

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

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.

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

I, **James F. Kemp**

Security Holding Company

Legal Title of Holding Company

PO Box 471

(Mailing Address of the Holding Company) Street / P.O. Box

Fredericksburg TX 78624

City

State

Zip Code

201 W. Main St.

Physical Location (if different from mailing address)

Name of the Holding Company Director and Official

Director & President

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.

Person to whom questions about this report should be directed:

Brenda Burrier

VP/Accounting

Name

Title

830-997-7575

Area Code / Phone Number / Extension

830-990-8933

Area Code / FAX Number

bburrier@ssbtexas.com

E-mail Address

N/A

Address (URL) for the Holding Company's web page

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.

Signature of Holding Company Director and Official

05/23/2019

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 _____

C.I. _____

Is confidential treatment requested for any portion of this report submission?	0=No 1=Yes	<input type="checkbox"/> <input checked="" type="checkbox"/>
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	<input type="checkbox"/>	
2. a letter justifying this request has been provided separately ...	<input type="checkbox"/>	
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."		

REPORT ITEM 1: SECURITY HOLDING COMPANY IS NOT REGISTERED WITH
THE SECURITIES AND EXCHANGE COMMISSION

Security Holding Company and Subsidiary

Consolidated Financial Statements

December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Audit Committee
Security Holding Company and Subsidiary
Fredericksburg, Texas

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Security Holding Company and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors and Audit Committee
Security Holding Company and Subsidiary

Opinion

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 28, 2019

Security Holding Company and Subsidiary

Consolidated Balance Sheets

December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 36,155,440	\$ 41,952,036
Available-for-sale securities	116,379,833	113,449,613
Held-to-maturity securities	138,170,252	152,449,305
Loans held for sale	1,454,660	7,228,615
Loans, net of allowance for loan losses of \$3,277,800 and \$3,303,987 at December 31, 2018 and 2017	682,259,158	615,219,616
Premises and equipment, net of accumulated depreciation of \$13,509,613 and \$13,463,759 at December 31, 2018 and 2017	18,231,618	16,905,008
Federal Home Loan Bank stock	775,800	391,100
Foreclosed assets held for sale, net	908,462	148,126
Interest receivable	4,413,869	4,261,304
Goodwill	1,344,339	1,344,339
Bank owned life insurance	28,591,169	25,289,848
Other assets	522,754	569,056
TOTAL ASSETS	\$ 1,029,207,354	\$ 979,207,966
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand	\$ 346,239,463	\$ 322,664,866
Savings, NOW and money market	400,840,987	385,093,808
Time	109,505,410	87,344,826
Total deposits	856,585,860	795,103,500
Securities sold under agreements to repurchase	32,301,428	49,292,704
FHLB advances	594,669	-
Accrued interest payable	269,457	112,761
Accrued expenses and other liabilities	1,630,835	1,973,473
Total liabilities	891,382,249	846,482,438
STOCKHOLDERS' EQUITY		
Common stock, \$1 par value; authorized - 30,000 shares; issued and outstanding 2018 - 9,849 shares ; 2017 - 9,849 shares	9,849	9,849
Additional paid-in capital	10,118,359	10,118,359
Retained earnings	137,489,336	129,977,958
Accumulated other comprehensive loss	(3,361,010)	(1,013,724)
Treasury stock, at cost		
Common: 829 shares	(6,431,429)	(6,431,429)
Total Security Holding Company stockholders' equity	137,825,105	132,661,013
Noncontrolling interest	-	64,515
Total stockholders' equity	137,825,105	132,725,528
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,029,207,354	\$ 979,207,966

The Notes to Consolidated Financial Statements are an integral part of these statements.

Security Holding Company and Subsidiary

Consolidated Statements of Income Years Ended December 31, 2018 and 2017

	2018	2017
INTEREST INCOME		
Loans, including fees	\$ 39,480,985	\$ 32,710,602
Investment securities	5,962,461	6,076,127
Interest bearing deposits	301,773	298,077
	45,745,219	39,084,806
INTEREST EXPENSE		
Deposits	1,990,329	1,053,976
Securities sold under agreements to repurchase	520,164	367,339
Other	375,397	85,492
	2,885,890	1,506,807
NET INTEREST INCOME	42,859,329	37,577,999
Provision for loan losses	619,373	766,525
	42,239,956	36,811,474
NONINTEREST INCOME		
Service charges on deposit accounts	2,077,594	2,060,947
Fiduciary activities	1,031,273	913,224
Mortgage loan income	2,742,392	4,984,016
Other service charges and fees	2,636,294	2,428,574
Net realized losses on sales of securities	(20,657)	(89,141)
Net realized gains on foreclosed assets, net of provision for losses	45,230	150,926
Other	1,390,745	1,590,858
	9,902,871	12,039,404

The Notes to Consolidated Financial Statements are an integral part of these statements.

Security Holding Company and Subsidiary
Consolidated Statements of Income – Continued
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	\$ 20,991,126	\$ 21,102,719
Occupancy expense	2,586,859	2,643,802
Equipment expense	1,768,039	1,594,971
Data processing fees	1,386,478	1,254,589
Postage, printing and office supplies	601,793	653,205
Telecommunications	788,006	506,071
Expenses of foreclosed assets	167,488	177,841
Deposit insurance premiums	284,814	290,678
Other	4,621,361	4,732,255
	<u>33,195,964</u>	<u>32,956,131</u>
	18,946,863	15,894,747
NET INCOME		
Less net loss attributable to the noncontrolling interest	(64,515)	(19,126)
	<u>\$ 19,011,378</u>	<u>\$ 15,913,873</u>
NET INCOME ATTRIBUTABLE TO SECURITY HOLDING COMPANY		
	<u>\$ 2,108</u>	<u>\$ 1,764</u>
BASIC AND DILUTED EARNINGS PER SHARE		
	<u>9,020</u>	<u>9,020</u>
AVERAGE SHARES OUTSTANDING		

The Notes to Consolidated Financial Statements are an integral part of these statements.

Security Holding Company and Subsidiary
 Consolidated Statements of Comprehensive Income
 Years Ended December 31, 2018 and 2017

	2018	2017
NET INCOME	\$ 18,946,863	\$ 15,894,747
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized (depreciation) appreciation on available-for-sale securities	(2,356,322)	967,225
Less reclassification adjustment for realized losses included in net income	9,036	89,141
	(2,347,286)	1,056,366
COMPREHENSIVE INCOME	16,599,577	16,951,113
Less comprehensive loss attributable to the noncontrolling interest	(64,515)	(19,126)
COMPREHENSIVE INCOME ATTRIBUTABLE TO SECURITY HOLDING COMPANY	\$ 16,664,092	\$ 16,970,239

The Notes to Consolidated Financial Statements are an integral part of these statements.

Security Holding Company and Subsidiary

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2018 and 2017

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interest	Total
BALANCE, December 31, 2016	9,849	\$ 9,849	\$ 10,118,359	\$ 122,064,085	\$ (2,070,090)	\$ (6,431,429)	\$ 190,422	\$ 123,881,196
Net income	-	-	-	15,913,873	-	-	(19,126)	15,894,747
Other comprehensive income	-	-	-	-	1,056,366	-	-	1,056,366
Distributions to noncontrolling interest	-	-	-	-	-	-	(106,781)	(106,781)
Distributions on common stock, \$887 per share	-	-	-	(8,000,000)	-	-	-	(8,000,000)
BALANCE, December 31, 2017	9,849	9,849	10,118,359	129,977,958	(1,013,724)	(6,431,429)	64,515	132,725,528
Net income	-	-	-	19,011,378	-	-	(64,515)	18,946,863
Other comprehensive loss	-	-	-	-	(2,347,286)	-	-	(2,347,286)
Distributions on common stock, \$1,275 per share	-	-	-	(11,500,000)	-	-	-	(11,500,000)
BALANCE, December 31, 2018	9,849	\$ 9,849	\$ 10,118,359	\$ 137,489,336	\$ (3,361,010)	\$ (6,431,429)	\$ -	\$ 137,825,105

The Notes to Consolidated Financial Statements are an integral part of these statements.

