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.

I, James M. Law
Name of the Holding Company Director and Official

Director/Vice President/Treasurer
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

3-6-19
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- [x] 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.

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

Alliance Bancshares Inc.
Legal Title of Holding Company

P O Box 500
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Sulphur Springs	TX	75483

100 W. Jefferson St., Sulphur Springs, TX. 75482
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Talea Kelly	Controller Assistant

903-439-6862
Area Code / Phone Number / Extension

903-439-6814
Area Code / FAX Number

tkelly@alliancebank.com
E-mail Address

www.alliancebank.com
Address (URL) for the Holding Company's web page

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

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

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

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

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

Form FR Y-6
Alliance Bancshares, Inc.
Sulphur Springs, Texas
Fiscal year Ending December 31, 2018

Report Item 1

Annual Report to Shareholders

ALLIANCE BANCSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

ALLIANCE BANCSHARES, INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Table of Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Alliance Bancshares, Inc. and Subsidiaries:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

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

Report on Consolidating Information in Schedules I and II

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I and II is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Henry & Peters, P.C.

Tyler, Texas
February 25, 2019

ALLIANCE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Dollars in Thousands, Except Par Value)

	2018	2017
ASSETS		
Cash and due from banks	$ 22,350	$ 16,515
Interest-bearing deposits due from banks	10,185	3,566
Total cash and cash equivalents	32,535	20,081
Federal funds sold	14,200	400
Available for sale securities	230,712	291,396
Held to maturity securities	1,110	1,170
Loans held for sale	92	423
Loans, net of allowance for loan losses of $5,682 and $5,288	426,025	397,533
Premises and equipment, net	12,581	10,956
Federal Home Loan Bank stock	2,000	1,952
Other real estate owned	216	643
Interest receivable	2,418	2,389
Goodwill	2,942	2,942
Bank owned life insurance	17,297	17,461
Other assets	4,020	2,950
	$ 746,148	$ 750,296
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$ 157,170	$ 151,722
Interest-bearing	495,683	487,608
Total deposits	652,853	639,330
Securities sold under agreements to repurchase	17,416	12,237
Federal Home Loan Bank advances	-	25,000
Interest payable and other liabilities	5,504	5,678
Other notes payable	1,250	2,250
Junior subordinated debentures/trust preferred securities	7,217	7,217
Total liabilities	684,240	691,712
Stockholders' equity:		
Common stock, $1 par value; 1,000,000 shares authorized; 500,000 shares issued; 443,596 and 443,596 shares outstanding	500	500
Additional paid-in capital	4,935	4,935
Retained earnings	67,699	62,237
Accumulated other comprehensive loss	(6,694)	(4,556)
Treasury stock, 56,404 and 56,404 shares, at cost	(4,532)	(4,532)
Total stockholders' equity	61,908	58,584
	$ 746,148	$ 750,296

See accompanying notes to consolidated financial statements.

ALLIANCE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Dollars in Thousands)

	2018	2017
Interest income		
Loans	$ 20,524	$ 18,358
Securities:		
Taxable	4,780	4,776
Nontaxable	450	519
Federal funds sold and interest-bearing deposits	395	206
Total interest income	26,149	23,859
Interest expense		
Deposits	2,834	2,094
Notes payable and other borrowings	364	397
Junior subordinated debentures	267	194
Total interest expense	3,465	2,685
Net interest income	22,684	21,174
Provision for loan losses	500	460
Net interest income after provision for loan losses	22,184	20,714
Non-interest income		
Service charges	5,265	5,154
Insurance agency revenue	2,515	2,507
Net realized gain on sale of securities	70	1
Net gain on sale of equipment and other real estate owned	6	60
Net gain on sale of loans	545	625
Other operating income	1,980	1,779
Total non-interest income	10,381	10,126
Non-interest expense		
Employee compensation and benefits	12,259	12,280
Occupancy expenses	4,784	4,185
Equipment and supplies	234	233
Data processing fees	589	553
Marketing expenses	741	722
Amortization of intangible assets	-	45
Other operating expenses	5,391	4,766
Total non-interest expense	23,998	22,784
Net earnings	$ 8,567	$ 8,056

See accompanying notes to consolidated financial statements.

