Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

RECEIVED
MAR 19 2019
NIC UNIT

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, PARIS R. SCHINDLER
Name of the Holding Company Director and Official

CHAIRMAN
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Paris R. Schindler
Signature of Holding Company Director and Official

Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 1107184
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2018
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

SOUTHERN BANCSHARES, INC.
Legal Title of Holding Company

1616 S VOSS SUITE 885
(Mailing Address of the Holding Company) Street / P.O. Box

HOUSTON	TX	77379
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

DEBRA A BON	CONTROLLER
Name	Title

713/871-0995/227
Area Code / Phone Number / Extension

7138711005
Area Code / FAX Number

d.bon@southernbancshares.com
E-mail Address

none
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

FEDERAL RESERVE BANK OF DALLAS

2018-Y-6

GENERAL AND REPORT ITEMS:

Report Item 1: Annual reports to shareholders are only prepared in the form of audited financial statements ..these statements have not been received as of this filing and will be sent separately

Report Item 2: Organization Chart- see attached

Report Item 2b: Domestic Branch Listing – previously emailed

Report Item 3: Securities Holders – see attached

Report Item 4: Insiders-report see attached

March 25, 2019

Southern BancShares inc.

Briggs & Veselka Co.
Certified Public Accountants
Nine Greenway Plaza, Suite 1700
Houston, TX 77046

This representation letter is provided in connection with your audits of the consolidated financial statements of Southern Bancshares, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, for the purpose of expressing an opinion as to whether the consolidated financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP); and for the purpose of expressing an opinion on compliance for major HUD-assisted programs pursuant to the *Audit Guide for Audits of HUD Programs* (the audit guide) of the Office of the Inspector General of the U.S. Department of Housing and Urban Development (HUD).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 6, 2018, including our responsibility for the preparation and fair presentation of the financial statements.

2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates are reasonable, including those measured at fair value, as applicable.

1616 South Voss, Suite 885 • Houston, Texas 77057 • (713) 871-0995 • Fax (713) 871-1095

6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

9. We have provided you with:

    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters;

    b. Additional information that you have requested from us for the purpose of the audits; and

    c. Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.

10. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

12. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company involving:

    a. Management,

    b. Employees who have significant roles in internal control, or

    c. Others where the fraud could have a material effect on the financial statements.

13. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, regulators or others.

14. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

15. We have disclosed to you all known actual or possible litigation, claims and assessments whose effects should be considered when preparing the financial statements.

16. We have provided you with all minutes of the meetings of members, stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

17. The following have been properly recorded or disclosed in the financial statements:

    a. Guarantees, whether written or oral, under which the Company is contingently liable.

    b. Significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the consolidated balance sheet dates that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

    c. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Company vulnerable to the risk of a near-term severe impact that have not been properly disclosed in the financial statements.

    d. All regulatory or examination reports, supervisory correspondence, and similar materials from applicable regulatory agencies, including communications about supervisory actions or noncompliance with, or deficiencies in, rules and regulations or supervisory actions, if applicable.

    e. The status of the Company's capital plan filed with the regulators, if applicable, and management believes it is in compliance with any formal agreements or orders in any memorandum of understanding or cease-and-desist order.

    f. Related party relationships and transactions including loans, deposits, and guarantees.

    g. Contingent assets and liabilities, including loans charged off and outstanding letters of credit.

    h. Commitments to originate, purchase, or sell loans and participations.

    i. Commitments to purchase or sell securities, including commitments to purchase or sell securities under forward-placement, financial futures contracts and standby commitments.

    j. Positions in financial futures contracts or other derivative securities.

    k. Sales of loans or other transfers of financial assets with recourse.

    l. The methods and significant assumptions used to determine fair values of financial instruments are described in the disclosures to the financial statements. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

    m. The following information about financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

        (1) The common activity, region, or characteristic that identifies the concentration.

        (2) The maximum loss that could result if the counterparties completely failed to perform their obligations and any collateral for the amounts due were worthless to the Company.

(3) The Company's policy of requiring collateral to minimize the risk, the nature of this collateral, and information about the Company's access to the collateral.

n. Lease obligations under long-term leases.

o. The nature, terms, and credit risk of financial instruments with off-balance-sheet risk.

18. The Company has no plans or intentions that may materially affect the carrying values or classification of assets and liabilities.

19. The classification of securities and other investment assets as held-to-maturity, available-for-sale, or trading correctly reflects management's ability and intent.

20. If applicable, provision has been made for:

a. Losses, costs, or expense that may be incurred in the collection of securities, loans, leases and real estate.

b. Losses, costs, or expenses that may be incurred in the disposition of other real estate owned.

c. Liabilities for interest on deposits and other indebtedness, including subordinated capital notes and participation loans.

21. In regards to the nonattest services provided, which include the preparation of the federal and state income tax returns, we have:

a. Assumed all management responsibilities.

b. Designated Robert Simper, Chief Financial Officer, who has suitable skill, knowledge, or experience to oversee the services.

c. Evaluated the adequacy and results of the services performed.

d. Accepted responsibility for the results of the services.

22. We represent to you the following for the Company's fair value measurements and disclosures:

a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.

b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.

c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.

d. There are no subsequent events that require adjustment to the fair value measurements and disclosures included in the financial statements.

23. We have disclosed to you all of our:

    a. Nonperforming assets.

    b. Intentions to foreclose or repossess property.

24. We have not been advised of any fraud, noncompliance with laws and regulations or uncorrected misstatements from our third-party service providers.

25. We have evaluated the impact of Accounting Standards Codification (ASC) 740, *Accounting for Uncertainty in Income Taxes*, and based on our analysis, we are not aware of any uncertain tax positions resulting in a liability as of December 31, 2018 and 2017.

26. We reviewed all reports from third-party service providers, and we are not aware of any fraud, uncorrected misstatements, or noncompliance with any laws or regulations by the service providers.

27. Arrangements with financial institutions involving lines of credit or similar arrangements have been properly disclosed. Further, the facts disclosed in the notes to the financial statements accurately reflect the terms and agreements with our creditors.

28. Except as disclosed in the financial statements, the Company had no assets or liabilities measured at fair value on a recurring or nonrecurring basis at December 31, 2018 and 2017.

29. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.

30. The Bank has adequately satisfied all pledge requirements for Public Fund depositors as of December 31, 2018 and 2017.

31. Loans to executive officers have been properly accounted for and disclosed.

32. All incentive compensation arrangements have been properly disclosed to you and are properly accounted for in the financial statements.

33. There are no regulatory examinations currently in progress for which we have not received examination reports.

34. The Company has total assets over $500 million from the beginning of January 1, 2018; as such the Company will issue a management statement to accompany the financial statements under the requirement of FDIC Rule Part 363.

35. No events have occurred subsequent to the consolidated balance sheet dates and through the date of this letter that would require adjustment to, or disclosure in, the financial statements, other than as disclosed in the notes to the financial statements.

36. We have responded fully and truthfully to all inquiries made to us by you during your audits.

37. There have been no formal communications from HUD or other regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

38. We acknowledge our responsibility for presenting the consolidating balance sheets and statements of comprehensive income in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the consolidating balance sheets and statements of comprehensive income have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

39. We acknowledge our responsibility for presenting the supplementary information accompanying the financial statements required by HUD and the information submitted to HUD through the FASSMF submission templates (collectively, the supplementary information required by HUD) in accordance with HUD's Uniform Financial Reporting Standards for HUD Housing Programs, and we believe the supplementary information required by HUD, including its form and content, is fairly presented in accordance with HUD's Uniform Financial Reporting Standards for HUD Housing Programs. The methods of measurement and presentation of the supplementary information required by HUD have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information required by HUD.

40. The Bank has met the objectives to pass the Qualified Thrift Lender test as of December 31, 2018 and 2017.

41. With respect to HUD-assisted programs, we represent the following to you:

   a. We are responsible for understanding and complying with, and have complied with, the requirements of program laws and regulations that have a direct and material effect on the financial statements and each HUD-assisted program.

   b. We have identified all assistance provided by HUD in the form of coinsured, insured or direct loans, capital advances and subsidies. We have also made available to you records relating to such financial assistance.

   c. We are responsible for establishing and maintaining effective internal control over compliance with HUD requirements to provide reasonable assurance that we are managing our HUD programs in compliance with laws, regulations and the provisions of contract and grant agreements that could have a material effect on our HUD programs.

   d. We believe that internal controls over HUD programs are adequate and functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that would significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including any material weaknesses, noted in the schedule of findings and questioned costs.

   e. We have made available to you all contracts and grant agreements, including amendments, and any other correspondence with HUD relating to each HUD program.

   f. We have complied with the reporting requirements of our HUD programs, and information included in federal financial reports is supported by the underlying accounting records.

g. We have identified and disclosed to you all questioned costs, known noncompliance that could have a material effect on a major program, all litigation filed against us (or investigations completed or in progress), and any other known noncompliance with specific HUD programs.

h. We have disclosed all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

i. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

j. We have notified HUD, within 15 calendar days, of the sale or transfer of all FHA-insured loans to another FHA-approved lender as required by HUD Mortgagee Letter 2011-33.

k. All print and electronic advertisements and promotional materials utilized for the previous two years were provided during the audits.

l. We are not in violation of provisions of the Secure and Fair Enforcement (SAFE).

m. None of our officers, partners, directors, principals, managers, supervisors, loan processors, loan underwriters, or loan originators were suspended, debarred, under a limited denial of participation (LDP), or otherwise restricted under 2 CFR part 2424 or 24 CFR part 25, or under similar procedures of any other federal agency.

42. We have evaluated that no conditions or events exist that, when considered in the aggregate, raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time (one year from the date these financial statements are available to be issued) and that management's use of the going concern basis of accounting continues to be appropriate under U.S. GAAP.

Signature: ______________________
Debra Bon, Controller of Southern Bancshares, Inc.

Signature: ______________________
David Kapavik, President and Chief Executive Officer
of SouthStar Bank, SSB

Signature: ______________________
Robert Simper, Jr., Chief Financial Officer
of SouthStar Bank, SSB

SouthStar Bank
Banking...Texas Style™

P.O. Drawer A
100 South Main
Moulton, Texas 77975

Phone: 361.596.4611
Fax: 361.596.7519

Statement of Management's Responsibilities

The management of SouthStar Bank, S.S.B. (the "Institution") is responsible for preparing the Institution's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income (Call Report); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance With Designated Laws and Regulations

The management of SouthStar Bank, S.S.B. (the "Institution") has assessed the Institution's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2018. Based upon its assessment, management has concluded that the Institution complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2018.

SouthStar Bank, S.S.B.