Security Holding Company and Subsidiary

Consolidated Statements of Cash Flows Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Net income	\$ 18,946,863	\$ 15,894,747
Items not requiring (providing) cash		
Depreciation and amortization	1,319,183	1,140,120
Provision for loan losses	619,373	766,525
Amortization of premiums and discounts on securities	2,190,063	2,614,872
Unrealized (gain) loss on derivatives	(137,298)	56,421
Net realized losses on sales of available-for-sale securities	9,036	89,141
Net realized losses on sales of held to maturity securities	11,621	-
Net realized gains on sales of foreclosed assets	(55,501)	(224,177)
Net realized losses on sales of equipment	128,015	42,530
Appreciation in bank owned life insurance	(722,145)	(529,110)
Provision for losses on foreclosed assets	10,271	73,251
Changes in		
Loans held for sale	5,911,253	1,884,382
Interest receivable	(152,565)	(219,135)
Other assets	46,302	(26,680)
Interest payable and other liabilities	(185,942)	808,747
Net cash provided by operating activities	27,938,529	22,371,634
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(463,753,876)	(688,529,822)
Proceeds from maturities of available-for-sale securities	6,661,840	22,121,311
Proceeds from the sales of available-for-sale securities	451,382,541	720,551,931
Purchases of held-to-maturity securities	(13,481,270)	(18,171,928)
Proceeds from maturities of held-to-maturity securities	18,824,136	26,267,347
Proceeds from the sales of held-to-maturity securities	7,157,456	-
Net change in loans	(68,567,680)	(98,432,760)
Purchases of premises and equipment	(2,773,808)	(2,071,388)
Sales (purchases) of Federal Home Loan Bank stock	(384,700)	1,412,700
Purchase of bank owned life insurance	(2,579,176)	(18,000,000)
Proceeds from sales of equipment	-	18,776
Proceeds from sales of foreclosed assets	193,659	1,482,248
Net cash used in investing activities	(67,320,878)	(53,351,585)

The Notes to Consolidated Financial Statements are an integral part of these statements.

Security Holding Company and Subsidiary
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2018 and 2017

	2018	2017
FINANCING ACTIVITIES		
Net increase in demand deposits, money market, NOW and savings accounts	\$ 39,321,776	\$ 38,925,507
Net change in certificates of deposit	22,160,584	(7,459,210)
Net change in securities sold under agreements to repurchase	(16,991,276)	338,247
Advances from FHLB	600,000	-
Repayments on FHLB advances	(5,331)	-
Dividends paid to stockholders	(11,500,000)	(8,000,000)
Dividends paid to noncontrolling interest	-	(106,781)
	33,585,753	23,697,763
Net cash provided by financing activities		
	(5,796,596)	(7,282,188)
Decrease in cash and cash equivalents		
	41,952,036	49,234,224
CASH AND CASH EQUIVALENTS, beginning of year		
	\$ 36,155,440	\$ 41,952,036
CASH AND CASH EQUIVALENTS, end of year		
	\$ 36,155,440	\$ 41,952,036
SUPPLEMENTAL CASH FLOWS INFORMATION		
Interest paid	\$ 2,729,194	\$ 1,472,524
Real estate acquired in settlement of loans	\$ 1,016,965	\$ 101,200

The Notes to Consolidated Financial Statements are an integral part of these statements.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

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

Nature of Operations

Security Holding Company ("Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Security State Bank and Trust (the "Bank"). The Bank is primarily engaged in providing a variety of financial services to individual and corporate customers through its main office in Fredericksburg, Texas, sixteen branch locations, an operations center, four remote branch locations in the surrounding area and previously, a loan production office in Fort Worth, Texas. The Bank's primary deposit products are interest bearing checking accounts and certificates of deposits. Its primary lending products are real estate mortgage loans, commercial, financial and, consumer loans. During 2014, the Bank formed a mortgage company, SSBT Mortgage Group, LLC (SSBT Mortgage), with another individual to originate mortgage loans insured by the Federal Housing Authority (FHA). The Bank contributed all of the preferred capital and 70% of the common capital. As of December 31, 2018, SSBT Mortgage has ceased operations and any mortgage lending activities will be performed as part of the Bank going forward. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and fair values of financial instruments.

Concentration of Credit Risk

Most of the Company's business activity is with customers located within Central Texas. Therefore, the Company's exposure to credit risk is significantly affected by the changes in the economy of Central Texas.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash balances are held with financial institutions, which may at times, exceed federally insured limits. Management monitors the financial condition of these financial institutions.

Net cash flows are reported for customer loan and deposit transactions, federal funds purchased and repurchase agreements.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale

As of January 1, 2016, the Bank elected the fair value option for all mortgage loans held for sale by SSBT Mortgage. As of December 31, 2018, the activities of SSBT Mortgage have ceased and any mortgage loans made subsequent to November 30, 2018 were made through the Bank. The principal amount of SSBT Mortgage loans held for sale is \$0 and \$6,913,604 as of December 31, 2018 and 2017, respectively. Fair value of mortgage loans held for sale was determined by using the investors' best efforts commitment price. Total noninterest income from the operations of SSBT Mortgage included in mortgage loan income in the consolidated statements of income is \$3,072,915 and \$6,077,676 for the years ended December 31, 2018 and 2017, respectively.

With the cessation of the activities of SSBT Mortgage, mortgage loans held for sale made by the bank are recorded at the lower of principal amount or fair value. At December 31, 2018, Bank originated mortgage loans held for sale were \$1,454,660 and there was no impairment recognized.

Unrealized gains and losses on changes in fair value of mortgage loans held for sale are included in mortgage loan income in the accompanying consolidated statements of income. Interest income and fees on loans held for sale of are included in loan interest income and fees in the accompanying consolidated statements of income. See Note 5. Derivative Instruments.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Loans

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

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

A troubled debt restructured loan is a loan, which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites. A troubled debt restructured loan would generally be considered impaired in the year of modification and will be assessed periodically for continued impairment.

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the 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.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

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

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

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Bank premises	10-40 years
Leasehold improvements	5-30 years
Furniture and equipment	5-10 years

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Long-lived Asset Impairment

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

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Federal Home Loan Bank Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Foreclosed Assets Held for Sale

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

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is not amortized but is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Derivative Instruments

As part of SSBT Mortgage's operations, management enters into commitments to originate loans whereby the interest rate on the loans is determined prior to funding ("rate lock commitments"). The rate lock commitments on loans SSBT Mortgage intends to sell are recorded as derivatives and are recorded at fair value using current best effort commitment prices from investors, subject to the anticipated loan funding probability, or fallout factor. The value of rate lock commitments is affected by changes in the anticipated loan funding probability or fallout factor. The fair value of the interest rate lock commitments was an asset of \$0 and \$137,298 at December 31, 2018 and 2017, respectively. These amounts are included with loans held for sale on the accompanying consolidated balance sheets.

The use of the rate lock commitments does not qualify for hedge accounting under the applicable accounting guidance. As a result, all changes in fair value are recorded through mortgage loan income in the accompanying consolidated statements of income.

See Note 5 for additional information on the Company's mortgage derivative activities.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Transfers of Financial Assets

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

Income Taxes

The Company has elected to be taxed as an S-Corporation. In accordance with federal income tax regulations, no income taxes are levied on an S-Corporation, but rather on the individual shareholders.

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

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with the Bank.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. There were no dilutive shares outstanding at December 31, 2018 or 2017. Treasury stock shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities. During the years ended December 31, 2018 and 2017, realized losses on available-for-sale securities of \$9,036 and \$89,141, respectively were reclassified out of accumulated other comprehensive income. Due to the S-Corporation tax status of the Company, there was no tax impact included. These losses have been included in the consolidated statements of income as net realized losses on sales of securities.

Transfers between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Subsequent Events

Subsequent events have been evaluated through _____, 2019, which is the date the consolidated financial statements were available to be issued.

Upcoming Accounting Standards

ASU 2014-09 Revenue from Contracts with Customers (Topic 606). The FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for the Company for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period.

The Company is finalizing our assessment and have identified the revenue line items within the scope of this new guidance. We do not expect the new standard to result in a material change for revenue because the majority of the Company's financial instruments are not within the scope of Topic 606. Revenue streams within other noninterest income the Company is evaluating include sales of foreclosed assets, service charges on deposit accounts and income from fiduciary activities.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

ASU 2016-02 Leases (Topic 842). The FASB amended existing guidance that requires that lessees recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The Company is in the process of determining the effect of the standard on its consolidated results and financial condition. These amendments are effective for the December 31, 2020 financial statements. Management is reviewing the impact of the provisions of ASU 2016-02 on the consolidated financial statements.