ALLIANCE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Dollars in Thousands)

	2018	2017
Net earnings	$ 8,567	$ 8,056
Other comprehensive income (loss):		
Change in unrealized loss on available for sale securities	(2,068)	228
Reclassification adjustment for amount realized on sales of securities included in net earnings	(70)	(1)
Total other comprehensive income (loss):	(2,138)	227
Total comprehensive income	$ 6,429	$ 8,283

See accompanying notes to consolidated financial statements.

ALLIANCE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Dollars in Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2016	$ 500	$ 4,935	$ 57,286	$ (4,783)	$ (4,532)	$ 53,406
Net earnings	-	-	8,056	-	-	8,056
Other comprehensive loss	-	-	-	227	-	227
Dividends	-	-	(3,105)	-	-	(3,105)
Balance December 31, 2017	500	4,935	62,237	(4,556)	(4,532)	58,584
Net earnings	-	-	8,567	-	-	8,567
Other comprehensive income	-	-	-	(2,138)	-	(2,138)
Dividends	-	-	(3,105)	-	-	(3,105)
Balance December 31, 2018	$ 500	$ 4,935	$ 67,699	$ (6,694)	$ (4,532)	$ 61,908

See accompanying notes to consolidated financial statements.

ALLIANCE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Dollars in Thousands)

	2018	2017
Cash flows from operating activities		
Net earnings	$ 8,567	$ 8,056
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization of software and intangibles	1,635	1,486
Amortization of securities	2,918	3,813
Net realized gain on securities transactions	(70)	(1)
Provision for loan losses	500	460
Net gain on sale of loans	(545)	(625)
Net gain on sale of premises, equipment and other real estate	(6)	(60)
Net change in loans held for sale	876	1,322
Net change in accrued interest receivable and other assets	(995)	(127)
Earnings on bank owned life insurance, net of costs	(866)	(552)
Net change in accrued interest payable and other liabilities	(174)	529
Net cash provided by operating activities	11,840	14,301
Cash flows from investing activities		
(Increase) decrease in federal funds sold	(13,800)	2,200
Securities available for sale:		
Purchases	(280,982)	(188,464)
Proceeds from sales, maturities and principal repayments	336,610	182,324
Securities held to maturity:		
Proceeds from maturities and principal repayments	60	55
Purchase of Federal Home Loan Bank stock	(48)	(449)
Purchases of premises, equipment and other assets	(3,333)	(1,395)
Proceeds from sale of premises, equipment and other real estate	488	87
Proceeds from BOLI death benefit	1,030	-
Net increase in loans	(29,008)	(38,046)
Net cash provided by (used in) investing activities	11,017	(43,688)
Cash flows from financing activities		
Net change in deposits	13,523	17,555
Increase in repurchase agreements	5,179	8,774
Advances under the FHLB line of credit	31,004	191,500
Repayments of advances under the FHLB line of credit	(56,004)	(186,500)
Payments on other notes payable	(1,000)	(1,000)
Cash dividends paid	(3,105)	(3,105)
Net cash (used in) provided by financing activities	(10,403)	27,224
Net change in cash and cash equivalents	12,454	(2,163)
Cash and cash equivalents at beginning of year	20,081	22,244
Cash and cash equivalents at end of year	$ 32,535	$ 20,081

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements. The policies conform to U.S. generally accepted accounting principles and to general practices within the banking industry.

NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION

Alliance Bancshares, Inc. (Company) is a holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Alliance Bank (Bank), which wholly owns Galyean Insurance Agency (Galyean), which wholly owns ALL Premium Financing, Inc. (ALL). Additionally, the Bank wholly owns AB Royalties, LLC (AB Royalties). All operating income of AB Royalties is distributed to the Bank and asset and liability balances are less than $1. All material intercompany accounts and transactions have been eliminated in consolidation.