David R. Kapavik, Chief Executive Officer & President
Date: March 28, 2019

Robert Simper, Jr., Chief Financial Officer
Date: March 28, 2019

Briggs & Veselka Co.
A PROFESSIONAL CORPORATION
Certified Public Accountants and Business Advisors

March 25, 2019

Mr. Paris Schindler, Chairman of the Board
Ms. Debra Bon, Controller
To the Audit Committee of
Southern Bancshares, Inc. and Subsidiaries
1616 S. Voss #855
Houston, Texas 77057

In planning and performing our audit of the consolidated financial statements of Southern Bancshares, Inc. and Subsidiaries (the "Company") as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider material weaknesses.

This communication is intended solely for the information and use of management, those charged with governance, and others within the Company and is not intended to be, and should not be, used by anyone other than these specified parties.

Briggs & Veselka Co.

Briggs & Veselka Co.
Houston, Texas

March 25, 2019

Mr. Paris Schindler, Chairman of the Board
Ms. Debra Bon, Controller
To the Audit Committee of
Southern Bancshares, Inc. and Subsidiaries
1616 S. Voss #855
Houston, Texas 77057

FILE COPY

We have audited the consolidated financial statements of Southern Bancshares, Inc. and Subsidiaries (the "Company") for the year ended December 31, 2018, and have issued our report thereon dated March 25 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the *Consolidated Audit Guide for Audits of HUD Programs* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated November 6, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices – You are responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Company are described in *Note 1* to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by you and are based on your knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specified impaired loans and economic conditions.

- Management's estimate of the valuation for deferred tax assets is based on known levels of temporary differences. Management has determined that no valuation allowance was considered necessary at December 31, 2018.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are included in the credit quality disclosures in *Note 3*.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit – We encountered no significant difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements – Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not identify any such misstatements as a result of our audit procedures.

Disagreements With Management – For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations – We have requested certain representations from management that are included in the management representation letter dated March 25, 2019.

Other Audit Findings or Issues – In the normal course of our professional association with Southern Bancshares, Inc. and its Subsidiaries, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Company, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Company's auditors.

Other Matters – With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of those charged with governance of Southern Bancshares, Inc. and Subsidiaries and is not intended to be, and should not be, used by anyone other than these specified parties.

Briggs & Veselka Co.

Briggs & Veselka Co.
Houston, Texas

Southern Bancshares, Inc. and Subsidiaries
Consolidated Financial Statements and Supplementary Information
For the Years Ended December 31, 2018 and 2017

CONTENTS

Briggs & Veselka Co.
A PROFESSIONAL CORPORATION
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Southern Bancshares, Inc. and Subsidiaries
Houston, Texas

We have audited the accompanying consolidated financial statements of Southern Bancshares, Inc. (a Texas corporation) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

HOUSTON OFFICE 713.667.9147 Tel. ■ 713.667.1697 Fax
Nine Greenway Plaza, Suite 1700 ■ Houston, Texas 77046 ■ www.bvccpa.com

To the Board of Directors of
Southern Bancshares, Inc. and Subsidiaries
Re: Independent Auditors' Report

Opinion

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

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating information in Schedules I through IV is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and it is not a required part of the consolidated financial statements.

The accompanying supplementary information of computations of adjusted net worth and liquidity is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of Inspector General, and is not a required part of the consolidated financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards – In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019 on our consideration of the entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

Briggs & Veselka Co.

Briggs & Veselka Co.
Houston, Texas

March 25, 2019

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and due from banks	$ 6,997,581	$ 6,351,867
Interest-bearing due from banks	32,064,208	57,731,314
Total cash and cash equivalents	39,061,789	64,083,181
Available-for-sale securities	89,599,766	73,051,890
Loans held for sale, net	54,816,359	105,486,470
Loans held for investment, net	436,774,928	464,565,989
Accrued interest receivable	2,178,275	2,478,975
FHLB stock, at cost	8,867,400	8,499,500
Other real estate owned, net	794,460	445,778
Premises and equipment, net	43,176,605	42,873,074
Prepaid expenses	954,484	993,834
Deferred tax assets	572,309	670,663
Federal income tax receivable	293,052	-
Other assets	927,411	879,732
TOTAL ASSETS	$ 678,016,838	$ 764,029,086
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits	$ 529,687,585	$ 507,059,196
Advances from FHLB	60,877,945	173,869,022
Junior subordinated debentures	3,093,000	3,093,000
Federal income tax payable	-	606,762
Accrued Interest and other liabilities	739,381	750,229
Total liabilities	594,397,911	685,378,209
Stockholders' equity		
Controlling interest:		
Common stock, $1 par value; 1,000,000 shares authorized, 319,168 shares issued and outstanding at December 31, 2018 and December 31, 2017	319,168	319,168
Additional paid-in capital	3,197,750	3,197,750
Retained earnings	71,805,610	66,915,853
Treasury stock, at cost, 10,543 shares	(10,543)	(10,543)
Accumulated other comprehensive loss	(1,193,708)	(738,617)
	74,118,277	69,683,611
Noncontrolling interest	9,500,650	8,967,266
Total stockholders' equity	83,618,927	78,650,877
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 678,016,838	$ 764,029,086

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

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Interest income		
Loans, including fees	**$ 33,636,228**	$ 33,364,199
Investment securities	**1,970,525**	1,681,378
Due from banks	**843,591**	401,246
Total interest income	**36,450,344**	35,446,823
Interest expense		
Junior subordinated debentures	**175,815**	145,385
Interest-bearing checking accounts	**133,263**	126,972
Interest-bearing savings accounts	**1,063,643**	485,805
Certificates of deposit	**1,742,634**	1,349,832
FHLB advances	**2,303,039**	1,891,324
Federal funds purchased	**6,327**	597
Total interest expense	**5,424,721**	3,999,915
Net interest income before provision for loan losses	**31,025,623**	31,446,908
Provision for loan losses	**200,000**	1,355,000
Net interest income after provision for loan losses	**30,825,623**	30,091,908
Other noninterest income		
Service fees	**2,476,818**	2,559,290
Net gain on sale of loans held for sale	**922,487**	937,529
Net gain on sale of other real estate owned	**29,188**	-
Other	**14,291**	666,874
Total other income	**3,442,784**	4,163,693
Total income before operating expenses	**34,268,407**	34,255,601
Operating expenses		
Salaries and employee benefits	**15,405,408**	14,995,075
Net occupancy expenses	**4,079,094**	4,126,078
Professional services	**1,800,894**	1,842,739
Office supplies, telephone and postage	**574,844**	624,277
Data processing expense	**1,071,135**	1,051,101
Advertising	**599,611**	447,420
Net losses on other real estate owned	**-**	2,373
Software license and maintenance	**1,027,222**	930,072
Debit card and ATM expenses	**375,620**	362,503
Other expenses	**2,465,972**	2,558,273
Total operating expenses	**27,399,800**	26,939,911
Income before federal income taxes	**6,868,607**	7,315,690
Provisions for federal income taxes	**1,236,908**	2,626,501
Net income	**5,631,699**	4,689,189
Less: net income attributable to noncontrolling interest of subsidiaries	**(768,074)**	(633,289)
Net income attributable to controlling interest	**4,863,625**	4,055,900
Other comprehensive income (loss) before federal income taxes	**(649,232)**	189,204
Provision (benefit) for federal income taxes related to other comprehensive income (loss)	**136,339**	(39,733)
Net other comprehensive income (loss)	**(512,893)**	149,471
Less: net other comprehensive income (loss) attributable to noncontrolling interest	**(57,802)**	(16,845)
	(455,091)	132,626
COMPREHENSIVE INCOME	**$ 5,118,806**	$ 4,838,660

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

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
BALANCE, DECEMBER 31, 2016	$ 319,168	$ 3,197,750	$ 62,859,953	$ (10,543)	$ (871,243)	$ 8,497,398	$ 73,992,483
Net income	-	-	4,055,900	-	-	633,289	4,689,189
Other comprehensive income	-	-	-	-	132,626	16,845	149,471
Dividends paid	-	-	-	-	-	(180,266)	(180,266)
BALANCE, DECEMBER 31, 2017	319,168	3,197,750	66,915,853	(10,543)	(738,617)	8,967,266	78,650,877
Change in Accounting Principal - Adoption of ASU 2016-01	-	-	26,132	-	-	3,477	29,609
Net income	-	-	4,863,625	-	-	768,074	5,631,699
Other comprehensive loss	-	-	-	-	(455,091)	(57,802)	(512,893)
Dividends paid	-	-	-	-	-	(180,365)	(180,365)
BALANCE, DECEMBER 31, 2018	$ 319,168	$ 3,197,750	$ 71,805,610	$ (10,543)	$ (1,193,708)	$ 9,500,650	$ 83,618,927

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

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Net income	**$ 5,631,699**	$ 4,689,189
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	**200,000**	1,355,000
Provision for other real estate owned losses	**-**	20,900
Amortization of premiums and discounts, net	**743,379**	907,065
(Gain) loss on sale of other real estate owned, net	**(29,188)**	(18,527)
Loss on sale of premises and equipment	**59,443**	13,653
Loss on sale of other assets	**-**	9,972
Gain on sale of loans held for sale	**(922,487)**	(937,529)
Gain on sale of available-for-sale securities	**-**	(85,824)
Unrealized (Gain) loss on equity securities with readily determinable fair values	**37,492**	-
Depreciation and amortization	**1,973,124**	2,024,588
Net change in loans held for sale	**51,592,598**	71,099,788
Deferred income taxes	**234,692**	(57,130)
Changes in operating assets and liabilities:		
Accrued interest receivable	**300,700**	(77,586)
Federal income taxes receivable (payable)	**(899,814)**	(189,137)
Prepaids and other assets	**(576,751)**	284,743
Other liabilities	**(10,851)**	(412,374)
Net cash from operating activities	**58,334,036**	78,695,269
Cash flows from investing activities		
Purchase of available-for-sale securities	**(28,718,316)**	(29,697,557)
Proceeds from sale of available-for sale securities	**-**	21,509,841
Proceeds from calls, maturities and principal paydowns	**10,777,829**	10,781,654
Purchase of FHLB stock	**(3,206,700)**	(138,400)
Proceeds from sale of FHLB stock	**2,838,800**	-
Net change in loans held for investment	**27,591,061**	(75,463,831)
Acquisition of premises and equipment	**(2,388,979)**	(6,128,454)
Proceeds from sale of premises and equipment	**55,430**	685,199
Proceeds from sale of foreclosed real estate	**238,500**	67,635
Net cash from investing activities	**7,187,625**	(78,383,913)
Cash flows from financing activities		
Net change in deposits	**22,628,389**	24,807,448
Change in FHLB advances	**(112,991,077)**	(5,801,090)
Dividends paid	**(180,365)**	(180,266)
Net cash from financing activities	**(90,543,053)**	18,826,092
Net change in cash and cash equivalents	**(25,021,392)**	19,137,448
Cash and cash equivalents, beginning of year	**64,083,181**	44,945,733
Cash and cash equivalents, end of year	**$ 39,061,789**	$ 64,083,181
Supplemental disclosure of cash flow information:		
Interest expense paid	**$ 5,439,106**	$ 3,936,577
Federal income taxes paid	**$ 1,826,228**	$ 1,832,139
Noncash items:		
Foreclosed real estate	**$ 592,074**	$ 120,087

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

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Southern Bancshares, Inc. is a bank holding company headquartered in Houston Texas, which provides commercial, agricultural, and consumer banking services through its majority-owned subsidiaries. The consolidated financial statements of Southern Bancshares, Inc. and Subsidiaries (the "Company") include Southern Bancshares, Inc. (Parent), SouthStar Bank, SSB (the "Bank") and Southern Bancshares Capital Trust I (the "Trust"). SouthStar Bank is a State Savings Bank (SSB) as chartered by the Texas Department of Savings and Mortgage Lending. The Bank was originally chartered as Lone Star Bank (LSB) in 1920 and changed its name immediately after the January 1, 2015 merger transactions between LSB, previously located in Moulton, Texas, First Star Bank (FSB), previously located in Bremond, Texas, and Texas Star Bank (TSB), previously located in Lott, Texas. The Company is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

A substantial portion of the Company's lending activity is concentrated within the geographic area of central and southeast Texas. The Company's primary deposit products are demand deposits, certificates of deposit, and savings and money market accounts. The primary lending products have been (1) the origination of permanent single-family dwelling loans and commercial real estate loans and (2) the purchase and sale of mortgage loans held-for-sale.