ASU 2016-13 Financial Instruments – Credit Losses (Topic 326). The FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held to maturity securities and debt securities. ASU 2016-13 is effective for the company for annual periods beginning after December 15, 2021, including interim periods within those fiscal years. Entities will apply the standard's provisions as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact of the adoption of ASU 2016-13 will have on its consolidated operating results and financial condition.

ASU 2017-08 Receivables – Nonrefundable Fees and Other costs (Subtopic 310-20). Premium Amortization on Purchased Callable Debt Securities. FASB issued guidance to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount as the discount continues to be amortized to maturity. These amendments are effective for periods beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of ASU 2017-08 will have on its consolidated results and financial condition.

Note 2. Restriction on Cash and Due from Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. At December 31, 2018 and 2017, a reserve of \$616,000 and \$377,000, respectively was required based on the daily average balances held by the Company at the Federal Reserve Bank.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Securities

The amortized cost and fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2018				
U.S. Treasury securities	\$ 1,000,000	\$ -	\$ 15,469	\$ 984,531
U.S. Government-sponsored enterprises (GSEs)	84,560,292	17,273	3,262,930	81,314,635
U.S. agencies and GSEs residential mortgage-backed	6,276,504	67,264	85,271	6,258,497
State and political subdivisions	26,897,079	43,136	193,641	26,746,574
Other	1,006,968	68,628	-	1,075,596
	<u>\$ 119,740,843</u>	<u>\$ 196,301</u>	<u>\$ 3,557,311</u>	<u>\$ 116,379,833</u>
December 31, 2017				
U.S. Treasury securities	\$ 1,000,000	\$ -	\$ 16,172	\$ 983,828
U.S. Government-sponsored enterprises (GSEs)	76,558,417	82,335	1,347,836	75,292,916
U.S. agencies and GSEs residential mortgage-backed	4,790,697	109,430	12,581	4,887,546
State and political subdivisions	31,107,254	179,788	127,292	31,159,750
Other	1,006,968	118,605	-	1,125,573
	<u>\$ 114,463,336</u>	<u>\$ 490,158</u>	<u>\$ 1,503,881</u>	<u>\$ 113,449,613</u>
Held-to-Maturity Securities:				
December 31, 2018				
U.S. agencies and GSEs residential mortgage-backed	\$ 11,075,770	\$ 545	\$ 316,850	\$ 10,759,465
State and political subdivisions	127,094,482	328,103	1,046,374	126,376,211
	<u>\$ 138,170,252</u>	<u>\$ 328,648</u>	<u>\$ 1,363,224</u>	<u>\$ 137,135,676</u>
December 31, 2017				
U.S. agencies and GSEs residential mortgage-backed	\$ 13,543,769	\$ 31,995	\$ 107,016	\$ 13,468,748
State and political subdivisions	138,905,536	901,787	692,186	139,115,137
	<u>\$ 152,449,305</u>	<u>\$ 933,782</u>	<u>\$ 799,202</u>	<u>\$ 152,583,885</u>

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

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

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$ 6,015,246	\$ 5,994,278	\$ 21,205,888	\$ 21,215,850
One to five years	24,112,492	23,655,030	37,788,839	37,540,025
Five to ten years	71,036,025	68,541,509	45,377,758	45,207,663
After ten years	11,293,608	10,854,923	22,721,997	22,412,673
	112,457,371	109,045,740	127,094,482	126,376,211
Mortgage-backed securities	6,276,504	6,258,497	11,075,770	10,759,465
Other securities	1,006,968	1,075,596	-	-
Totals	\$ 119,740,843	\$ 116,379,833	\$ 138,170,252	\$ 137,135,676

The fair value of securities pledged as collateral, to secure public deposits, repurchase agreements and for other purposes, was \$220,785,574 at December 31, 2018 and \$219,582,468 at December 31, 2017.

Certain investments are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2018 and 2017, was \$197,352,478 and \$174,582,739, which is approximately 78% and 66%, respectively, of the fair value of the Company's available-for-sale and held-to-maturity investment portfolio. Unrealized losses represent approximately 2.5% and 1.3% of the fair value of these securities as of December 31, 2018 and 2017, respectively. Management believes the declines in fair value for these securities are temporary.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017:

	December 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury securities	\$ -	\$ -	\$ 984,531	\$ 15,469	\$ 984,531	\$ 15,469
U.S. Government-sponsored enterprises (GSEs)	7,889,360	110,640	70,408,003	3,152,290	78,297,363	3,262,930
U.S. agencies and GSEs residential mortgage-backed	1,105,637	10,630	2,793,894	74,641	3,899,531	85,271
State and political subdivisions	6,293,399	43,446	12,228,972	150,195	18,522,371	193,641
Total temporarily impaired securities	\$ 15,288,396	\$ 164,716	\$ 86,415,400	\$ 3,392,595	\$ 101,703,796	\$ 3,557,311
	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury securities	\$ -	\$ -	\$ 983,828	\$ 16,172	\$ 983,828	\$ 16,172
U.S. Government-sponsored enterprises (GSEs)	19,895,982	97,197	49,314,599	1,250,639	69,210,581	1,347,836
U.S. agencies and GSEs residential mortgage-backed	534,794	536	855,349	12,045	1,390,143	12,581
State and political subdivisions	11,049,928	56,110	4,616,846	71,182	15,666,774	127,292
Total temporarily impaired securities	\$ 31,480,704	\$ 153,843	\$ 55,770,622	\$ 1,350,038	\$ 87,251,326	\$ 1,503,881
	December 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-Maturity Securities:						
U.S. agencies and GSEs residential mortgage-backed	\$ 1,059,327	\$ 10,300	\$ 9,687,782	\$ 306,550	\$ 10,747,109	\$ 316,850
State and political subdivisions	23,708,204	162,815	61,193,369	883,559	84,901,573	1,046,374
Total temporarily impaired securities	\$ 24,767,531	\$ 173,115	\$ 70,881,151	\$ 1,190,109	\$ 95,648,682	\$ 1,363,224
	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-Maturity Securities:						
U.S. agencies and GSEs residential mortgage-backed	\$ 4,229,643	\$ 26,576	\$ 4,665,275	\$ 80,440	\$ 8,894,918	\$ 107,016
State and political subdivisions	49,019,146	310,814	29,417,349	381,372	78,436,495	692,186
Total temporarily impaired securities	\$ 53,248,789	\$ 337,390	\$ 34,082,624	\$ 461,812	\$ 87,331,413	\$ 799,202

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

The unrealized losses on the Company's investments in direct obligations of U.S. government-sponsored enterprises and state and political subdivisions were from 396 and 346 different issues as of December 31, 2018 and 2017, respectively and were caused by changes in the market interest rates from those at the time the securities were purchased. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other than temporarily impaired at December 31, 2018.

Certain held-to-maturity securities were sold during the year ended December 31, 2018 resulting in a realized loss of \$11,621. Management does not believe the sale affects classification of other held to maturity securities since they were sold within 90 days of the maturity or call date.

Note 4. Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	2018	2017
Real estate		
Residential	\$ 130,167,340	\$ 116,603,000
Commercial	227,221,000	186,169,000
Construction and land development	183,094,000	166,525,000
Commercial	118,246,000	121,355,000
Consumer and other	26,808,618	27,871,603
Total loans	685,536,958	618,523,603
Less allowance for loan losses	3,277,800	3,303,987
Net loans	\$ 682,259,158	\$ 615,219,616

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31:

	December 31, 2018			
	Real Estate	Commercial	Consumer and Other	Total
Allowance for loan losses				
Balance, beginning of year	\$ 1,729,414	\$ 1,342,547	\$ 232,026	\$ 3,303,987
Provision (credit) charged to expense	505,407	(44,904)	158,870	619,373
Losses charged off	(38,560)	(750,000)	(177,000)	(965,560)
Recoveries	265,000	15,000	40,000	320,000
Balance, end of year	<u>\$ 2,461,261</u>	<u>\$ 562,643</u>	<u>\$ 253,896</u>	<u>\$ 3,277,800</u>
Ending balance, individually evaluated for impairment	\$ 222,975	\$ 62,550	\$ 15,388	\$ 300,913
Ending balance, collectively evaluated for impairment	<u>2,238,286</u>	<u>500,093</u>	<u>238,508</u>	<u>2,976,887</u>
Balance, end of year	<u>\$ 2,461,261</u>	<u>\$ 562,643</u>	<u>\$ 253,896</u>	<u>\$ 3,277,800</u>
Loans				
Ending balance, individually evaluated for impairment	\$ 14,135,333	\$ 9,485,310	\$ 124,653	\$ 23,745,296
Ending balance, collectively evaluated for impairment	<u>526,347,007</u>	<u>108,760,690</u>	<u>26,683,965</u>	<u>661,791,662</u>
Balance, end of year	<u>\$ 540,482,340</u>	<u>\$ 118,246,000</u>	<u>\$ 26,808,618</u>	<u>\$ 685,536,958</u>
	December 31, 2017			
	Real Estate	Commercial	Consumer and Other	Total
Allowance for loan losses				
Balance, beginning of year	\$ 1,793,009	\$ 961,117	\$ 215,138	\$ 2,969,264
Provision (credit) charged to expense	252,207	381,430	132,888	766,525
Losses charged off	(323,802)	(32,000)	(168,000)	(523,802)
Recoveries	8,000	32,000	52,000	92,000
Balance, end of year	<u>\$ 1,729,414</u>	<u>\$ 1,342,547</u>	<u>\$ 232,026</u>	<u>\$ 3,303,987</u>
Ending balance, individually evaluated for impairment	\$ 28,667	\$ 637,399	\$ 29,309	\$ 695,375
Ending balance, collectively evaluated for impairment	<u>1,700,747</u>	<u>705,148</u>	<u>202,717</u>	<u>2,608,612</u>
Balance, end of year	<u>\$ 1,729,414</u>	<u>\$ 1,342,547</u>	<u>\$ 232,026</u>	<u>\$ 3,303,987</u>
Loans				
Ending balance, individually evaluated for impairment	\$ 8,441,467	\$ 899,339	\$ 160,305	\$ 9,501,111
Ending balance, collectively evaluated for impairment	<u>460,855,533</u>	<u>120,455,661</u>	<u>27,711,298</u>	<u>609,022,492</u>
Balance, end of year	<u>\$ 469,297,000</u>	<u>\$ 121,355,000</u>	<u>\$ 27,871,603</u>	<u>\$ 618,523,603</u>

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Internal Risk Categories

Loan grades are numbered 1 through 6. Grades 1 and 2 are considered satisfactory grades. The grade of 3, or OAEM/Watch, represents loans of lower quality and is considered criticized. The grades of 4, or Substandard, and 5, or Doubtful, refer to assets that are classified. The use and application of these grades by the Company are uniform and conform to the Company's policy.

Pass (1) – This grade includes borrowers with strong financial strength, above average liquidity, and collateral that is liquid and well margined. These borrowers have performed on past obligations, and the Company expects their performance to continue throughout the term of the loan.

Acceptance/Pass (2) – This grade includes borrowers with an average financial condition, adequate collateral margins, adequate cash flow to service long-term debt and net worth comprised mainly of fixed assets. These entities are minimally profitable now, with projections indicating continued profitability into the foreseeable future. Closely held corporations or businesses where a majority of the profits are withdrawn by the owners or paid in dividends are included in this rating category. These loans generally require more than average servicing or attention.

OAEM/Watch (3) – This grade includes loans that 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 institution'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. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (4) – This grade includes loans that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans 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 (5) – Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (6) – Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

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

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

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

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

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

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

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

The following table presents the credit risk profile of the Company's loan portfolio based on the internal rating category as of December 31, 2018 and 2017:

	December 31, 2018			
	Pass/Acceptance	OAEM/Watch	Substandard	Total
Real Estate				
Residential	\$ 126,709,453	\$ 1,577,731	\$ 1,880,156	\$ 130,167,340
Commercial	215,276,569	8,159,570	3,784,861	227,221,000
Construction and land development	178,891,173	1,588,109	2,614,718	183,094,000
Commercial	108,930,475	101,568	9,213,957	118,246,000
Consumer and other	26,684,067	15,472	109,079	26,808,618
Total	\$ 656,491,737	\$ 11,442,450	\$ 17,602,771	\$ 685,536,958
	December 31, 2017			
	Pass/Acceptance	OAEM/Watch	Substandard	Total
Real Estate				
Residential	\$ 115,429,301	\$ 152,382	\$ 1,021,317	\$ 116,603,000
Commercial	185,150,364	86,295	932,341	186,169,000
Construction and land development	165,479,893	121,359	923,748	166,525,000
Commercial	120,485,167	76,955	792,878	121,355,000
Consumer and other	27,711,919	35,507	124,177	27,871,603
Total	\$ 614,256,644	\$ 472,498	\$ 3,794,461	\$ 618,523,603

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the year ended December 31, 2018. The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2018 and 2017:

	December 31, 2018					Total Loans > 90 Days & Accruing
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	
Real Estate						
Residential	\$ 1,685,883	\$ 65,427	\$ 1,751,310	\$ 128,416,030	\$ 130,167,340	\$ -
Commercial	3,784,446	-	3,784,446	223,436,554	227,221,000	-
Construction and land development	3,056,973	148,849	3,205,822	179,888,178	183,094,000	148,849
Commercial	156,688	238,755	395,443	117,850,557	118,246,000	155,042
Consumer and other	474,019	24,084	498,103	26,310,515	26,808,618	23,471
Total	\$ 9,158,009	\$ 477,115	\$ 9,635,124	\$ 675,901,834	\$ 685,536,958	\$ 327,362

	December 31, 2017					Total Loans > 90 Days & Accruing
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	
Real Estate						
Residential	\$ 1,003,233	\$ -	\$ 1,003,233	\$ 115,599,767	\$ 116,603,000	\$ -
Commercial	128,921	-	128,921	186,040,079	186,169,000	-
Construction and land development	981,820	121,359	1,103,179	165,421,821	166,525,000	-
Commercial	463,928	6,826	470,754	120,884,246	121,355,000	6,826
Consumer and other	376,894	16,361	393,255	27,478,348	27,871,603	16,361
Total	\$ 2,954,796	\$ 144,546	\$ 3,099,342	\$ 615,424,261	\$ 618,523,603	\$ 23,187

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

The following tables present impaired loans for the years ended December 31, 2018 and 2017:

	December 31, 2018				
	Unpaid Principal Balance	Recorded Investment	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific allowance:					
Real estate					
Residential	\$ 3,158,114	\$ 3,158,114	\$ -	\$ 2,296,329	\$ 134,334
Commerical	7,574,477	7,574,477	-	6,762,042	516,389
Construction and land development	3,019,767	3,019,767	-	1,969,807	160,601
Commercial	9,412,760	9,412,760	-	4,829,460	504,923
Consumer and other	98,265	98,265	-	108,881	5,033
	<u>23,263,383</u>	<u>23,263,383</u>	<u>-</u>	<u>15,966,519</u>	<u>1,321,280</u>
Loans with a specific allowance:					
Real estate					
Residential	\$ -	\$ -	\$ -	\$ -	\$ -
Commerical	-	-	-	-	-
Construction and land development	382,975	382,975	222,975	235,821	19,148
Commercial	72,550	72,550	62,550	362,865	-
Consumer and other	26,388	26,388	15,388	33,599	617
	<u>481,913</u>	<u>481,913</u>	<u>300,913</u>	<u>632,285</u>	<u>19,765</u>
Total					
Real estate					
Residential	\$ 3,158,114	\$ 3,158,114	\$ -	\$ 2,296,329	\$ 134,334
Commerical	7,574,477	7,574,477	-	6,762,042	516,389
Construction and land development	3,402,742	3,402,742	222,975	2,205,628	179,749
Commercial	9,485,310	9,485,310	62,550	5,192,325	504,923
Consumer and other	124,653	124,653	15,388	142,480	5,650
	<u>\$ 23,745,296</u>	<u>\$ 23,745,296</u>	<u>\$ 300,913</u>	<u>\$ 16,598,804</u>	<u>\$ 1,341,045</u>

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2017

	Unpaid Principal Balance	Recorded Investment	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific allowance:					
Real estate					
Residential	\$ 1,434,544	\$ 1,434,544	\$ -	\$ 2,585,757	\$ 94,670
Commerical	5,949,606	5,949,606	-	6,856,572	388,314
Construction and land development	968,650	968,650	-	1,969,809	64,426
Commercial	246,160	246,160	-	334,514	36,628
Consumer and other	119,496	119,496	-	129,377	12,163
	<u>8,718,456</u>	<u>8,718,456</u>	<u>-</u>	<u>11,876,029</u>	<u>596,201</u>
Loans with a specific allowance:					
Real estate					
Residential	\$ -	\$ -	\$ -	\$ -	\$ -
Commerical	-	-	-	-	-
Construction and land development	88,667	88,667	28,667	92,508	3,936
Commercial	653,179	653,179	637,399	509,114	49,616
Consumer and other	40,809	40,809	29,309	64,966	3,344
	<u>782,655</u>	<u>782,655</u>	<u>695,375</u>	<u>666,588</u>	<u>56,896</u>
Total					
Real estate					
Residential	\$ 1,434,544	\$ 1,434,544	\$ -	\$ 2,585,757	\$ 94,670
Commerical	5,949,606	5,949,606	-	6,856,572	388,314
Construction and land development	1,057,317	1,057,317	28,667	2,062,317	68,362
Commercial	899,339	899,339	637,399	843,628	86,244
Consumer and other	160,305	160,305	29,309	194,343	15,507
	<u>\$ 9,501,111</u>	<u>\$ 9,501,111</u>	<u>\$ 695,375</u>	<u>\$ 12,542,617</u>	<u>\$ 653,097</u>

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

The following tables present the Company's nonaccrual loans at December 31, 2018 and 2017.