The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Hopkins, Hunt, Collin and Rockwall Counties in Texas. Galyean operates as an insurance agency primarily in the same counties in Texas as the Bank. The Bank and Galyean are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities. AB Royalties LLC operates in Upton County Texas.

USE OF ESTIMATES

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

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

COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated balance sheets. Such items, along with net income, are components of comprehensive income.

CASH EQUIVALENTS AND SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents include cash and deposits with other financial institutions that have an original maturity of three months or less. Federal funds sold are not included in cash equivalents.

In 2018 and 2017, cash paid for interest totaled $3,450 and $2,676, respectively.

During the years ended December 31, 2018 and 2017, the Company obtained real estate and other assets through foreclosure totaling $17 and $427, respectively. The Company issued loans to facilitate the sale of foreclosed assets of $-0- and $306 during the years ended December 31, 2018 and 2017, respectively.

SECURITIES

Available for sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded in other comprehensive income (loss). Held to maturity securities, which include any security for which the Company has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts. Amortization of premiums and accretion of discounts are recorded in interest income from securities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

SECURITIES - CONTINUED

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

DERIVATIVE FINANCIAL INSTRUMENTS

For derivative financial instruments accounted for as hedging instruments, the Company formally designates and documents, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the manner in which effectiveness of the hedge will be assessed. The Company formally assesses both at inception and at each reporting period thereafter, whether the derivative financial instrument used in the hedging transaction is effective in offsetting changes in fair value of the related underlying exposure. Any ineffective portion of the change in fair value of the instruments is recognized immediately in earnings.

In March 2011, the Company purchased a derivative financial instrument to hedge interest rate risk associated with a specific fixed rate commercial loan. The derivative is not held for speculative purposes. The Company has elected to use the dollar-offset method under the cumulative approach to assess the effectiveness of the hedge. This method compares the fair value of the hedging derivative with the fair value of the hedged exposure. The cumulative approach compares the cumulative change in the hedged exposure's fair value. As of December 31, 2018 and 2017, effectiveness testing resulted in the conclusion that the hedge was perfectly effective.

The interest rate hedge is recognized in the balance sheet at its fair value. Changes in the fair value of the interest rate hedge are reported currently in earnings along with changes in the fair value of the hedged item. Amounts reported in earnings are classified consistent with the items being hedged. During 2018 and 2017, the Company did not incur a gain or loss as a result of hedge ineffectiveness.

The interest rate hedge had a fair value of $1 and $4 at December 31, 2018 and 2017, respectively, and is included in other assets in the accompanying 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 any charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is reported on the level-yield interest method and includes amortization of net deferred loan fees and costs over the loan term.

Nonaccrual Loans

Generally, loans are placed on non-accrual status at ninety days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable 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. Management considers the past due status of the loans, excessive overdraft positions of the borrower in demand deposit accounts, negative changes in the borrower's cash flows and other financial information in determining which loans should be analyzed for impairment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

LOANS - CONTINUED

Impaired Loans - Continued

The method of accounting for impaired loans is consistent across the portfolio segments. Impairment is measured on a loan-by-loan basis by: the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the Company determines that foreclosure is probable, the Company measures the loan at the fair value of the collateral and recognizes any loss immediately. Groups of loans with similar risk characteristics, including individually evaluated loans not determined to be impaired are collectively evaluated for impairment. When a loan is determined to be impaired, the Company recognizes the impairment by creating a valuation allowance with a corresponding charge to loan allowance provision expense.

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 pertinent circumstances surrounding the loan and the borrower.

A troubled debt restructuring (TDR) is a restructuring in which the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Loans classified as troubled debt restructurings are analyzed on an individual basis for impairment subsequent to the restructuring. An additional impairment is accounted for in the same manner as general impaired loans.

Loans in all portfolio segments are charged-off when they are deemed to be uncollectible. At that time, the related credit loss is deducted from the allowance. Recoveries of previously charged-off amounts are recorded when received.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is management's estimate of credit losses inherent in the loan portfolio, including unfunded credit commitments, at the balance sheet date. The allowance for loan losses is established through a provision for loan losses charged to expense.