The Bank currently has three wholly-owned subsidiaries, InveStar Services, Inc., SSB Minerals, Inc., and SSB Star Assets, LLC. InveStar Services, Inc. is a Texas corporation which provides noninsured deposit products to clients and potential clients of the Bank. SSB Minerals, Inc. is a Texas corporation authorized for the activity of retaining mineral and royalty interests which were acquired from delinquent debts previously contracted. SSB Star Assets, LLC was formed to hold specialized collateral on debts previously contracted.

Basis of Presentation – The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and with general practices within the banking industry. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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, useful lives of premises and equipment, deferred income taxes and stock-based compensation. In connection with the determination of the allowances for loan losses, and foreclosed real estate, management obtains independent appraisals for significant properties.

The loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in local economic conditions.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for loan losses. Such agencies may recommend that the Company recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for loan losses may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

In regard to the valuation of real estate acquired in connection with foreclosures or satisfaction on loans, appraisals of the acquired property are used to estimate fair value.

Cash and Cash Equivalents – The Company considers all cash and amounts due from depository institutions, interest-bearing deposits in other banks, securities purchased under a resale agreement (purchased on a day-by-day basis) and federal funds sold (federal funds are sold for one day periods) to be cash and cash equivalents for purposes of the consolidated statements of cash flows.

The Company maintains deposits with other financial institutions, and at times these deposits may exceed federally insured limits. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. The Company regularly evaluates the credit risk and has not experienced any losses on such accounts.

Banks are required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The reserves required at December 31, 2018 and 2017 were approximately $6,755,000 and $6,154,000, respectively. The Bank was in compliance with the requirement at December 31, 2018 and 2017.

Interest-Bearing Deposits Due From Banks – Interest-bearing balances represent deposits with financial institutions that are carried at cost; $32,064,208 and $57,731,314 mature in one year or less as of December 31, 2018 and 2017, respectively.

Federal Funds Sold and Purchased – Federal funds transactions involve lending (federal funds sold) or borrowing (federal funds purchased) of immediately available reserve balances. Usually, the federal funds transactions are for one day or overnight borrowing and lending. In addition, agreements may include rollover provisions. In monitoring credit risk associated with these uninsured deposits, the Company periodically evaluates the stability of the correspondent financial institutions.

Transfers of Financial Assets – Transfers of financial assets, typically commercial and residential loans for the Company, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when (1) the transferred assets have been isolated from the Company, (2) each transferee obtains the unconditional right to pledge or exchange the assets it receives, and (3) the Company does not maintain effective control of the transferred assets.

Federal Home Loan Bank (FHLB) Stock – The Company, as a member of the FHLB system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 0.04% of its total assets or $1,000, and 4.1% of outstanding advance balances. No ready market exists for the FHLB stock, and it has no quoted market value. The carrying value of the stock at December 31, 2018 and 2017 was $8,867,400 and $8,499,500, respectively, and is accounted for using the cost basis of accounting.

Investment Securities – The Company reviews its financial position, liquidity, and future plans in evaluating the criteria for classifying investment securities. Debt securities are classified as follows:

- **Available-for-Sale Securities** – Available-for-sale securities are reported at fair value and consist of investment securities not classified as trading securities or held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported in accumulated other comprehensive income (loss).

Realized gains and losses on the sale of available-for-sale securities are included in other income and when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income (loss). Gains and losses on the sales of securities are determined using the specific-identification method. Securities with limited marketability, such as stock in the Federal Reserve Bank and the FHLB, are carried at cost.

Declines in the fair value of available-for-sale securities below their cost that are other-than-temporary, result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held-for-sale – Loans held-for-sale include residential real estate loans the Company has the intent to sell in the foreseeable future. Loans held-for-sale are carried at the lower of aggregate cost or market value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to six months, or if documentation is determined not to be in compliance with regulations. The Company's historic losses as a result of these indemnities have been insignificant. The Company had 276 and 489 loans held-for-sale at December 31, 2018 and 2017, respectively.

Loans Held for Investment – The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in Texas. The ability of the Company's debtors to honor their contracts is dependent upon real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the amount of unpaid principal, reduced by unearned discounts and fees and an allowance for loan losses. Unearned interest on discounted loans is amortized to income over the life of the loans, using the interest method. For all other loans, interest is accrued daily on the outstanding balances. Unearned discounts on installment loans are recognized as income over the term of the loans using a method that approximates the interest method. Interest income is accrued on loan balances outstanding.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

A loan is considered impaired, based on current information and events, if 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. Accrual of interest on impaired loans is discontinued on a loan when management believes, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful. Cash collections on impaired loans are credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. 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, including those that are considered to be impaired under the criteria established by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 310, *Receivables*, are reviewed regularly by management and are placed on nonaccrual status when the collection of interest or principal is more than 90 days past due, unless the loan is adequately secured and in the process of collection.

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. If the measure of the impaired loan is less than the recorded investment in the loan, impairment is recognized through the provision for loan losses.

When a loan is placed on nonaccrual status, unless collection of principal and interest is considered to be assured, uncollected interest accrued in prior periods is charged off against the allowance for loan losses. Interest accrued in the current period is reversed against current period income. Interest payments received on nonaccrual loans are generally applied to principal unless the remaining loan principal balance has been determined to be fully collectible.

Allowance for Loan Losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the 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 collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

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.

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

Other Real Estate Owned (OREO) – OREO consists of properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. These properties are initially recorded at fair value less selling cost at the date of the foreclosure. Any write-downs based on the difference between the loan balance and the asset's fair value at the date of acquisition are charged to the allowance for loan losses. These properties are not held for the production of income and, therefore, are not depreciated. After foreclosure, valuations are periodically performed by management. Property held-for-sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of property exceeds its fair value.

Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary to reduce the carrying value of a property due to the lower of its cost or fair value less cost to sell.

Premises and Equipment – Land is carried at cost. Buildings and improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the assets. Costs of major additions or improvements are capitalized. Expenditures for maintenance and repairs that do not meet requirements for capitalization are charged to operations as incurred. Gains and losses on dispositions are included in current operations.

The estimated useful lives of premises and equipment are:

Assets	Life
Bank premises	7 - 39 years
Furniture and equipment	3 - 10 years
Automobiles	5 years

Income Taxes – The Company uses the liability method of accounting for income taxes. Income taxes are provided for the tax effects of transactions reported in the consolidated balance sheets and consists of taxes currently due plus deferred taxes, which are primarily related to depreciation and differences between the basis of available-for-sale securities, allowance for loan losses, and allowance for losses of foreclosed real estate. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to those differences which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files consolidated income tax returns.

The Company follows the guidance under FASB ASC No. 740, *Income Taxes*, on accounting for uncertainty in income taxes. The guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

State Margin Tax – The state margin tax applies to legal entities conducting business in Texas. The tax is calculated by applying a tax rate to a base that considers both revenues and expenses and, therefore, has the characteristics of an income tax. As a result, the Company accrued approximately $30,000 and $24,000 in state margin taxes for 2018 and 2017, respectively. The state margin tax is included in other operating expenses in the consolidated statements of comprehensive income.

Other Comprehensive Income – Other comprehensive income is the total of net income and other comprehensive income, which, for the Company, is comprised entirely of unrealized gains and losses on available-for-sale securities, net of taxes.

Interest Rate Risk – The Company is principally engaged in providing short-term commercial loans with interest rates that fluctuate with various market indices and long-term, fixed rate real estate loans. These loans are primarily funded through short-term demand deposits and longer term certificates of deposit with variable and fixed rates. The real estate mortgage loans are more sensitive to interest rate risk than the commercial loans because of their fixed rates and longer maturity characteristics.

Noncontrolling Interest – There is a noncontrolling interest in the Bank. A noncontrolling interest is an ownership interest held by parties other than the Parent. The noncontrolling interest in the Bank was 11.27% at December 31, 2018 and 2017.

Fair Value Measurements – FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value under GAAP, and requires certain disclosures about fair value measurements (*see Note 17*). In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

The three levels of the fair value hierarchy are described as follows:

- **Level 1** – Quoted prices in active markets for identical assets or liabilities; includes certain U.S. Treasury and other U.S. Government agency debt that are highly liquid and are actively traded in over-the-counter markets.

- **Level 2** – Inputs other than Level 1 that are observable, either directly or indirectly, 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial Instruments With Off-Balance-Sheet Risk – In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Advertising Costs – The Company expenses advertising costs as incurred. The total advertising costs charged to expense for 2018 and 2017 were $599,611 and $447,420, respectively.

Reclassification – Certain reclassifications of prior year amounts have been made to conform with the current year presentation, none of which were considered material to the Company's financial statements.

