:

	2016	2015
Beginning balance	$ 3,531	$ 2,185
Acquired liability	-	1,216
Expense accrued	114	438
Payments	(380)	(308)
Ending balance	$ 3,265	$ 3,531

Note 20: Stock-based Compensation

Restricted Stock Plan

The Company has issued restricted stock agreements related to Class A common stock. 23,250 shares of Class A common stock have been issued and are outstanding. Of these shares, 21,100 shares vest at 10% per year from their respective grant dates and 2,150 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 $82 and $55 related to these restricted shares during 2016 and 2015, respectively. Future expense related to these restricted shares was $534 and $271 at December 31, 2016 and 2015, respectively.

(In Thousands, Except Per Share Data)

Note 21: Earnings Per Common Share

Basic earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares (both Class A and Class B) 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 20 and are determined using the treasury stock method.

Earnings per common share were computed as follows:

	2016	2015
Basic earnings per common share		
Net income available to common stockholders	$ 6,606	$ 5,015
Weighted-average basic common shares outstanding	1,556,777	1,554,232
Basic earnings per common share	$ 4.24	$ 3.23
Diluted earnings per common share		
Net income available to common stockholders	$ 6,606	$ 5,015
Weighted-average basic common shares outstanding	1,556,777	1,554,232
Effect of dilutive restricted stock grants	6,830	7,873
Weighted-average diluted common shares outstanding	1,563,607	1,562,105
Diluted earnings per common share	$ 4.22	$ 3.21

Note 22: 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:

(In Thousands, Except Per Share Data)

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

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, 2016 and 2015:

		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, 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	$ -
December 31, 2015				
Available-for-sale securities				
U.S. Treasury	$ 251	$ 251	$ -	$ -
U.S. GSEs	16,794	-	16,794	-
Mortgage-backed securities	60,771	-	60,771	-
State and political subdivisions	30,034	-	30,034	-
Corporate debt securities	2,883	-	2,883	-
Collateralized debt obligations	4,377	-	4,377	-
	$ 115,110	$ 251	$ 114,859	$ -

(In Thousands, Except Per Share Data)

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 2016 or 2015.

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 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, 2016 and 2015:

		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, 2016				
Impaired loans (collateral dependent), net of allowance for loan losses	$ 6,852	$ -	$ -	$ 6,852
Foreclosed assets held for sale	1,360	-	-	1,360
December 31, 2015				
Impaired loans (collateral dependent), net of allowance for loan losses	$ 10,931	$ -	$ -	$ 10,931
Foreclosed assets held for sale	2,134	-	-	2,134

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 2016 or 2015.

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.

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 2016 and 2015, collateral discounts ranged from 0% to 100%, with an average discount of approximately 20% per property.

(In Thousands, Except Per Share Data)

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2016 and 2015.

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	$ 21,181	$ 21,181	$ 19,019	$ 19,019
Interest bearing bank balances	5,267	5,267	4,213	4,213
Available-for-sale securities	117,644	117,644	115,110	115,110
Loans, net	728,169	727,744	706,715	705,434
Interest receivable	3,187	3,187	3,103	3,103
FHLB stock	913	913	908	908
Financial liabilities				
Deposits	832,407	833,300	804,337	805,310
Short-term borrowings	2,888	2,888	2,586	2,586
Notes payable	10,314	10,385	14,807	14,825
Federal funds purchased	-	-	3,825	3,825
Subordinated debentures	16,186	16,186	13,686	13,686
Interest payable	484	484	423	423

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 deposits 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 23: 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 24: 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, 2016, the Company held $318,506 in loans collateralized by commercial real estate and $65,057 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.

(In Thousands, Except Per Share Data)

The Company had total outstanding standby letters of credit of approximately $1,218 and $936, had unused lines of credit to residential borrowers of approximately $11,575 and $10,224, had credit card arrangements of approximately $9,644 and $8,970 and other unused lines of credit and commitments to originate loans of approximately $98,950 and $105,146 at December 31, 2016 and 2015, respectively.

Note 25: 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, 2016	December 31, 2015
Assets		
Cash	$ 343	$ 437
Investment in subsidiary	83,931	81,512
Investment in statutory trusts	189	189
Other assets	1,146	692
Total assets	$ 85,609	$ 82,830
Liabilities		
Subordinated debentures	$ 16,186	$ 13,686
Notes payable	8,750	12,750
Other liabilities	211	179
Total liabilities	25,147	26,615
Stockholders' Equity	60,462	56,215
Total liabilities and stockholders' equity	$ 85,609	$ 82,830

(In Thousands, Except Per Share Data)

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31, 2016	2015
Income		
Other income	$ 6	$ 7
Total income	6	7
Expenses		
Interest expense	895	637
Other	363	874
Total expenses	1,258	1,511
Loss Before Income Tax and Equity in Undistributed Net Income of Subsidiary	(1,252)	(1,504)
Income Tax Benefit	464	503
Loss Before Equity in Undistributed Net Income of Subsidiary	(788)	(1,001)
Equity in Undistributed Net Income of Subsidiary	7,394	6,016
Net Income	6,606	5,015
Other Comprehensive Income (Loss)	(1,089)	(988)
Comprehensive Income	$ 5,517	$ 4,027

BankFirst Capital Corporation

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(In Thousands, Except Per Share Data)

Condensed Statements of Cash Flows

	Years Ended December 31, 2016	Years Ended December 31, 2015
Operating Activities		
Net income	$ 6,606	$ 5,015
Items not requiring (providing) cash		
Equity in undistributed earnings of subsidiary	(7,394)	(6,016)
Other, net	(454)	(283)
Net cash used in operating activities	(1,242)	(1,284)
Investing Activities		
Dividends received from subsidiary	4,000	14,050
Capital injected into subsidiary	-	(20,500)
Net cash provided by (used in) investing activities	4,000	(6,450)
Financing Activities		
Subordinated debentures issued	5,000	-
Subordinated debentures redeemed	(2,500)	(2,500)
Proceeds from a note payable	-	13,000
Note payable repaid	(4,000)	(1,450)
Dividends paid on common stock	(1,352)	(1,266)
Net cash provided by (used in) financing activities	(2,852)	7,784
Change in Cash	(94)	50
Cash, Beginning of Year	437	387
Cash, End of Year	$ 343	$ 437