	2018	2017
Real Estate		
Residential	\$ 729,143	\$ 819,198
Commercial	-	61,659
Construction and land development	113,886	2,789,623
Commercial	140,597	1,045,485
Consumer and other	77,085	83,404
Total	\$ 1,060,711	\$ 4,799,369

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2018 and 2017.

At December 31, 2018 and 2017, the Company has a recorded investment in troubled debt restructurings of approximately \$14 million and \$6 million, respectively. The Company has allocated an immaterial amount of specific allowance for those loans at December 31, 2018 and 2017 and is not committed to lend additional amounts to these borrowers.

The modification of terms of such loans were primarily a modification of the interest rate.

The following table presents information regarding troubled debt restructurings by class that occurred during the years ended December 31, 2018 and 2017.

	2018		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real Estate			
Residential	2	\$ 993,251	\$ 993,251
Commercial	1	2,000,000	2,000,000
Construction and land development	-	-	-
Commercial	64	6,376,035	6,376,035
Consumer and other	-	-	-
Total	67	\$ 9,369,286	\$ 9,369,286
	2017		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real Estate			
Residential	-	\$ -	\$ -
Commercial	1	299,099	299,099
Construction and land development	-	-	-
Commercial	-	-	-
Consumer and other	-	-	-
Total	1	\$ 299,099	\$ 299,099

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

The restructurings did not have an impact on the determination of the Company's recorded allowance for loan losses during the years ended December 31, 2018 and 2017.

None of the loans modified in a troubled debt restructuring in the past 12 months have subsequently defaulted and resulted in charge offs during the year ended December 31, 2018.

Note 5. Derivative Instruments

The Company, through SSBT Mortgage, originated and marketed conventional and government-sponsored residential mortgage loans, which were held for sale. The volume of mortgage loans originated for sale and secondary market prices were the primary drivers of originating and marketing revenue.

Residential mortgage loan commitments are generally outstanding for 60 to 90 days, which represents the typical period from commitment to originate a residential mortgage loan to when the closed loan is sold to an investor. Residential mortgage loans are subject to both credit and interest rate risk. Credit risk is managed through underwriting policies and procedures. Exposure to interest rate fluctuations are managed through the use of best efforts commitments with investors and rate lock commitments with borrowers. Interest rate lock commitments are included in loans held for sale in the accompanying consolidated balance sheets.

The notional amounts and fair value of outstanding interest rate lock commitments at December 31, 2018 and 2017, is as follows.

	December 31, 2018	
	Notional Amount	Fair Value
Interest rate lock commitments	\$ -	\$ -

	December 31, 2017	
	Notional Amount	Fair Value
Interest rate lock commitments	\$ 8,838,100	\$ 137,298

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2018	2017
Land	\$ 4,320,928	\$ 3,989,938
Bank premises	17,173,689	15,439,909
Furniture and equipment	8,733,497	9,232,212
Leasehold improvements	1,513,117	1,706,708
	31,741,231	30,368,767
Less accumulated depreciation	(13,509,613)	(13,463,759)
Net premises and equipment	\$ 18,231,618	\$ 16,905,008

Note 7. Interest-Bearing Time Deposits

Interest-bearing time deposits in denominations that meet or exceed the FDIC Insurance limit of \$250,000 were approximately \$26,633,000 and \$15,103,000 at December 31, 2018 and 2017, respectively.

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

2019	\$ 86,818,012
2020	11,187,245
2021	9,906,622
2022	1,016,792
2023	576,739
	<u>576,739</u>
	\$ 109,505,410

Note 8. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The obligations are secured by U.S agency and GSE securities and such collateral is held by a third-party safekeeping agent. The maximum amount of outstanding agreements at any month end during 2018 totaled \$51,512,854 and the monthly average of such agreements totaled \$35,079,733 and \$47,085,294 for 2018 and 2017, respectively. The agreements at December 31, 2018, mature over periods ranging from one day to one year and paid interest at rates from 0.60% to 2.25% at December 31, 2018 and 0.40% to 0.75% at December 31, 2017.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Note 9. Borrowings

FHLB Line of Credit

At December 31, 2018 and 2017, the Company had a revolving line of credit with no expiration and a maximum available limit of \$321,507,914 and \$269,135,730, respectively. At December 31, 2018 there were letters of credit \$594,669 outstanding against the available line. At December 31, 2017, there were no funds allocated against this line. The line is collateralized by all FHLB stock and a blanket lien on certain commercial and residential mortgage loans. The line of credit bears interest at a daily variable rate which is set by the FHLB.

Frost Bank Line of Credit

At December 31, 2018 and 2017, the Company had an unsecured line of credit available for overnight borrowing of \$10,000,000 expiring in 2019. At December 31, 2018 and 2017, there were no funds borrowed against this line. The line of credit bears interest at a daily variable rate, which is set by Frost Bank.

The Independent Bankers' Bank (TIB) Line of Credit

At December 31, 2018 and 2017, the Company had available a \$2,000,000 revolving line of credit with an open-ended term, which can be terminated by either party at any time. At December 31, 2018 and 2017, there were no funds borrowed against this line. The line is collateralized by securities, as applicable. The line of credit bears interest at a daily variable rate, which is set by TIB.

Federal Home Loan Bank Advances

The Company has an outstanding balance of advances from the Federal Home Loan Bank of \$594,669 and \$0 as of December 31, 2018 and 2017, respectively. The advance requires monthly payments of \$3,413 and matures September 1, 2038. Interest accrues at 3.281% as of December 31, 2018 and the advance is secured by real estate of one of the Bank's branches.

Payments over the next five years are as follows:

2019	\$	21,766
2020		22,491
2021		23,240
2022		24,014
2023		24,814
Thereafter		478,344
		<hr/>
Total principal payments	\$	594,669
		<hr/> <hr/>

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Note 10. Regulatory Matters

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018, that the Company and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2018, the most recent notification from the Texas Department of Banking categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

U.S. banking regulators adopted final rules related to standards on bank capital adequacy and liquidity (commonly referred to "Basel III") that were effective for the Bank beginning on January 1, 2015, subject to a phase-in period for certain provisions extending through January 1, 2019. The rules include a new common equity Tier 1 capital ratio, an increase to the minimum Tier 1 capital ratio, an increase to risk weightings of certain assets, implementation of a new capital conservation buffer in excess of the required minimum (which is being phased in beginning in 2016), and changes to how regulatory capital is defined. The Bank met the minimum capital ratios and a fully phased-in capital conservation buffer under the new rules at year-end 2018.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

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

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Total capital (to risk-weighted assets)						
Security State Bank & Trust	\$ 142,948,000	18.24%	\$ 77,400,000	9.88%	\$ 78,380,000	10.00%
Tier I capital (to risk-weighted assets)						
Security State Bank & Trust	\$ 139,601,000	17.81%	\$ 61,724,000	7.88%	\$ 62,704,000	8.00%
Common equity Tier 1 capital (to risk-weighted assets)						
Security State Bank & Trust	\$ 136,171,000	17.81%	\$ 49,967,000	6.38%	\$ 50,947,000	6.50%
Tier I capital (to average assets)						
Security State Bank & Trust	\$ 139,601,000	13.56%	\$ 41,173,000	4.00%	\$ 51,467,000	5.00%
As of December 31, 2017						
Total capital (to risk-weighted assets)						
Security State Bank & Trust	\$ 135,609,000	19.05%	\$ 65,851,000	9.25%	\$ 71,190,000	10.00%
Tier I capital (to risk-weighted assets)						
Security State Bank & Trust	\$ 132,305,000	18.58%	\$ 51,613,000	7.25%	\$ 56,952,000	8.00%
Common equity Tier 1 capital (to risk-weighted assets)						
Security State Bank & Trust	\$ 132,305,000	18.58%	\$ 40,934,000	5.75%	\$ 46,273,000	6.50%
Tier I capital (to average assets)						
Security State Bank & Trust	\$ 132,305,000	13.37%	\$ 39,585,000	4.00%	\$ 49,481,000	5.00%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Dividends are generally limited to the current year net income plus net income from the previous two years less any dividends previously declared during that timeframe.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Related Party Transactions

At December 31, 2018 and 2017, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of \$10,121,638 and \$7,130,416, respectively.