Recently Issued Accounting Pronouncements – In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This update provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018, for nonpublic entities. The Company is currently assessing the impact this new accounting standard and the subsequent amendments will have on the financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance makes targeted improvements to GAAP impacting equity investments (other than those accounted for under the equity method or consolidated), financial liabilities accounted for under the fair value election, and presentation and disclosure requirements for financial instruments, among other changes. The new guidance is effective for the nonpublic companies for annual reporting periods beginning after December 15, 2017, with early adoption prohibited other than for certain provisions. The Company adopted ASU No. 2016-01 in 2018, which resulted in a change in accounting principal adjustment of $29,609 to increase the book value of equity investments to fair value and credit retained earnings for the one-time adjustment.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU will require most leases to be recognized on the consolidated balance sheets as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective beginning after December 15, 2019, for nonpublic companies. The standard may be early adopted and requires a modified retrospective transition approach to apply. The Company is assessing the method of adoption and the impact this new accounting guidance will have on the financial statements and related disclosures.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.* The amendments address certain issues identified on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The amendments are effective for fiscal years beginning after December 15, 2018. The Company is assessing the method of adoption and the impact this new accounting guidance will have on the financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU replace the incurred loss model for recognition of credit losses with a methodology that reflects expected credit losses over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. The amendments are effective for nonpublic companies for fiscal years beginning after December 15, 2020. The Company is assessing the method of adoption and the impact this new accounting guidance will have on the financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update provides guidance on how to record eight specific cash flow issues, and how the predominant principle should be applied when cash receipts and cash payments have more than one class of cash flows. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods beginning after December 15, 2019, with early adoption permitted. Adoption will be applied retrospectively to all periods presented. The Company is assessing the method of adoption and the impact this new accounting guidance will have on the financial statements and related disclosures.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income.* ASU No. 2018-02 was issued to address the income tax accounting treatment of the stranded tax effects within other comprehensive income due to the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income. This issue came about from the enactment of the Tax Cuts and Jobs Act on December 22, 2017 that changed the Company's income tax rate from 35% to 21%. The ASU changed current accounting whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The ASU is effective for periods beginning after December 15, 2018 although early adoption is permitted. The Company determined it will early adopt ASU No. 2018-02 in 2017, and reclassified its standard tax debit of $136,983 within accumulated other comprehensive income to retained earnings at December 31, 2017.

NOTE 2 – SECURITIES

Securities have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities and their approximate fair values were as follows at December 31:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2018				
Available-for-sale securities:				
State and local governments	**$32,883,944**	**$ 20,960**	**$ (606,793)**	**$32,298,111**
Mortgage-backed securities	**58,418,767**	**12,373**	**(1,129,485)**	**57,301,655**
Total available-for-sale securities	**$91,302,711**	**$ 33,333**	**$ (1,736,278)**	**$89,599,766**
December 31, 2017				
Available-for-sale securities:				
State and local governments	$ 33,646,501	$ 43,688	$ (579,589)	$ 33,110,600
Mortgage-backed securities	40,459,102	-	(517,812)	39,941,290
Total available-for-sale securities	$ 74,105,603	$ 43,688	$ (1,097,401)	$ 73,051,890

At December 31, 2018 and 2017, investment securities with a cost of $52,935,999 and $51,489,080, respectively, and an estimated fair value of $51,778,887 and $50,761,677, respectively, were pledged to secure public deposits and for other purposes.

Proceeds from sales of investment securities available-for-sale were $-0- and $21,509,841 during 2018 and 2017, respectively. Gross realized gains amounted to $-0- and $93,151 and gross realized (losses) amounted to $-0- and $(7,327) on available-for-sale securities in 2018 and 2017, respectively.

Securities in an unrealized loss position are summarized below as to whether the security has been in a loss position for less than 12 months or more than 12 months at December 31:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2018						
Available-for-sale securities:						
State and local governments	**$ 3,454,311**	**$ (17,816)**	**$ 21,652,165**	**$ (588,977)**	**$ 25,106,476**	**$ (606,793)**
Mortgage-backed securities	**20,350,312**	**(204,187)**	**32,886,999**	**(925,298)**	**53,237,311**	**(1,129,485)**
Total temporarily impaired securities	**$ 23,804,623**	**$ (222,003)**	**$ 54,539,164**	**$ (1,514,275)**	**$ 78,343,787**	**$ (1,736,278)**
December 31, 2017						
Available-for-sale securities:						
State and local governments	$ 12,638,685	$ (162,339)	$ 12,831,087	$ (417,250)	$ 25,469,772	$ (579,589)
Mortgage-backed securities	21,038,114	(177,378)	18,903,176	(340,434)	39,941,290	(517,812)
Total temporarily impaired securities	$ 33,676,799	$ (339,717)	$ 31,734,263	$ (757,684)	$ 65,411,062	$ (1,097,401)

The investment securities in the above tables are investments believed by management to be normal investments for the banking industry. Because the Company has the ability to hold these investments to maturity, it is not probable that the Company will be unable to collect the amounts contractually, and no decision to dispose of the investments was made prior to the consolidated balance sheet dates. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2018 and 2017.

The following is a summary of contractual maturities of investment securities available-for-sale at December 31:

	2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 3,679,202	$ 3,675,644	$ 1,643,771	$ 1,645,343
Due from one year to five years	16,271,566	16,069,760	17,088,438	16,965,930
Due from five to ten years	19,236,051	18,680,871	19,629,375	19,183,615
Due after ten years	52,115,892	51,173,491	35,744,019	35,257,002
Totals	$ 91,302,711	$ 89,599,766	$ 74,105,603	$ 73,051,890

NOTE 3 – LOANS HELD FOR INVESTMENT, NET

The components of loans held for investment in the consolidated balance sheets were as follows at December 31:

	2018	Percent	2017	Percent
Commercial, financial and industrial	$ 18,484,225	4.2%	$ 22,815,207	4.9%
Real estate	410,501,704	92.9%	426,050,005	90.5%
Agriculture	5,497,245	1.2%	6,263,603	1.3%
Consumer	4,560,391	1.0%	5,432,656	1.2%
Nondepository financial institutions	2,791,898	0.6%	9,220,991	2.0%
Lease receivables	263,219	0.1%	332,894	0.1%
Subtotal	442,098,682	100.0%	470,115,356	100.0%
Less: unamortized loan fees	(2,071,514)		(2,043,017)	
Less: allowance for loan losses	(3,252,240)		(3,506,350)	
Loans held for investment, net	$ 436,774,928		$ 464,565,989	

Impaired loans were as follows at December 31:

	2018	2017
Impaired loans with no allowance	$ 3,789,511	$ 2,167,399
Impaired loans with an allowance	1,929,742	2,143,161
Total investment in impaired loans	$ 5,719,253	$ 4,310,560
Allowance allocated to impaired loans	$ 170,598	$ 271,782

The impaired loans are primarily comprised of loans related to the real estate industry. The average recorded investment in impaired loans during 2018 and 2017 was $5,531,178 and $2,812,094, respectively.

As part of the ongoing monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (1) the average economic risk factors of commercial loans (2) net charge-offs (3) nonperforming loans (4) the level of classified loans and (5) the general economic conditions in the state of Texas.

A roll forward of the allowance for loan losses by type were as follows for December 31:

	2018	2017
Allowance for credit losses:		
Beginning balance	$ 3,506,350	$ 2,929,154
Charge-offs:		
Commercial, financial and industrial	(324,131)	(663,885)
Real estate	(94,000)	(87,592)
Agriculture	(21,320)	(17,108)
Consumer	(100,681)	(47,925)
Total charge-offs:	(540,132)	(816,510)
Recoveries:		
Commercial, financial and industrial	65,718	183
Real estate	8,495	30,000
Agriculture	5,287	-
Consumer	6,522	8,523
Total recoveries:	86,022	38,706
Provisions for loan losses	200,000	1,355,000
Ending balance	$ 3,252,240	$ 3,506,350

Allowance for Loan Losses and Recorded Investment in Loans – The following is a summary of the allowance for loan losses and recorded investment in loans as of December 31:

	Commercial	Real Estate	Agriculture	Consumer	Nondepository Financial Institutions	Leases	Total
December 31, 2018							
Allowance for loan losses:							
Ending balance: individually evaluated for impairment	$ 8,078	$ 91,450	$ 37,976	$ 33,094	$ -	$ -	$ 170,598
Ending balance: collectively evaluated for impairment	193,263	2,678,083	136,037	50,324	23,851	84	3,081,642
Totals	$ 201,341	$ 2,769,533	$ 174,013	$ 83,418	$ 23,851	$ 84	$ 3,252,240
Loans:							
Ending balance: individually evaluated for impairment	$ 136,908	$ 5,214,522	$ 128,322	$ 239,501	$ -	$ -	$ 5,719,253
Ending balance: collectively evaluated for impairment	18,347,317	405,287,182	5,368,923	4,320,890	2,791,898	263,219	436,379,429
Totals	$ 18,484,225	$ 410,501,704	$ 5,497,245	$ 4,560,391	$ 2,791,898	$ 263,219	$ 442,098,682

	Commercial	Real Estate	Agriculture	Consumer	Nondepository Financial Institutions	Leases	Total
December 31, 2017							
Allowance for loan losses:							
Ending balance: individually evaluated for impairment	$ 122,430	$ 53,226	$ 6,857	$ 89,269	$ -	$ -	$ 271,782
Ending balance: collectively evaluated for impairment	178,003	2,845,333	105,035	57,032	47,451	1,714	3,234,568
Totals	$ 300,433	$ 2,898,559	$ 111,892	$ 146,301	$ 47,451	$ 1,714	$ 3,506,350
Loans:							
Ending balance: individually evaluated for impairment	$ 733,974	$ 3,308,542	$ 70,866	$ 197,178	$ -	$ -	$ 4,310,560
Ending balance: collectively evaluated for impairment	22,081,233	422,741,463	6,192,737	5,235,478	9,220,991	332,894	465,804,796
Totals	$ 22,815,207	$ 426,050,005	$ 6,263,603	$ 5,432,656	$ 9,220,991	$ 332,894	$ 470,115,356

Credit Quality Indicators – The following table represents the credit exposure by internally assigned grades at December 31, 2018 and 2017. This grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements in accordance with the loan terms. The Company's internal credit risk grading system is based on management's experiences with similarly graded loans. Credit risk grades are reassessed each quarter based on any recent developments potentially impacting the creditworthiness of the borrower, as well as other external statistics and factors, which may affect the risk characteristics of the respective loan.

The Company utilizes an asset quality rating system in order to assess credit quality. The following ratings are used for criticized and classified assets. All remaining assets are referred to as "Pass":

- **Pass** – Strong credit with no existing or known potential weaknesses deserving of management's close attention.

- **Special Mention** – Credits which have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

- **Substandard** – Credits that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

- **Doubtful** – Credits that have all of the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. There were no credits categorized as doubtful at December 31, 2018 and 2017.

- **Loss** – Credits that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recover or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though practical recovery may be affected in the future. Amounts classified as loss should be promptly charged off.

Because credits in this category are fully charged-down, they are not included in the following tables.