Methodology

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's analysis of the collectability of the loans. To perform this analysis, management divides the loan portfolio into portfolio segments, which are further divided into classes. A portfolio segment is the level at which management develops and documents a systematic methodology to determine the allowance for loan losses, and a segment class is the subdivision of a portfolio segment based on the initial measurement attribute, risk characteristics and methods for assessing risk of the loans contained therein.

Allowance levels for all portfolio segments are influenced by a number of factors, including, but not limited to, loan volume, delinquency rates and historical loss rates based on a rolling twelve quarter period. Historical loss rates are adjusted based on management's analysis of non-financial factors, including: changes in the Company's lending procedures and monitoring; national and local economic factors; portfolio trends; management's ability, experience and depth; the results of the loan portfolio review and changes in loan grades assigned; concentrations of credit risk and other external factors. In addition to these general factors, management also considers risks specific to the nature of the loans in each portfolio segment. While management attributes portions of the allowance for loan losses to individual impaired loans and specific loan portfolio segments, the entire allowance is available to absorb credit losses inherent in the total loan portfolio.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED
ALLOWANCE FOR LOAN LOSSES - CONTINUED
Methodology - Continued
Below is a description of the segments of the Company's loan portfolio:

Commercial	This portfolio segment includes general secured and unsecured commercial loans which are not secured by real estate. Risks inherent to this portfolio segment include fluctuations in the local and national economy.
Commercial - real estate	The commercial - real estate portfolio segment includes all commercial loans that are secured by real estate, other than those included in the 1-4 family residential segment. The segment includes construction of both business and residential structures and real estate development loans. Risks inherent to this portfolio segment include fluctuations in property values and changes in the local and national economy impacting the sale of the finished structures.
Tax exempt	Tax exempt loans consist of loans to taxing authorities, including counties, cities, school districts, hospitals, etc. Risks inherent to this portfolio segment include those risks which would impact the taxing authority's ability to assess and collect sufficient tax revenue. These risks may include declines in property values and fluctuations in the economy local to the taxing authority.
Consumer	This portfolio segment consists of non-real estate loans to consumers. This includes unsecured lines, as well as secured loans, such as auto and personal loans. The risks inherent to this portfolio segment include those factors that would impact the consumer's ability to meet their obligations under the loan. These include increases in the local unemployment rate and fluctuations in consumer and business sales.
1-4 Family residential	This portfolio segment includes loans to both commercial and consumer borrowers secured by real estate for housing units of up to four families. Risks inherent to this portfolio segment include increases in the local unemployment rate, changes in the local economy and factors that would impact the value of the underlying collateral, such as changes in property values.
Agricultural	The agricultural portfolio segment includes loans to companies in the dairy, cattle industry and farmers. Loans in this segment are secured by collateral such as cattle, equipment and real estate. Risks inherent in this portfolio segment include adverse changes in the climate and property values, as well as fluctuations in feed, milk and cattle prices.
CD secured	The CD secured portfolio segment encompasses loans secured by time deposits held at the Bank. Risks inherent in this portfolio segment include the risk that the value of the collateral held is insufficient to fully cover any loss incurred on the related loan.
Unallocated	The unallocated category consists of those loans which are not included in the above segments. This may include loans to non-depository institutions, overdraft balances on demand deposit accounts, loan clearing accounts and unfunded loan obligations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ALLOWANCE FOR LOAN LOSSES - CONTINUED

Credit Quality Indicators

The Company monitors the credit quality of the loans in the various segments by identifying and evaluating credit quality indicators specific to each segment class. This information is incorporated into management's analysis of the adequacy of the allowance for loan losses. Information for the credit quality indicators is updated monthly for classified assets and quarterly for the remainder of the portfolio. The following is a discussion of the primary credit quality indicators most closely monitored for the respective portfolio segment classes:

Commercial — In assessing risk associated with commercial loans, management considers the strength of the business' cash flows and the value of the underlying collateral to be the primary credit quality indicators.

Commercial - real estate:

Construction — In assessing the credit quality of construction loans, management considers the ability of the borrower to finance principal and interest payments in the event that he is unable to sell the completed structure to be a primary credit quality indicator. For real estate development loans, management also considers the likelihood of the successful sale of the constructed properties in the development.