Annual activity consisted of the following:

	2018	2017
Beginning balance	\$ 7,130,416	\$ 4,893,781
New loans	6,346,093	3,634,097
Repayments	(3,354,871)	(1,397,462)
Ending balance	\$ 10,121,638	\$ 7,130,416

In addition to the outstanding balances on the loans above, there were unused amounts on lines of credit available to these related parties of \$666,000 and \$2,955,000 at December 31, 2018 and 2017, respectively.

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

Deposits from related parties held by the Company at December 31, 2018 and 2017, totaled \$4,989,956 and \$3,481,624, respectively.

Note 12. Employee Benefits

The Company has a defined contribution retirement plan covering substantially all employees. Employees may contribute up to 50 percent of their compensation up to the maximum amount established by the Internal Revenue Service. The plan is a safe-harbor plan, which requires the Company to contribute 3 percent of eligible employees' base pay to the plan. Additional matching contributions under the plan are made at the discretion of the Board of Directors. Employer contributions charged to expense for the years ended December 31, 2018 and 2017 were \$771,513 and \$782,915, respectively.

The Company has a deferred cash incentive plan for the benefit of certain employees. The maximum amounts to be deferred for each employee are determined annually by the Board of Directors and such amounts cliff vest over a five year period at which point they are paid in cash to the employee. The amount of expense related to the plan during 2018 and 2017 was \$209,600 and \$161,821, respectively, and the amount of liability related to the plan that is recorded in the consolidated balance sheet at December 31, 2018 and 2017 is \$650,523 and \$500,243, respectively.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Note 13. Operating Leases

The Company has several noncancellable operating leases, primarily for branch facilities and land that expire over the next 25 years. These leases generally contain renewal options for periods ranging from five to ten years and require the Company to pay all executory costs such as taxes, maintenance and insurance. Rental expense for these leases was \$623,703 and \$627,725 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under operating leases are:

2019	\$ 519,217
2020	531,126
2021	326,019
2022	65,655
2023 and thereafter	<u>312,994</u>
Total minimum lease payments	<u>\$ 1,755,011</u>

The Company receives rental income from tenants in some of the bank branches owned by the Company. The amount of rental income is not significant.

Note 14. Disclosures about Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

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

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

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
U.S. Treasury securities	\$ 984,531	\$ 984,531	\$ -	-
U.S. Government-sponsored enterprises (GSEs)	81,314,635	-	81,314,635	-
U.S agencies and GSEs residential mortgage-backed	6,258,497	-	6,258,497	-
State and political subdivisions	26,746,574	-	26,746,574	-
Other	1,075,596	-	1,075,596	-
December 31, 2017				
U.S. Treasury securities	\$ 983,828	\$ 983,828	\$ -	-
U.S. Government-sponsored enterprises (GSEs)	75,292,916	-	75,292,916	-
U.S agencies and GSEs residential mortgage-backed	4,887,546	-	4,887,546	-
State and political subdivisions	31,159,750	-	31,159,750	-
Other	1,125,573	-	1,125,573	-
Interest rate locks	137,298	-	137,298	-
Mortgage loans held for sale	7,091,317	-	7,091,317	-

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2018.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Interest Rate Lock Commitments

Where model inputs such as the underlying rate, price or index can be observed in a liquid market and the model does not require significant judgement, such derivatives are typically classified as Level 2 of the fair value hierarchy. When instruments are traded in less liquid markets and significant inputs are unobservable, such derivatives are classified within Level 3. The valuation of the interest rate lock commitments was based upon best effort commitments from investors subject to the anticipated loan funding probability, or fallout factor and is classified as Level 2.

Mortgage Loans Held for Sale

SSBT Mortgage uses best efforts to sell mortgage loans held for sale to investors. Fair value of mortgage loans held for sale is determined by using the investors' best efforts commitment price and is classified as Level 2.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Nonrecurring Measurements

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Impaired loans	\$ 181,000	\$ -	\$ -	\$ 181,000
Foreclosed assets held for sale	\$ 967,315	\$ -	\$ -	\$ 967,315
December 31, 2017				
Impaired loans	\$ 87,280	\$ -	\$ -	\$ 87,280
Foreclosed assets held for sale	\$ 131,470	\$ -	\$ -	\$ 131,470

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale or other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy. Appraisals of OREO are obtained when the real estate is acquired and, subsequently, as deemed necessary by management. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Impaired Loans, Net of ALLL

The estimated fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on the appraised fair value of the collateral, less estimated cost to sell. The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and, subsequently, as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results. Non real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and the client's business. The valuations methods used result in a Level 3 fair value classification.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2018 and 2017.

	Fair Value at December 31, 2018	Valuation Technique	Unobservable Inputs	Range
Impaired loans	\$ 181,000	Market comparable properties	Marketability discount	10% - 15%
Foreclosed assets held for sale	\$ 967,315	Market comparable properties	Comparability adjustments (%)	10% - 15%
	Fair Value at December 31, 2017	Valuation Technique	Unobservable Inputs	Range
Impaired loans	\$ 87,280	Market comparable properties	Marketability discount	10% - 15%
Foreclosed assets held for sale	\$ 131,470	Market comparable properties	Comparability adjustments (%)	10% - 15%

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2018 and 2017.

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 36,155,440	\$ 36,155,440	\$ 41,952,036	\$ 41,952,036
Available-for-sale securities	116,379,833	116,379,833	113,449,613	113,449,613
Held-to-maturity securities	138,170,252	137,135,676	152,449,305	152,583,885
Loans held for sale	1,454,660	1,454,660	7,228,615	7,228,615
Loans, net of allowance for losses	682,259,158	685,946,000	615,219,616	616,806,000
Federal Home Loan Bank stock	775,800	775,800	391,100	391,100
Accrued interest receivable	4,413,869	4,413,869	4,261,304	4,261,304
Financial Liabilities				
Deposits	\$856,585,860	\$ 856,571,000	\$ 795,103,500	\$ 795,849,000
Securities sold under agreements to repurchase	32,301,428	32,300,000	\$ 49,292,704	\$ 49,292,704
Accrued interest payable	269,457	269,457	112,761	112,761

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

Cash and Cash Equivalents

The carrying amount approximates fair value.

Loans

Fair value is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

Federal Home Loan Bank Stock

Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

Accrued Interest Receivable and Payable

The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Deposits

Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the Bank.

The estimated fair value of demand, NOW, savings and money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

Securities Sold Under Agreements to Repurchase

Fair value of term repurchase agreements and other term borrowings is estimated based on current repurchase rates and borrowing rates currently available to the Company for repurchases and borrowings with similar terms and maturities.

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

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair value of commitments to sell securities is estimated based on current market prices for securities of similar terms and credit quality.

The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

The fair values of these instruments were insignificant at December 31, 2018 and 2017.