	Pass	Special Mention	Substandard	Total Financing Receivables
December 31, 2018				
Real estate construction	$ 114,857,147	$ 25,446	$ 1,067,982	$ 115,950,575
Farmland	38,880,884	-	715,535	39,596,419
Real estate – residential	155,877,507	375,718	7,809,722	164,062,947
Real estate – nonfarm, nonresidential	76,139,222	-	11,109,190	87,248,412
State and political	326,134	-	-	326,134
Nondepository financial institutions	2,791,898	-	-	2,791,898
Multi-family	3,643,352	-	-	3,643,352
Agriculture	5,363,510	-	133,735	5,497,245
Commercial, financial and industrial	17,909,191	-	248,899	18,158,090
Consumer	3,155,794	5,447	260,890	3,422,131
Automobiles	671,728	24,077	11,972	707,777
Other	693,702	-	-	693,702
Totals	$ 420,310,069	$ 430,688	$ 21,357,925	$ 442,098,682
December 31, 2017				
Real estate construction	$ 122,547,280	$ 27,452	$ 1,642,442	$ 124,217,174
Farmland	41,519,293	-	808,861	42,328,154
Real estate – residential	149,572,096	2,435,846	6,988,784	158,996,726
Real estate – nonfarm, nonresidential	85,827,347	6,339	11,397,240	97,230,926
State and political	454,359	-	-	454,359
Nondepository financial institutions	9,220,991	-	-	9,220,991
Multi-family	3,277,026	-	-	3,277,026
Agriculture	6,139,503	-	124,100	6,263,603
Commercial, financial and industrial	21,316,089	219,432	825,327	22,360,848
Consumer	3,356,749	2,048	374,234	3,733,031
Automobiles	899,983	-	43,839	943,822
Other	1,088,696	-	-	1,088,696
Totals	$ 445,219,412	$ 2,691,117	$ 22,204,828	$ 470,115,356

Impaired Loans – The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable.

	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2018			
Real estate – construction	$ 1,020,231	$ 1,020,231	$ 10,560
Farmland	152,295	165,240	-
Real estate – residential	3,796,665	3,837,638	56,232
Real estate – nonfarm, nonresidential	245,331	288,609	24,658
Agriculture	128,322	128,322	37,976
Commercial, financial and industrial	136,908	513,004	8,078
Consumer	234,235	238,281	31,903
Automobiles	5,266	5,266	1,191
Totals	$ 5,719,253	$ 6,196,591	$ 170,598

	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2017			
Real estate – construction	$ 1,254,908	$ 1,254,908	$ 10,560
Farmland	157,115	165,240	-
Real estate – residential	1,282,386	1,291,406	40,091
Real estate – nonfarm, nonresidential	404,708	446,001	-
Agriculture	41,333	41,333	6,857
Commercial, financial and industrial	763,507	1,384,097	122,430
Consumer	374,234	383,788	83,425
Automobiles	32,369	32,370	8,419
Totals	$ 4,310,560	$ 4,999,143	$ 271,782

The following table sets forth nonaccrual loans and OREO at December 31:

	2018	2017
Nonaccrual loans		
Farmland	**$ 152,295**	$ 157,115
Real estate – residential	**1,113,020**	669,255
Real estate – non-farmland, nonresidential	**221,880**	376,886
Agriculture	-	6,857
Commercial, financial and industrial	390,452	458,694
Consumer	12,502	34,328
Total nonaccrual loans	1,890,149	1,703,135
Other real estate owned	794,460	445,778
Total nonperforming assets	$ 2,684,609	$ 2,148,913
Nonperforming assets to gross loans and other real estate owned	0.61%	0.46%
Nonperforming assets to total assets	0.40%	0.28%

The Company places loans on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations, which typically occurs when principal and interest payments are more than 90 days past due. Had the nonaccrual loans performed in accordance with their original contract terms, the Company would have recognized additional interest income, net of tax, of approximately $129,000 and $69,000 in 2018 and 2017, respectively. Accruing loans past due more than 90 days totaled $440,951 and $611,255 at December 31, 2018 and 2017, respectively. Loans transferred to foreclosed assets totaled $794,460 and $445,778 at December 31, 2018 and 2017, respectively.

The Company is not committed to lend additional funds to debtors whose loans have been modified.

The following table presents an aging analysis of the recorded investment of total loans including past due loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Nonaccrual	Current	Total Financing Receivables
December 31, 2018							
Real estate construction	$ 824,664	$ 164,226	$ 45,231	$ 1,034,121	$ -	$ 114,916,454	$ 115,950,575
Farmland	292,603	-	-	292,603	152,295	39,151,521	39,596,419
Real estate – residential	321,137	2,497,941	385,702	3,204,780	1,113,020	159,745,147	164,062,947
Real estate – nonfarm, nonresidential	245,379	3,273,944	-	3,519,323	221,880	83,507,209	87,248,412
State and political	-	-	-	-	-	326,134	326,134
Nondepository financial institutions	-	-	-	-	-	2,791,898	2,791,898
Multi family	-	-	-	-	-	3,643,352	3,643,352
Agriculture	5,679	-	-	5,679	-	5,491,566	5,497,245
Commercial, financial and industrial	519,106	12,137	10,018	541,261	390,452	17,226,377	18,158,090
Consumer	28,352	1,955	-	30,307	12,502	3,379,322	3,422,131
Automobiles	5,266	5,698	-	10,964	-	696,813	707,777
Other	7,765	2,473	-	10,238	-	683,464	693,702
Totals	$ 2,249,951	$ 5,958,374	$ 440,951	$ 8,649,276	$ 1,890,149	$ 431,559,257	$ 442,098,682
December 31, 2017							
Real estate construction	$ 622,397	$ 2,193,438	$ 486,033	$ 3,301,868	$ -	$ 120,915,306	$ 124,217,174
Farmland	682,608	-	-	682,608	157,115	41,488,431	42,328,154
Real estate – residential	870,472	3,997,520	-	4,867,992	669,255	153,459,479	158,996,726
Real estate – nonfarm, nonresidential	27,821	14,070	-	41,891	376,886	96,812,149	97,230,926
State and political	-	-	-	-	-	454,359	454,359
Nondepository financial institutions	-	-	-	-	-	9,220,991	9,220,991
Multi family	-	-	-	-	-	3,277,026	3,277,026
Agriculture	26,895	-	-	26,895	6,857	6,229,851	6,263,603
Commercial, financial and industrial	94,965	14,627	123,057	232,649	458,694	21,669,505	22,360,848
Consumer	106,879	11,576	2,165	120,620	34,328	3,578,083	3,733,031
Automobiles	40,189	9,702	-	49,891	-	893,931	943,822
Other	-	-	-	-	-	1,088,696	1,088,696
Totals	$ 2,472,227	$ 6,240,933	$ 611,255	$ 9,324,414	$ 1,703,136	$ 459,087,807	$ 470,115,356

Trouble Debt Restructured Loans – Restructured loans are considered "trouble debt restructurings" if, due to the borrower's financial difficulties, the Company granted a concession that would not otherwise be considered. The restructuring may include a transfer of real estate or other assets from the borrower, a modification of loan terms, rates or a combination of the two.

The following table presents loans modified under trouble debt restructurings, segregated by loan class, at December 31:

	2018		2017	
	Outstanding Loan Balance	Number of Contracts	Outstanding Loan Balance	Number of Contracts
Real estate	$ **498,799**	$ 5	$ 481,055	$ 4
Agricultural	-	-	41,333	2
Consumer and other	**37,855**	2	32,650	1
Totals	$ **536,654**	$ 7	$ 555,038	$ 7

NOTE 4 – OTHER REAL ESTATE OWNED

OREO was as follows at December 31:

	2018	2017
Acquired in settlement of loans	$ 794,460	$ 445,778
Less: allowance for losses on other real estate owned	-	-
Total other real estate owned, net	$ 794,460	$ 445,778

An analysis of the allowance for losses on OREO was as follows at December 31:

	2018	2017
Balance at January 1	$ -	$ 3,220
Provisions for losses	-	20,900
Charge-offs, net of recoveries	-	(24,120)
Outstanding at December 31	$ -	$ -

NOTE 5 – PREMISES AND EQUIPMENT

Components of premises and equipment included in the consolidated balance sheets were as follows at December 31:

	2018	2017
Cost		
Land	$ 9,790,439	$ 9,790,439
Buildings and improvements	37,059,960	33,663,340
Furniture, fixtures and equipment	8,813,397	8,128,585
Automobiles	490,150	502,850
Construction in progress	84,759	1,925,176
Total cost	56,238,705	54,010,390
Less: accumulated depreciation and amortization	(13,062,100)	(11,137,316)
Total premises and equipment, net	$ 43,176,605	$ 42,873,074

Depreciation and amortization expense was $1,973,124 and $2,024,588 for 2018 and 2017, respectively.

NOTE 6 – DEPOSITS

Deposit account balances are summarized as follows at December 31:

	2018	2017
Noninterest-bearing demand	$ 143,035,534	$ 141,895,971
Interest-bearing demand	83,441,422	78,993,281
Saving and money market deposits	164,444,431	148,623,778
Certificates of deposit	138,766,198	137,546,166
Total deposits	$ 529,687,585	$ 507,059,196

Certificates of deposit maturing in years ending after December 31, 2018 are as follows:

For the Year Ending December 31,	Amount
2019	$ 100,729,149
2020	30,606,585
2021	3,497,395
2022	2,045,430
2023	1,887,639
Total	$ 138,766,198

At December 31, 2018 and 2017, the Company had approximately $44,570,000 and $43,518,000, respectively, in time deposits $250,000 and over. At December 31, 2018, approximately $33,900,000 of time deposits $250,000 and over mature within one year. Interest expense for certificates of deposit in excess of $250,000 was approximately $666,000 and $459,000 for 2018 and 2017, respectively.

The Company had deposits from related parties that totaled $2,766,169 and $3,395,314 at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, the Company recorded overdrafts on demand deposits of $277,983 and $603,303, respectively, as loan balances.

NOTE 7 – BORROWINGS

FHLB advances totaled $60,877,945 and $173,869,022 at December 31, 2018 and 2017, respectively. The advances mature at varying dates through 2033 and had fixed rates ranging from 1.078% - 5.869% at December 31, 2018. The advances are collateralized by a blanket lien on all first mortgage loans, the FHLB capital stock owned by the Company and deposits with the FHLB.

The scheduled minimum principal payments on FHLB advances at December 31, 2018 were as follows:

For the Year Ending December 31,	Amount
2019	$ 31,268,642
2020	9,493,838
2021	6,744,573
2022	1,308,367
2023	2,112,506
Thereafter	9,950,019
Total	$ 60,877,945

The Company has undisbursed advance commitments from the FHLB of Dallas, which provide for maximum borrowings of $36,050,000 for 2018 and 2017.

Federal Funds Lines of Credit – The Company's subsidiaries have lines of credit, which provide for maximum borrowings of $48,000,000 for 2018 and 2017. At December 31, 2018 and 2017, the Company had no outstanding borrowings. At December 31, 2018 and 2017, the Company had no federal funds sold.