Other — Management considers the strength of the borrower's cash flows and changes in property values to be key credit quality indicators of other commercial - real estate loans.

Tax exempt — Primary credit quality indicators utilized by management for tax exempt loans include historical and projected trends in tax revenues and management's assessment of the strength of the entity's management and oversight boards.

Consumer — In addition to the credit quality indicators described above, management also considers the estimated value of the underlying collateral in assessing other consumer loans. Management considers the debt to income ratio of the borrower, the borrower's credit history and the borrower's past-due history.

1-4 Family Residential — Management considers changes in the local economy, changes in property values and changes in local unemployment rates to be key credit quality indicators of the loans in the 1-4 family residential loan segment. Additionally, management considers the borrower's debt to income ratio, the borrower's past due history and past experience in working with the borrower.

Agricultural — In assessing risk associated with agricultural loans, management considers the borrower's cash flows, the value of the underlying collateral and sources for secondary repayment to be primary credit quality indicators.

CD secured — CD secured loans are collateralized by time deposits held by the borrower at the Bank. In assessing the credit quality of these loans, management considers the sufficiency of the funds held in deposit to satisfy the loan and interest obligations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ALLOWANCE FOR LOAN LOSSES - CONTINUED

Credit Quality Indicators - Continued

Management assigns loans to a credit quality category based on the results of its analysis. Assets are graded "pass" when the relationship exhibits virtually no, or an acceptable level of, credit risk and indicates repayment ability, tolerable collateral coverage and reasonable performance history. Lending relationships exhibiting potentially significant credit risk and marginal repayment ability and/or asset protection are graded "watch" or "special mention." Assets classified as "substandard" are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness that jeopardizes the liquidation of the debt. Substandard graded loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets are graded "doubtful" and are considered impaired when it is probable that all amounts due from a loan will not be collected according to the terms of the loan.

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, which range from 3 to 10 years for furniture and equipment and 40 years for buildings.

Leasehold improvements are amortized over the lesser of the terms of the leases or their estimated useful lives. Expenditures for improvements, which extend the life of an asset, are capitalized and depreciated over the asset's remaining useful life. Gains or losses realized on the disposition of properties and equipment are reflected in the consolidated statements of earnings. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

FEDERAL HOME LOAN BANK STOCK

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

OTHER REAL ESTATE OWNED

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value 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 the carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other non-interest expense.

At December 31, 2018 and 2017, the Company's balances of assets acquired through, or in lieu of, loan foreclosure was not comprised of any residential real estate properties. There were no consumer mortgage loans, secured by residential real estate properties, for which formal foreclosure procedures were in process at December 31, 2018 and 2017.

LOANS HELD FOR SALE AND MORTGAGE SERVICING

The Bank originates and sells certain single family residential mortgage loans to the secondary mortgage market and retains the servicing rights on certain loans sold. These loans are carried at the lower of cost or estimated fair value in the aggregate. Gain or loss is recognized at the date of sale for any difference between the selling price and the carrying value of the related mortgages and is recorded in non-interest income. For loans sold, whereby the servicing rights were retained, the Company records a servicing asset for the estimated fair value of the servicing fees in excess of the cost to service the loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOODWILL

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

INTANGIBLE ASSETS

Intangible assets, which primarily include core deposit intangibles and insurance agency customer lists, are being amortized over periods ranging from seven to fifteen years. Such assets are periodically evaluated as to the recoverability of their carrying value. Amortization expense related to these assets totaled $45 during the year ended December 31, 2017. During 2017, all intangible assets fully amortized.

TREASURY STOCK

The Company uses the cost method of accounting for treasury stock. Acquisitions of treasury stock are recorded at cost. Upon sale or other disposition, the treasury stock account is credited by an amount equal to the number of shares sold multiplied by the average cost per share and the difference between this amount and the cash received is recorded as paid-in capital.