Note 15. Significant Estimates, Concentrations and Contingencies

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. The estimate of the allowance for loans losses is significant and may change materially in the near term if factors used in the calculation change. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk. Other significant estimates and concentrations not discussed in those footnotes include:

General Litigation

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

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Note 16. Commitments and Credit Risk

Commitments to Originate Loans

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

At December 31, 2018 and 2017, the Company had outstanding commitments to originate loans aggregating approximately \$20,711,000 and \$39,028,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid. The Company had total outstanding standby letters of credit amounting to \$2,344,500 and \$213,300, at December 31, 2018 and 2017, respectively, with terms ranging from 30 days to one year.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Note 17: Parent Company Only Financial Statements

Summarized financial information for Security Holding Company – Parent Company Only follows:

Balance Sheets	December 31,	
	2018	2017
Assets		
Cash and due from banks	\$ 11,537	\$ 14,604
Investment in common stock of subsidiaries	136,460,139	131,292,980
Goodwill	1,344,339	1,344,339
Receivables - subsidiary	9,090	9,090
Total assets	\$ 137,825,105	\$ 132,661,013
Liabilities		
	\$ -	\$ -
Stockholders' Equity		
Common stock	9,849	9,849
Capital surplus	10,118,359	10,118,359
Retained earnings	137,489,336	129,977,958
Treasury stock	(6,431,429)	(6,431,429)
Accumulated other comprehensive loss	(3,361,010)	(1,013,724)
Total stockholders' equity	137,825,105	132,661,013
Total liabilities and stockholders' equity	\$ 137,825,105	\$ 132,661,013
Statements of Income		
	Year Ended December 31,	
	2018	2017
Income		
Dividends from subsidiary	\$ 11,500,000	\$ 8,037,500
Expenses		
Other expenses	3,067	35,654
Total expenses	3,067	35,654
Income before equity in undistributed net Income of subsidiaries	11,496,933	8,001,846
Equity in undistributed net income of subsidiaries	7,514,445	7,912,027
Net Income	\$ 19,011,378	\$ 15,913,873

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Statements of Cash Flows	Year Ended December 31,	
	2018	2017
Operating Activities		
Net income	\$ 19,011,378	\$ 15,913,873
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed income of subsidiary	(7,514,445)	(7,912,027)
Net cash provided by operating activities	11,496,933	8,001,846
Investing Activities	-	-
Financing Activities		
Dividends paid	(11,500,000)	(8,000,000)
Net cash used in financing activities	(11,500,000)	(8,000,000)
Net change in cash and cash equivalents	(3,067)	1,846
Cash and Cash Equivalents at Beginning of Year	14,604	12,758
Cash and Cash Equivalents at End of Year	\$ 11,537	\$ 14,604

REPORT ITEM 1b: ANNUAL REPORTS TO SHAREHOLDERS

Report Item 1b: Attached

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2018

ASSETS:

Cash	11,539.01
Certificate of Deposit	0.00
Accounts Receivable-Security State Bank & Trust	9,090.00
Prepaid Income Tax	0.00
Goodwill-Excess of Par	1,344,339.02
Investments-Security State Bank & Trust	<u>136,460,138.93</u>
Total Assets	137,825,106.96

LIABILITIES:

Income Tax Payable	0.00
Income Tax Benefits	0.00

CAPITAL

Capital Stock	9,868.72
Treasury Stock	-6,431,428.60
Unrealized Gain (Loss) in Securities	-3,361,010.05
Paid in Capital-Excess of Par	10,118,359.49
Retained Earnings	129,977,938.04
Dividends Paid Common Stock	-11,500,000.00
Net Income	<u>19,011,379.36</u>
Total Liabilities & Capital	137,825,106.96

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

OPERATING STATEMENT

December 31, 2018

INCOME	This Month	Year to date
Dividends-Security State Bank & Trust		11,500,000.00
Interest-Certificate of Deposit		-
Undistributed Earnings		7,514,444.97
Earning of NonControlling Int		-
Total Income	-	19,014,444.97

EXPENSE:

Franchise Tax		-
Fine & Penalties		-
Office Supplies-Stationary & Printing		316.01
Postage		-
Legal and Professional		2,749.60
Federal Income Tax Expense		-
Total Expenses	-	3,065.61

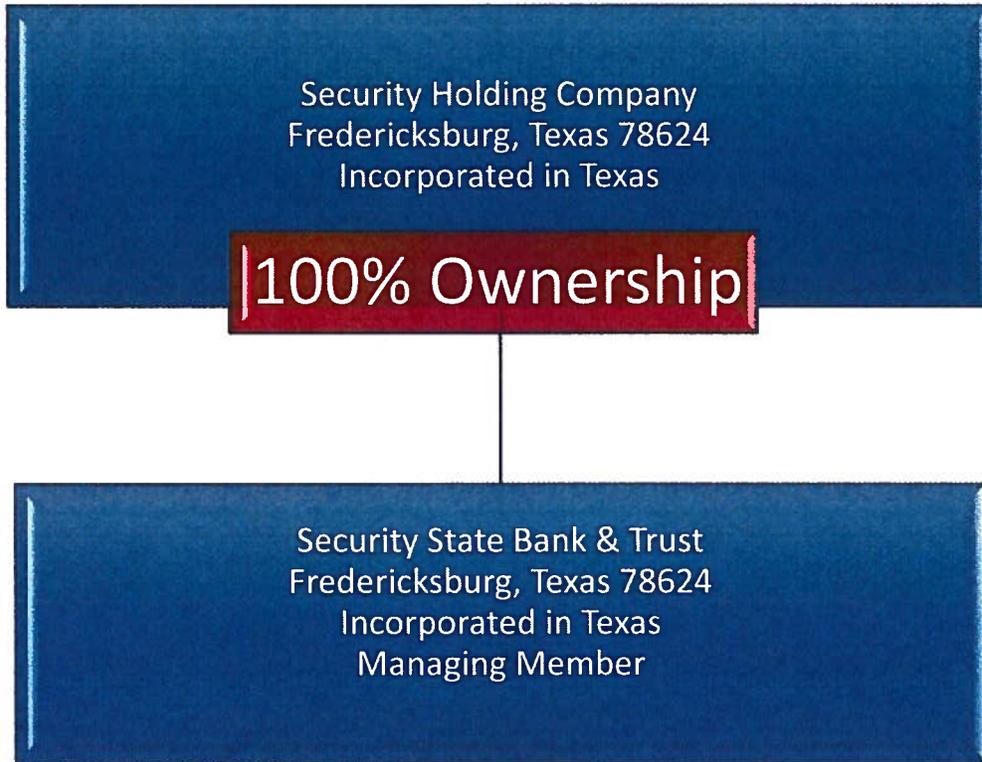
NET INCOME

19,011,379.36

REPORT ITEM 2 A: ORGANIZATION CHART

Report Item 2: Attached

SECURITY HOLDING COMPANY
FREDERICKSBURG, TEXAS
ORGANIZATION CHART



The Registrant does not engage in any other activities other than the ownership of 100.00% of the stock of Security State Bank & Trust, Fredericksburg, Texas.

SSBT LEI #: 549300KLIO6FT2J64B78

REPORT ITEM 2 b: Office/Branch Verification

Report Item 2: Attached

REPORT ITEM 3: SHAREHOLDERS-SECURITY HOLDING COMPANY

Report Item 3: Attached

REPORT ITEM 3: SHAREHOLDERS-SECURITY STATE BANK AND TRUST

Report Item 3: Attached

Form FR Y-6

Security Holding Company
 Fredericksburg, Texas 78624
 Fiscal Year Ending December 31, 2018

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2018			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2018		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Kay Durst Family 2016 Trust			N/A		
Kimberly Durst Bonnen, CO-Trustee	USA	283,40 - 3.142006%			
Kristy Durst Lejeune, CO-Trustee					
Rex Boyland,SSB&T- CO Trustee					
Kerrville, TX, USA					
Kimberly Durst Bonnen	USA	260,00 - 2.882574			N/A
Friendswood, TX, USA					
Kristy Durst Lejeune, CO-Trustee	USA	260,00 - 2.882574			N/A
College Station, TX, USA					
Total Durst Shares					
<u>803,40 - 8.907154%</u>					
Kathleen Keller 2016 Trust			N/A		
Jodie Lapp,CO-Trustee	USA	500.00 - 5.543412%			
Rex Boyland,SSB&T- CO Trustee					
Kerrville, TX, USA					
Kathleen Keller	USA	303,40 - 3.363743%			N/A
Hye, Tx,USA					
Total Keller Shares					
<u>803,40 - 8.907155%</u>					