NOTE 8 – JUNIOR SUBORDINATED DEBENTURES

In October 2002, the Company formed a wholly-owned trust, Southern Bancshares Capital Trust I (Trust I), which issued $3,000,000 of guaranteed preferred beneficial interest securities (Trust Preferred Securities) that qualify as Tier I capital under Federal Reserve Board guidelines. All of the common securities of Trust I are owned by the Company. The proceeds from the issuance of the Trust Preferred Securities ($3,000,000) and common equity securities ($93,000) were used by Trust I to purchase $3,093,000 of floating rate junior subordinated debentures issued by the Company which carry an interest rate of London Interbank Offered Rate (LIBOR) plus 3.45%. The debentures represent the sole asset of Trust I.

The Trust Preferred Securities have no voting rights and accrue and pay quarterly interest at LIBOR plus 3.45% of the stated liquidation value of $1,000 per Trust Preferred Security. The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of required distributions and the liquidation value of the Trust Preferred Securities.

The Trust Preferred Securities are mandatorily redeemable upon the maturity of the debentures on November 7, 2032, or earlier, if redeemed as provided in the indenture. The Company has the right to redeem the debentures purchased by Trust I in whole or in part, at any time within 90 days following the occurrence and during the continuation of certain events. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount plus any accrued but unpaid interest.

NOTE 9 – CONTINGENCIES

The Company is subject to various claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition of such claims and lawsuits will not have a material adverse effect on the financial statements.

NOTE 10 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. At December 31, 2018 and 2017, the Company had commitments to loan funds in the amount of $55,951,540 and $89,383,015, respectively, which includes items such as letters of credit, revolving lines of credit, etc. These amounts represent, in varying degrees, elements of credit and interest risk in excess of the amounts reported in the financial statements. The Company uses the same credit policies in making commitments and conditional obligations as it does for instruments included in the consolidated balance sheets.

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

NOTE 11 – LEASES

At December 31, 2018 and 2017, the Company had certain noncancelable operating leases, which cover the Company's premises. Rent expense was $301,453 and $231,886 for 2018 and 2017, respectively.

Future minimum rental commitments under noncancelable leases are approximately:

For the Year Ending December 31,	Amount
2019	$ 84,251
Total	$ 84,251

NOTE 12 – RETIREMENT PLAN

The Company has a retirement savings 401(k) plan, which allows employees to defer a portion of their salary. The Company retains the option of matching 50% of the employee contribution up to 10% of the employee's annual salary. Total employer contributions during 2018 and 2017 were $376,752 and $387,715, respectively.

NOTE 13 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Substantially all of the Company's loans and commitments have been granted to customers in the Company's market area. Although the Company's loan portfolio is diversified, there is dependence in this region on the agricultural and oil and gas economies. Letters of credit were primarily granted to commercial borrowers.

The Company has a concentration of funds on deposit at correspondent banks in excess of insured amounts at December 31:

	2018	2017
Due from correspondent banks:		
Frost Bank	$ 3,550,942	$ 7,198,959
The Independent BankersBank	68,898	77,693
Texas Capital Bank	1,024,406	18,006,855
NexBank	14,071,115	18,092,127
Totals	$18,715,361	$ 43,375,634

The nature of the Company's business requires that it maintain amounts due from banks, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company held deposits with the Federal Reserve Bank in the amount of $13,348,055 and $14,353,386 as of December 31, 2018 and 2017, respectively. These deposits are backed by the full faith of the United States government and are not subject to federal deposit insurance.

The Company had one deposit relationship exceed 5% of total deposits as of December 31, 2018 which totaled $29,889,071.

NOTE 14 – INCOME TAXES

The provision for income taxes was as follows for December 31:

	2018	2017
Current federal tax provision	$ 1,283,045	$ 2,683,631
Deferred federal tax provision	(46,137)	(57,130)
Total federal income tax provision	$ 1,236,908	$ 2,626,501

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

	2018	2017
Expected tax provision at a 21% tax rate	$ 1,442,407	$ 2,487,335
Tax exempt income	(139,927)	(227,576)
Temporary differences and other	(65,572)	88,553
Re-measurement of deferred tax rate	-	278,189
Total federal income tax provision	$ 1,236,908	$ 2,626,501

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were as follows at December 31:

	2018	2017
Deferred tax assets		
Allowance for loan losses	$ 3,252,241	$ 3,506,350
Depreciation	(2,229,905)	(1,366,432)
Difference between carrying value and fair value of investment securities	1,702,945	1,053,713
	2,725,281	3,193,631
Statutory rate	21%	21%
Net deferred tax assets	$ 572,309	$ 670,663

As a result of the Tax Cuts and Job Cuts Act enacted on December 22, 2017 the Company's deferred tax assets and liabilities were revalued to account for the future impact of a reduction in the Company's tax rate from 34% to 21%. This resulted in a one-time net charge to tax expense in 2017 of $278,189.

No valuation allowance for deferred tax assets was recorded at December 31, 2018 and 2017, as management believes it is more-likely-than-not that all deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

NOTE 15 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators, which, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

In July 2013, the Federal Reserve Bank published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1", (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define Common Equity Tier 1 (CET1) narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

The Basel III Capital Rules became effective for the Company on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019.

Additionally, the Basel III Capital Rules require that the Company maintain a capital conservation buffer with respect to each of the CET1, Tier 1 and total capital to risk-weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. The capital conservation buffer is added to the 4.5% CET1 capital ratio, the 6.0% Tier 1 capital ratio and the 8.0% total capital ratio as that buffer is phased in, effectively increasing the respective minimum capital ratios.

The capital conservation buffer is subject to a three-year phase-in period that began on January 1, 2016 and will be fully phased in on January 1, 2019 at 2.5%. The required phase-in capital conservation buffer during 2018 is 1.875% and was 1.25% during 2017. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and Tier 1 capital to average total assets. Management believes as of December 31, 2018 and 2017, that the Bank meets all capital adequacy requirements to which it is subject.

All banks are also subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval.

As of December 31, 2018 and 2017, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the following table. There are no conditions or events that management believes have changed the Bank's prompt corrective action category.

The Bank's regulatory capital ratios under the Basel III regulatory framework are as follows:

	Actual		Minimum Capital Required Under Basel III Phase-in		Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
(in thousands)						
SouthStar Bank						
Total Capital						
(to Risk-Weighted Assets)	**$ 88,904**	**17.93%**	**$ 48,959**	≥ 9.875%	$ 49,579	≥ 10.00%
Tier I Capital						
(to Risk-Weighted Assets)	$ 85,652	**17.28%**	**$ 39,044**	≥ 7.875%	$ 39,663	≥ 8.00%
Common Equity Tier I Capital						
(to Risk-Weighted Assets)	**$ 85,652**	**17.28%**	$ 31,607	**≥ 6.375%**	**$ 32,226**	≥ 6.50%
Tier I Capital						
(to Average Total Assets)	$ 85,652	12.03%	$ 28,484	≥ 4.000%	$ 35,606	≥ 5.00%
As of December 31, 2017						
(in thousands)						
SouthStar Bank						
Total Capital						
(to Risk-Weighted Assets)	$ 83,913	14.19%	$ 47,307	≥ 9.25%	$ 59,134	≥ 10.00%
Tier I Capital						
(to Risk-Weighted Assets)	$ 80,407	13.60%	$ 35,481	≥ 7.25%	$ 47,307	≥ 8.00%
Common Equity Tier I Capital						
(to Risk-Weighted Assets)	$ 80,407	13.60%	$ 26,610	≥ 5.75%	$ 38,437	≥ 6.50%
Tier I Capital						
(to Average Total Assets)	$ 80,407	11.03%	$ 29,163	≥ 4.00%	$ 36,454	≥ 5.00%

As a State Savings Bank, the Bank must meet certain additional requirements as provided by the Texas Department of Savings and Mortgage Lending. Under the Qualified Thrift Lender (QTL) test related to portfolio assets, the Bank must meet certain ratios for a portion of the time during the period under evaluation.

NOTE 16 – RELATED PARTY TRANSACTIONS

The Company has entered into transactions with its executive officers, directors, significant stockholders, and their affiliates (related parties). Related party loans include insider loans plus loans to affiliated companies and their employees in which insiders are principal stockholders.

The aggregate amount of loan transactions with related parties were as follows:

	2018	2017
Outstanding at January 1	$ 32,000	$ 38,000
New loans	7,500	6,100
Repayments	(10,600)	(12,100)
Loans outstanding at December 31	$ 28,900	$ 32,000

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 collectability or present other unfavorable features.

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

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 highly liquid government bonds, mortgage products and exchange-traded equities. 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 certain collateralized mortgage and debt obligations and certain municipal securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain residual municipal securities and other less liquid securities.

Other Real Estate Owned – OREO acquired by foreclosure is recorded at the fair value of the property, but not greater than its loan amount, less any selling costs, as applicable, at the time of foreclosure. If necessary, carrying amounts are reduced to reflect this value through charges to the allowance for possible credit losses upon foreclosure. Subsequent to foreclosure, real estate is carried at the lower of its new cost basis or fair value, less estimated costs to sell. OREO is fair valued under Level 3 at the lower of cost or fair value based on property appraisals less estimated costs, which include both observable and unobservable inputs, at the time of transfer and as appropriate thereafter.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Fair Value
December 31, 2018				
Recurring basis				
Available-for-sale securities	$ -	$89,599,766	$ -	$89,599,766
Other Assets	31,797	-	-	$ 31,797
Nonrecurring basis				
Impaired loans	-	-	5,719,253	5,719,253
Other real estate held for sale	-	-	794,460	794,460
Totals	$ 31,797	$89,599,766	$ 6,513,713	$96,145,276
December 31, 2017				
Recurring basis				
Available-for-sale securities	$ -	$ 73,051,890	$ -	$ 73,051,890
Nonrecurring basis				
Impaired loans	-	-	4,310,560	4,310,560
Other real estate held for sale	-	-	445,778	445,778
Totals	$ -	$ 73,051,890	$ 4,756,338	$ 77,808,228

There were no transfers between levels during 2018 and 2017.

The following are the changes in Level 3 assets measured at fair value on a nonrecurring basis during December 31:

	2018		2017	
	OREO	Impaired Loans	OREO	Impaired Loans
Balance, December 31,	$ 445,778	$ 4,310,560	$ 395,975	$ 1,573,839
Additions	592,074	4,613,497	120,087	3,134,326
Sales, issuances and settlements, net	(243,392)	(3,204,804)	(70,284)	(397,605)
Balance, December 31,	$ 794,460	$ 5,719,253	$ 445,778	$ 4,310,560

Resulting gains and or losses are included on the consolidated statements of comprehensive income under the heading other income or other expenses, respectively.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances.