INCOME TAXES

The Company's stockholders have elected to have the Company's income taxed as an S Corporation under provisions of the Internal Revenue Code. Therefore, taxable income or loss is reported to the individual stockholders for inclusion in their respective tax returns and no provision for federal income taxes is included in these consolidated financial statements.

Management of the Company considers the likelihood of changes by taxing authorities in its filed income tax returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require disclosure in the accompanying financial statements. The Company's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

TRANSFER OF FINANCIAL ASSETS

The Company accounts for transfers and servicing of financial assets in accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over the assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge to 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.

FAIR VALUE MEASUREMENTS

The Company follows the guidance of FASB ASC 825, *Financial Instruments* and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense totaled $741 and $722 for the years ended December 31, 2018 and 2017, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

ASU No. 2014-09, *Revenue from Contracts with Customers* In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The new guidance provides that revenue should be recognized for the transfer of goods and services to customers in an amount equal to the consideration it receives or expects to receive. The guidance also includes expanded disclosure requirements that provide comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for fiscal years beginning after December 15, 2018. The Company is assessing the new guidance and expects that it will not have a material impact on its consolidated financial statements, as a significant amount of the Company's revenues is derived from net interest income and financial assets which are excluded from the scope of the guidance.

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* In January 2016, the FASB issued amended guidance that requires equity investments to be measured at fair value with changes in fair value recognized in net income. The guidance also eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The new guidance is effective for fiscal years beginning after December 15, 2018. The adoption of this guidance will result in adjustments to retained earnings and other comprehensive income but is not expected to have a material impact on the consolidated financial statements.

ASU No. 2016-02, *Leases* In February 2016, the FASB issued guidance that changes the accounting treatment of leases, in that lessees will recognize most leases on-balance sheet. This will increase reported assets and liabilities, as lessees will be required to recognize a right-of-use asset along with a lease liability, measured on a discounted basis. Lessees are allowed to account for short-term leases (those with a term of twelve months or less) off-balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2019. The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements which currently are not reflected in its consolidated balance sheet. Upon adoption of the guidance, the Company expects to report increased assets and increased liabilities as a result of recognizing right-of-use assets and lease liabilities on its consolidated balance sheets.

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* In June 2016, the FASB issued this update that replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's loan portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2020. The Company is currently assessing the requirements and necessary changes to the existing credit loss estimation methods and identifying a complete set of data requirements and sources. The Company is currently evaluating the impact ASU No. 2016-13 will have on its consolidated financial statements.

ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* In August 2016, the FASB issued this update which provides guidance on how certain cash flows, including bank-owned life insurance policy settlements and premiums, should be classified within the statement of cash flows. The new guidance is effective for fiscal years beginning after December 15, 2018. The adoption of this guidance is not expected to have a material impact on the consolidated financial statements.

(Dollars in thousands)

NOTE 2 - RESTRICTIONS ON CASH

The Company is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The reserves required at December 31, 2018 and 2017 totaled $5,638 and $7,333, respectively.

NOTE 3 - SECURITIES

The amortized cost and approximate fair values of investment securities were as follows at December 31, 2018 and 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2018:				
Available for Sale:				
U.S. government agency securities	$ 5,958	$ -	$ 159	$ 5,799
Mortgage-backed securities	205,301	228	6,575	198,954
State and political subdivisions	24,400	28	170	24,258
Equity securities	631	-	-	631
Mutual funds	1,116	-	46	1,070
Total available for sale	$ 237,406	$ 256	$ 6,950	$ 230,712
Held to Maturity:				
State and political subdivisions	$ 1,110	$ 97	$ -	$ 1,207
December 31, 2017:				
Available for Sale:				
U.S. government agency securities	$ 5,949	$ -	$ 42	$ 5,907
Mortgage-backed securities	259,670	209	4,694	255,185
State and political subdivisions	28,615	116	133	28,598
Equity securities	631	-	-	631
Mutual funds	1,087	-	12	1,075
Total available for sale	$ 295,952	$ 325	$ 4,881	$ 291,396
Held to Maturity:				
State and political subdivisions	$ 1,170	$ 129	$ -	$ 1,299

(Dollars in thousands)

NOTE 3 - SECURITIES - CONTINUED

The amortized cost and fair value of debt 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
Due within one year	$ 4,805	$ 4,802	$ 65	$ 65
Due after one year through five years	32,050	31,510	285	293
Due after five years through ten years	70,476	68,184	445	487
Due after ten years	128,328	124,515	315	362
Other securities	1,747	1,701	-	-
	$ 237,406	$ 230,712	$ 1,110	$ 1,207

The following tables show the Company's investment gross unrealized losses and fair value, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017.