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2018			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2018		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Keller Family 2016 Trust			N/A		
Stacy Keller Loth, CO-Trustee	USA	631.33 - 6.999445%			
Stephanie Keller Iglar, CO-Trustee		Common Stock			
Kory Keller, CO-Trustee					
Fredericksburg, Tx, USA					
Stacy Keller Loth	USA	480.18 - 5.323671%			N/A
Fredericksburg, Tx, USA		Common Stock			
Stephaine Keller Iglar	USA	480.18 - 5.323671%			N/A
San Angelo, Tx, USA		Common Stock			
Kory Keller	USA	480.18 - 5.323671%			N/A
Fredericksburg, Tx, USA		Common Stock			
Total Keller Shares			2071.87 - 22.970458%		
Kemp Family 2016 Trust			N/A		
Cynthia Kemp, Co-Trustee	USA	1065.00 - 11.807468%			
Brian Kemp, Co-Trustee					
Daniel Kemp, Co-Trustee					
Fredericksburg, Tx, USA		Common Stock			
Cynthia Kemp, CO- Trustee	USA	338.61 - 3.754110%			N/A
Fredericksburg, Tx, USA		Common Stock			
Brian Kemp, CO-Trustee	USA	338.61 - 3.754110%			N/A
Fredericksburg, Tx, USA		Common Stock			
Daniel Kemp, CO- Trustee	USA	338.61 - 3.754110%			N/A
Fredericksburg, Tx, USA		Common Stock			
Total Kemp Shares			2080.83 - 23.069798%		

REPORT ITEM 4: DIRECTORS AND OFFICERS-SECURITY HOLDING COMPANY

Report Item 4: Attached

Form FR Y-6

SECURITY HOLDING COMPANY
 FREDERICKSBURG, TEXAS
 Fiscal Year Ending December 31, 2018
 "Keller Family & James & Roxana Hayne as part of Voting Group"

Report Item 4: Insiders
 (1)(a)(b)(c) and (2)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	Principal Occupation if other than with holding company	Title & Position with holding company	Title & Position with Subsidiaries (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Securities in holding company	Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Kay Durst Family 2016 Trust Bonnen, Kimberly Durst, CO-Trustee Leleune, Kristy Durst, CO -Trustee	Housewife	Principal Securities Holder	N/A	Vice Pres /M Durst Company President/K-M Bar, Inc President/Keller Land & Cattle Co.	3.142006%	N/A	N/A
Bonnen, Kimberly Durst Friendswood, Texas United States of America	Housewife	Principal Securities Holder	N/A	Stockholder/M Durst Company Stockholder/K-M Bar, Inc Stockholder/Keller Land & Cattle Co. Owner/Texas Brain & Spine Center Owner/Chios Investments, LP Owner/Sentinel Neurology	2.882574%	N/A	M Durst Company/ 50% K-M Bar, Inc/ 50% Keller Land & Cattle Co. 50% Texas Brain & Spine Center 100% Chios Investments, LP/33% Sentinel Neurology/25%
Leleune, Kristy Durst College Station, Texas United States of America	Substitute Teacher Contract Worker Marriage Prep Assistant	Principal Securities Holder	N/A	Stockholder/M Durst Company Stockholder/K-M Bar, Inc Stockholder/Keller Land & Cattle Co.	2.882574%	N/A	M Durst Company/ 50% K-M Bar, Inc/ 50% Keller Land & Cattle Co. 50%
Hayne, James L., Ranch Trust of 2001 James L. Hayne Jr. Trustee San Antonio, Texas United States of America	Retired Insurance Broker	Principal Securities Holder	N/A	N/A	2.758956%	N/A	N/A
Hayne, Roxana C. Ranch Trust of 2001 James L. Hayne Jr. Trustee San Antonio, Texas United States of America	Housewife	Principal Securities Holder	N/A	N/A	2.758956%	N/A	N/A

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	Principal Occupation if other than with holding company	Title & Position with holding company	Title & Position with Subsidiaries (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Securities in holding company	Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Kathleen Keller 2016 Trust Jodie Lapp, CO-Trustee Rex Boyland, SSB&T- CO Trustee	Homemaker	Principal Securities Holder	N/A	President/KL Land Inc.	5.543412%	N/A	KL Land, Inc 100%
Keller, Kathleen Hye, Texas United States of America	Homemaker	Principal Securities Holder	N/A	President/KL Land Inc.	3.363743%	N/A	KL Land, Inc 100%
Keller Family 2016 Trust Loth, Stacy Keller, CO-Trustee Iglar, Stephanie Keller, CO-Trustee Keller, Kory, CO-Trustee	Retired Contractor	Director Vice President	Director Security State Bank & Trust	Keller Equipment Co. I, LLC Owner	6.999445%	N/A	Keller Equipment Co. I, LLC 49%
Keller, Keith Fredericksburg, Texas United States of America	Retired Contractor	Director Vice President	Director Security State Bank & Trust	Keller Equipment Co. I, LLC Owner	N/A	N/A	Keller Equipment Co. I, LLC 49%
Loth, Stacy Keller Harper, Texas United States of America	Housewife	Principal Securities Holder	N/A	N/A	5.323671%	N/A	N/A
Iglar, Stephanie Keller San Angelo, Texas United States of America	Substitute Teacher	Principal Securities Holder	N/A	N/A	5.323671%	N/A	N/A
Keller, Kory Fredericksburg, Texas United States of America	Contractor	Director	Director Security State Bank & Trust	CEO/Manager Allen Keller Company I, LLC Owner Keller Equipment Co. I, LLC Manager Spring Canyon Ranch Partner Hillside Beef LLC	5.323671%	N/A	Allen Keller Company I, LLC 100% Keller Equipment Co. I, LLC 50% Spring Canyon Ranch 100% Hillside Beef LLC/100% 100%

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	Principal Occupation if other than with holding company	Title & Position with holding company	Title & Position with Subsidiaries (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Securities in holding company	Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Kemp Family 2016 Trust Kemp, Cynthia, CO-Trustee Kemp, Brian, CO-Trustee Kemp, Dan, CO-Trustee	Banker	Director President	Director/Chairman Security State Bank & Trust	N/A	11.807468%	N/A	N/A
Kemp, James Fredericksburg, Texas United States of America	Banker	Director President	Director/Chairman Security State Bank & Trust	N/A	N/A	N/A	N/A
Kemp, Cynthia Fredericksburg, Texas United States of America	Interior Decorator	Principal Securities Holder	N/A	Owner Space Scapes Interiors	3.754110%	N/A	Space Scapes Interiors 100%
Kemp, Brian Mason, Texas United States of America	EMS Paramedic	Principal Securities Holder	N/A	Owner KNB Adventures LLC dba Tres Lunas Resort	3.754110%	N/A	KNB Adventures LLC dba Tres Lunas Resort 100%
Kemp, Dan Fredericksburg, Texas United States of America	Banker	Director	Director/SR VP Security State Bank & Trust	President SSB&T Mortgage	3.754110%	N/A	N/A
William H. Cowden Jr. Fredericksburg, Texas United States of America	Banker	Director	Director/President Security State Bank & Trust	N/A	N/A	N/A	N/A
Patrick M. (Mike) Dooley Fredericksburg, Texas United States of America	Attorney	Director	Director Security State Bank & Trust	Patrick M. (Mike) Dooley Attorney at Law/Ownership	N/A	N/A	Patrick M. (Mike) Dooley Attorney at Law/Ownership 100%
Ray Geisweidt Fredericksburg, Texas United States of America	Certified Public Accountant	Director	Director Security State Bank & Trust	Geisweidt & Company, CPA Ownership Mason National Bank Director	N/A	N/A	Geisweidt & Company, CPA Ownership/100% N/A
TOTAL					69.372477%		

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

OFFICERS, DIRECTORS & STOCKHOLDERS

December 31, 2018

NAME & ADDRESS (City, State, Country)	PRINCIPAL OCCUPATION if other than Holding Company	TITLE & POSITION WITH HOLDING CO.	TITLE & POSITION with Subsidiaries (include names of subsidiaries)	TITLE & POSITION with Other Businesses (include names of other businesses)	PERCENTAGE of Voting Shares in Holding Company	PERCENTAGE of Voting Securities in Subsidiaries (include names of Subsidiaries)	List of names of other Companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Patrick M. (Mike) Doooley Fredericksburg, Texas United States of America	Attorney	Director	Director Security State Bank & Trust	Patrick M. (Mike) Doooley Attorney at Law/Ownership	N/A	N/A	Patrick M. (Mike) Doooley Attorney at Law/Ownership 100%
William H. Cowden Jr. Fredericksburg, Texas United States of America	Banker	Director	Director/President Security State Bank & Trust	N/A	N/A	N/A	N/A
Ray Geistweidt Fredericksburg, Texas United States of America	Certified Public Accountant	Director	Director Security State Bank & Trust	Geistweidt & Company, CPA Ownership Mason National Bank Director	N/A	N/A	Geistweidt & Company, CPA Ownership/100% N/A