Financial assets and liabilities measured at fair value on a nonrecurring basis include the following:

Impaired Loans – Certain impaired loans are reported at fair value of the underlying collateral if repayment is expected solely from the collateral. The impaired loans are reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Loans Held-for-Sale – Loans held-for-sale are reported at fair value if, on an aggregate basis, the fair value of the loans is less than cost. In determining whether the fair value of loans held-for-sale is less than cost when quoted market prices are not available, the Company may consider outstanding investor commitments, discounted cash flow analysis with market assumptions or the fair value of the collateral if the loan is collateral dependent. Such loans are classified within either Level 2 or Level 3 of the fair value hierarchy. Where assumptions are made using significant unobservable inputs, such loans held-for-sale are classified as Level 3.

FASB ASC No. 825, *Financial Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or nonrecurring basis.

The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed above.

The methodologies for other financial assets and financial liabilities are discussed below:

Cash and Cash Equivalents – The carrying amounts reported in the consolidated balance sheets, for cash and due from banks, interest-bearing due from banks and federal funds sold approximate their fair value.

Loans, Net – For both fixed and variable rate loans in 2018 and 2017, fair values are estimated using discounted cash flow analysis and current interest rates charged for the types of loans in the portfolio.

Deposits – The fair values estimated for transactional deposit accounts (interest and noninterest checking, savings and money market accounts) are considered to be their carrying amounts. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of the aggregate expected monthly maturities on time deposits.

Borrowed Funds – The estimated fair value approximates carrying value for short-term borrowings. The fair value for long-term fixed-rate borrowings is estimated using quoted market prices, if available, or by discounting future cash flows using interest rates for similar financial instruments.

Commitments to Extend Credit and Standby Letters of Credit – The fair value of commitments 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 the guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated costs to terminate them or otherwise settle the obligations with the counterparties at the reporting date. Estimating the fair values of the commitments and letters of credit is not practical when considering the preceding factors.

Accrued Interest Payable and Accrued Interest Receivable – The carrying amounts reported in the consolidated balance sheets, for accrued interest payable and accrued interest receivable approximate their fair value.

The following table presents estimated fair values of the Company's financial instruments for December 31:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 39,061,789	$ 39,061,789	$ 64,083,181	$ 64,083,181
Available-for-sale securities	89,599,766	89,599,766	73,051,890	73,051,890
Loans held for sale, net	54,816,359	55,722,000	105,486,470	109,022,000
Loans held for investment, net	436,774,928	440,946,000	464,565,989	471,355,000
Accrued interest receivable	2,178,275	2,178,275	2,478,975	2,478,975
Financial liabilities				
Deposits	$529,687,585	$531,386,000	$ 507,059,196	$ 508,505,000
Advances from FHLB	60,877,945	60,793,000	173,869,022	173,975,000
Junior subordinated debentures	3,093,000	3,093,000	3,093,000	3,093,000
Accrued interest payable	341,126	341,126	365,000	365,000

NOTE 18 – PHANTOM STOCK PLAN

On November 28, 2015, the Company's Board of Directors approved the establishment of a Phantom Stock Plan (the "Plan") to be available for immediate issuance. The Board will utilize the Plan, at its sole discretion, to attract and retain personnel, and provide additional incentives to certain directors and employees.

A summary of the changes in outstanding shares as of December 31 are presented below:

	2018	2017
Shares, beginning of year	$ 1,650	$ 2,100
Granted	-	-
Forfeited or expired	(200)	(350)
Excercised	-	(100)
Shares, end of year	$ 1,450	$ 1,650

Due to the contingent nature of the awards, there was no accrual necessary for the awards outstanding as of December 31, 2018. No payments were made or accrued during 2018. Compensation expense of approximately $13,500 was recognized during 2017 for a discretionary payment made upon exercise of the 100 shares listed above.

NOTE 19 – SUBSEQUENT EVENTS

Management has evaluated events and transactions for potential recognition or disclosure through March 22, 2019, the date the financial statements were available to be issued.

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
SCHEDULE I – CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2018

	Bank	Parent	Eliminations	Consolidated
ASSETS				
Cash and due from banks	$ 6,997,581	$ 1,726,756	$ (1,726,756)	$ 6,997,581
Interest-bearing due from banks	32,064,208	167,293	(167,293)	32,064,208
Total cash and cash equivalents	39,061,789	1,894,049	(1,894,049)	39,061,789
Available-for-sale securities	89,599,766	-	-	89,599,766
Investment in subsidiaries	-	74,807,040	(74,807,040)	-
Loans held for sale, net	54,816,359	-	-	54,816,359
Loans held for investment, net	436,774,928	-	-	436,774,928
Accrued interest receivable	2,178,275	-	-	2,178,275
FHLB stock, at cost	8,867,400	-	-	8,867,400
Other real estate owned, net	794,460	-	-	794,460
Premises and equipment, net	43,042,258	134,347	-	43,176,605
Prepaid expenses	954,484	-	-	954,484
Deferred tax assets	572,309	-	-	572,309
Federal income tax receivable	148,245	298,302	(153,495)	293,052
Other assets	669,233	259,178	(1,000)	927,411
TOTAL ASSETS	$ 677,479,506	$ 77,392,916	$ (76,855,584)	$ 678,016,838
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits	$ 531,581,634	$ -	$ (1,894,049)	$ 529,687,585
Advances from FHLB	60,877,945	-	-	60,877,945
Junior subordinated debentures	-	3,093,000	-	3,093,000
Due to (from) subsidiary	-	153,495	(153,495)	-
Accrued Interest and other liabilities	712,237	28,144	(1,000)	739,381
Total liabilities	593,171,816	3,274,639	(2,048,544)	594,397,911
Stockholders' equity				
Controlling interest:				
Common stock	655,610	319,168	(655,610)	319,168
Additional paid-in capital	13,351,390	3,197,750	(13,351,390)	3,197,750
Retained earnings	71,646,016	71,805,610	(71,646,016)	71,805,610
Treasury stock, at cost	-	(10,543)	-	(10,543)
Accumulated other comprehensive loss	(1,345,326)	(1,193,708)	1,345,326	(1,193,708)
	84,307,690	74,118,277	(84,307,690)	74,118,277
Noncontrolling interest	-	-	9,500,650	9,500,650
Total stockholders' equity	84,307,690	74,118,277	(74,807,040)	83,618,927
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 677,479,506	$ 77,392,916	$ (76,855,584)	$ 678,016,838

See independent auditors' report.

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
SCHEDULE II – CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	Bank	Parent	Eliminations	Consolidated
Interest income				
Loans, including fees	$ 33,636,228	$ -	$ -	$ 33,636,228
Investment securities	1,970,525	-	-	1,970,525
Due from banks	843,591	685	(685)	843,591
Total interest income	36,450,344	685	(685)	36,450,344
Interest expense				
Junior subordinated debentures	-	175,815	-	175,815
Interest-bearing checking accounts	133,263	-	-	133,263
Interest-bearing savings accounts	1,064,328	-	(685)	1,063,643
Certificates of deposit	1,742,634	-	-	1,742,634
FHLB advances	2,303,039	-	-	2,303,039
Federal funds purchased	6,327	-	-	6,327
Total interest expense	5,249,591	175,815	(685)	5,424,721
Net interest income before provision for loan losses	31,200,753	(175,130)	-	31,025,623
Provision for loan losses	200,000	-	-	200,000
Net interest income after provision for loan losses	31,000,753	(175,130)	-	30,825,623
Other noninterest income				
Service fees	2,476,818	-	-	2,476,818
Equity in earnings of subsidiaries	-	6,047,136	(6,047,136)	-
Net gain on sale of loans held for sale	922,487	-	-	922,487
Net gain on sale of other real estate owned	29,188	-		29,188
Other	6,963	229,955	(222,627)	14,291
Total other noninterst income	3,435,456	6,277,091	(6,269,763)	3,442,784
Total income before operating expenses	34,436,209	6,101,961	(6,269,763)	34,268,407
Operating expenses				
Salaries and employee benefits	14,427,711	977,697	-	15,405,408
Net occupancy expense	3,950,266	128,828	-	4,079,094
Professional services	1,784,963	15,931	-	1,800,894
Office supplies, telephone and postage	544,150	30,694	-	574,844
Data processing expense	1,071,135	-	-	1,071,135
Advertising	599,611	-	-	599,611
Software license and maintenance	1,027,222	-	-	1,027,222
Debit card and ATM expenses	375,620	-	-	375,620
Other expenses	2,241,888	446,711	(222,627)	2,465,972
Total operating expenses	26,022,566	1,599,861	(222,627)	27,399,800
Income before federal income taxes	8,413,643	4,502,100	(6,047,136)	6,868,607
Provisions for federal income taxes	1,598,433	(361,525)	-	1,236,908
Net income	6,815,210	4,863,625	(6,047,136)	5,631,699
Other comprehensive gain (loss), net of tax				
Unrealized gain on securities	(512,893)	(455,091)	455,091	(512,893)
COMPREHENSIVE INCOME	$ 6,302,317	$ 4,408,534	$ (5,592,045)	$ 5,118,806

See independent auditors' report.

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
SCHEDULE III – CONSOLIDATING BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2017

	Bank	Parent	Eliminations	Consolidated
ASSETS				
Cash and due from banks	$ 6,351,867	$ 1,372,001	$ (1,372,001)	$ 6,351,867
Interest-bearing due from banks	57,731,314	171,459	(171,459)	57,731,314
Total cash and cash equivalents	64,083,181	1,543,460	(1,543,460)	64,083,181
Available-for-sale securities	73,051,890	-	-	73,051,890
Investment in subsidiaries	-	70,608,184	(70,608,184)	-
Loans held for sale, net	105,486,470	-	-	105,486,470
Loans held for investment, net	464,565,989	-	-	464,565,989
Accrued interest receivable	2,478,975	-	-	2,478,975
FHLB stock, at cost	8,499,500	-	-	8,499,500
Other real estate owned, net	445,778	-	-	445,778
Premises and equipment, net	42,729,577	143,497	-	42,873,074
Prepaid expenses	993,834	-	-	993,834
Deferred tax assets	670,663	-	-	670,663
Other assets	651,472	229,260	(1,000)	879,732
TOTAL ASSETS	$ 763,657,329	$ 72,524,401	$ (72,152,644)	$ 764,029,086
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits	$ 508,602,656	$ -	$ (1,543,460)	$ 507,059,196
Advances from FHLB	173,869,022	-	-	173,869,022
Junior subordinated debentures	-	3,093,000	-	3,093,000
Federal income tax payable	886,304	606,762	(886,304)	606,762
Due to (from) subsidiary	-	(886,304)	886,304	-
Accrued Interest and other liabilities	723,896	27,333	(1,000)	750,229
Total liabilities	684,081,878	2,840,791	(1,544,460)	685,378,209
Stockholders' equity				
Controlling interest:				
Common stock	655,550	319,168	(655,550)	319,168
Additional paid-in capital	13,351,450	3,197,750	(13,351,450)	3,197,750
Retained earnings	66,400,883	66,915,853	(66,400,883)	66,915,853
Treasury stock, at cost	-	(10,543)	-	(10,543)
Accumulated other comprehensive loss	(832,432)	(738,618)	832,433	(738,617)
	79,575,451	69,683,610	(79,575,450)	69,683,611
Noncontrolling interest	-	-	8,967,266	8,967,266
Total stockholders' equity	79,575,451	69,683,610	(70,608,184)	78,650,877
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 763,657,329	$ 72,524,401	$ (72,152,644)	$ 764,029,086

See independent auditors' report.

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
SCHEDULE IV – CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

	Bank	Parent	Eliminations	Consolidated
Interest income				
Loans, including fees	$ 33,364,199	$ -	$ -	$ 33,364,199
Investment securities	1,681,378	-	-	1,681,378
Due from banks	401,246	457	(457)	401,246
Total interest income	35,446,823	457	(457)	35,446,823
Interest expense				
Junior subordinated debentures	-	145,385	-	145,385
Interest-bearing checking accounts	126,972	-	-	126,972
Interest-bearing savings accounts	486,262	-	(457)	485,805
Certificates of deposit	1,349,832	-	-	1,349,832
FHLB advances	1,891,324	-	-	1,891,324
Federal funds purchased	597	-	-	597
Total interest expense	3,854,987	145,385	(457)	3,999,915
Net interest income before provision for loan losses	31,591,836	(144,928)	-	31,446,908
Provision for loan losses	1,355,000	-	-	1,355,000
Net interest income after provision for loan losses	30,236,836	(144,928)	-	30,091,908
Other noninterest income				
Service fees	2,559,290	-	-	2,559,290
Equity in earnings of subsidiaries	-	4,993,981	(4,993,981)	-
Net gain on sale of loans held for sale	937,529	-	-	937,529
Other	661,855	221,162	(216,143)	666,874
Total other noninterest income	4,158,674	5,215,143	(5,210,124)	4,163,693
Total income before operating expenses	34,395,510	5,070,215	(5,210,124)	34,255,601
Operating expenses				
Salaries and employee benefits	14,103,972	891,103	-	14,995,075
Net occupancy expense	4,004,485	121,593	-	4,126,078
Professional services	1,832,572	10,167	-	1,842,739
Office supplies, telephone and postage	597,944	26,333	-	624,277
Data processing expense	1,051,101	-	-	1,051,101
Advertising	447,420	-	-	447,420
Net losses on other real estate owned	2,373	-	-	2,373
Software license and maintenance	930,072	-	-	930,072
Debit card and ATM expenses	362,503	-	-	362,503
Other expenses	2,237,235	537,181	(216,143)	2,558,273
Total operating expenses	25,569,677	1,586,377	(216,143)	26,939,911
Income before federal income taxes	8,825,833	3,483,838	(4,993,981)	7,315,690
Provisions for federal income taxes	3,198,563	(572,062)	-	2,626,501
Net income	5,627,270	4,055,900	(4,993,981)	4,689,189
Other comprehensive gain, net of tax				
Unrealized gain on securities	149,471	132,626	(132,626)	149,471
COMPREHENSIVE INCOME	$ 5,776,741	$ 4,188,526	$ (5,126,607)	$ 4,838,660

See independent auditors' report.

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
SCHEDULE V – COMPUTATION OF ADJUSTED NET WORTH
DECEMBER 31, 2018 AND 2017

	2018	2017
FHA originations during calendar year	$ 2,267,484	$ 2,954,839
FHA servicing portfolio at December 31	170,184	285,200
Total adjusted FHA loan activity	$ 2,437,668	$ 3,240,039
Net worth required baseline	$ 1,000,000	$ 1,000,000
Additional net worth required	-	-
Subtotal	1,000,000	1,000,000
Total minimum net worth required	1,000,000	1,000,000
Stockholders' equity, ending balance	84,307,690	79,575,437
Less: unacceptable assets	731,466	727,160
Adjusted net worth	83,576,224	78,848,277
Adjusted net worth above required minimum amount	$ 82,576,224	$ 77,848,277

See independent auditors' report.

SOUTHERN BANCSHARES, INC. AND SUBSIDIARIES
SCHEDULE VI – COMPUTATION OF LIQUIDITY REQUIREMENTS
DECEMBER 31, 2018 AND 2017

	2018	2017
Cash and cash equivalents	$36,923,095	$ 59,030,348
Total of liquid assets per HUD guidelines	36,923,095	59,030,348
Less: liquid assets required	200,000	200,000
Liquid assets above required minimum amount	$36,723,095	$ 58,830,348

See independent auditors' report.

SOUTHERN BANCSHARES, INC.
ORGANIZATION CHART
AS OF DECEMBER 31, 2018

SOUTHERN BANCSHARES, INC.
Incorporated in Texas
Houston, Texas
LEI N/A

89%

SOUTHSTAR BANK , SSB
LEI 549300C1YZ5ZORJBI935
Moulton, Texas
Incorporated in TX

100%

SOUTHERN BANCSHARES CAPITAL TRUST I

Houston, Texas
Declaration of Trust filed in Delaware

(no direct or indirect ownership or control of any companies

SOUTHSTAR BANK IS THE MANAGING MEMBER OF EACH LLC

SSB STAR ASSETS, LLC **
MOULTON, TX
a TX LLC

100%

INVESTAR SERVICES, INC
MOULTON, TX
INCORPORATED IN TX

100%

SSB MINERALS, INC.
BREMOND, TX
INCORPORATED IN TX

No LEI is Available for ANY of the Above Mentioned Entities except SOUTHSTAR BANK (LEI Listed Above)

Results: A list of branches for your holding company: SOUTHERN BANCSHARES, INC. (1107184) of HOUSTON, TX.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements,** you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	171768	SOUTHSTAR BANK, S.S.B.	100 SOUTH MAIN STREET	MOULTON	TX	77975	LAVACA	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	4395133	SOUTH AUSTIN BRANCH	10901 WEST US 290 HWY	AUSTIN	TX	78737	TRAVIS	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	5095421	STEINER RANCH BRANCH	5925 STEINER RANCH BOULEVARD	AUSTIN	TX	78732	TRAVIS	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	4594561	FALCON HEAD BRANCH	3490 RANCH ROAD 620 SOUTH	BEE CAVE	TX	78738	TRAVIS	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	1428124	BRAZORIA BRANCH	301 S BROOKS ST	BRAZORIA	TX	77422	BRAZORIA	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	105053	BREMOND BRANCH	109 COMMERCE ST	BREMOND	TX	76629	ROBERTSON	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	1428478	CALVERT BRANCH	100 S MAIN ST	CALVERT	TX	77837	ROBERTSON	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	3490077	FRANKLIN BRANCH	702 W US HIGHWAY 79	FRANKLIN	TX	77856	ROBERTSON	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	5284980	GEORGETOWN BRANCH	4535 WILLIAMS DRIVE	GEORGETOWN	TX	78633-1332	WILLIAMSON	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	3575022	GONZALES BRANCH	1609 SARAH DEWITT DRIVE	GONZALES	TX	78629	GONZALES	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	4299389	HARKER HEIGHTS BRANCH	905 E FM 2410	HARKER HEIGHTS	TX	76548	BELL	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	3396021	SOUTH MARKET STREET BRANCH	1308 SOUTH MARKET STREET	HEARNE	TX	77859	ROBERTSON	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	4395142	LEANDER BRANCH	10737 EAST CRYSTAL FALLS PARKWAY	LEANDER	TX	78641	WILLIAMSON	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	5044737	SENDERO SPRINGS BRANCH	3025 FM 1431	ROUND ROCK	TX	78681	AUSTIN	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	
OK		Full Service	2802338	SHINER BRANCH	203 N AVE E	SHINER	TX	77984	LAVACA	UNITED STATES	Not Required	Not Required	SOUTHSTAR BANK, S.S.B.	171768	

Fiscal Year Ending December 31, 2018

REPORT ITEM 3: SECURITIES HOLDERS
(1)(a)(b)(c) AND (2)(a)(b)(c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2017			Securities holders not listed in 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2017		
(1)(a) Name, City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities
Suzanne Brown Houston, TX USA	USA	73,011 -22.88% Common Stock	Catherine Schindler 2012 Trust Houston, TX USA Catherine Renaudin, Trustee	USA	16,871 - 5.29% Common Stock
Timothy Brown* Houston, TX USA	USA	3,533 - 1.11% Common Stock			
	*Tim holds voting power for Suzanne's shares and their family trusts				
Paris Schindler GS Trust Houston, TX USA Paris Schindler, Trustee	USA	42,766 - 13.40% Common Stock	Scott Schindler 2012 Trust Houston, TX USA Scott Schindler, Trustee	USA	16,871 - 5.29% Common Stock
Suzanne Schindler GS Trust Houston, TX USA Suzanne Brown, Trustee	USA	42,765 - 13.40% Common Stock	Cole Schindler 2012 Trust Houston, TX USA Paris Schindler, Trustee	USA	16,871 - 5.29% Common Stock

FORM FRY-6

Southern Bancshares, Inc.

Fiscal Year Ending December 31, 2018

REPORT ITEM 4: INSIDERS
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Bank Holding Co	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of other businesses)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	4(b) Percentage of Voting Shares in Subsidiary	(4)(c) List names of other companies (include partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held
Paris R. Schindler Houston, TX USA Paris has the power to vote the shares of his families trusts totaling 51.84% ownership	N/A	Director & Chairman & Presiden	Director & Chairman SouthStar Bank	N/A	51.84%	N/A	Sage Broadcasting (25%) Dewalt Management (25% Emerald Laguana (25%) Weshy Mgmt (25%) Ft Bend Mgmt (33%) Dewalt Cattle (33%)
Timothy R. Brown Houston, TX USA Tim holds the power to vote shares owned by wife Suzanne and all of their families trusts totaling 47.05%	N/A	Director & Vice Chairman Treasurer & Secretary	Director SouthStar Bank	N/A	48.16%	N/A	n/a
Debra A. Bon Spring, TX USA	N/A	Controller	N/A	N/A	N/A	N/A	n/a
Suzanne Brown Houston, TX USA Tim Brown holds the power to vote Suzanne's 22.8%	Investor	Principal Securities Holder	N/A	INVESTOR/HOMEMAKER	0.00%	N/A	Sage Broadcasting (25%) Dewalt Management (25% Weshy Mgmt (25%) Ft Bend Mgmt (33%) Dewalt Cattle (33%)