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
December 31, 2018:						
U.S. government agency securities	$ -	$ -	$ 159	$ 5,799	$ 159	$ 5,799
Mortgage-backed securities	196	11,034	6,379	186,687	6,575	197,721
State and political subdivisions	20	4,646	150	11,920	170	16,566
Mutual funds	16	248	30	822	46	1,070
	$ 232	$ 15,928	$ 6,718	$ 205,228	$ 6,950	$ 221,156
December 31, 2017:						
U.S. government agency securities	$ 12	$ 3,937	$ 30	$ 1,970	$ 42	$ 5,907
Mortgage-backed securities	671	52,216	4,023	187,700	4,694	239,916
State and political subdivisions	1	217	132	13,858	133	14,075
Mutual funds	-		12	821	12	821
	$ 684	$ 56,370	$ 4,197	$ 204,349	$ 4,881	$ 260,719

(Dollars in thousands)

NOTE 3 - SECURITIES - CONTINUED

The company held 126 and 118 securities that had been in a continuous unrealized loss position for longer than twelve months at December 31, 2018 and 2017, respectively. As of December 31, 2018, of the securities in a loss position over twelve months, 126 were classified as available for sale and -0- as held to maturity. The securities in a loss position were composed of federal agency bonds, tax exempt municipal bonds, collateralized mortgage obligations and mortgage backed securities. Management believes that the unrealized loss on these securities is a function of increases in 3-year, 5-year and 10-year U.S. Treasury interest rates and decreases in market prices since the time of purchase. Based on evaluation of available evidence, including recent changes in interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment would be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Gross gains of $-0- and $2 and gross losses of $-0- and $1, resulting from sales of available for sale securities were realized during 2018 and 2017, respectively. Additionally, no other-than-temporary impairments related to available for sale securities were recorded in 2018 or 2017.

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $106,483 and $94,930 at December 31, 2018 and 2017, respectively.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

LOAN PORTFOLIO COMPOSITION

Loans were as follows at December 31:

	2018	2017
Commercial	$ 43,532	$ 51,987
Commercial - real estate	234,921	194,315
Tax exempt	35,451	37,748
Consumer	6,350	6,807
1-4 Family residential	74,842	66,892
Agricultural	9,890	10,518
CD Secured	5,990	5,618
Unallocated	21,002	29,121
Loans held for sale	92	423
	432,070	403,429
Less:		
Net deferred loan fees, premiums and discounts	(271)	(185)
Allowance for loan losses	(5,682)	(5,288)
Net loans	$ 426,117	$ 397,956

The Company has entered into transactions with certain directors, executive officers, significant shareholders and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. Loans to such related parties at December 31, 2018 and 2017, totaled $17,228 and $19,172, respectively.

(Dollars in thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

LOAN PORTFOLIO COMPOSITION - CONTINUED

Loans totaling $185,473 and $158,381 at December 31, 2018 and 2017, respectively, were pledged as collateral to the FHLB.

The Bank has originated and sold mortgage loans to Fannie Mae, retaining the servicing rights on loans totaling $44,891 and $47,806 at December 31, 2018 and 2017, respectively.

CREDIT QUALITY

The following table summarizes the credit exposure of the loan portfolio by portfolio segment class as of December 31, 2018 and 2017:

Credit exposure to commercial entities:

	Commercial		Commercial - real estate Construction		Commercial - real estate Other	
	2018	2017	2018	2017	2018	2017
Pass	$ 43,027	$ 51,555	$ 49,317	$ 50,512	$ 177,106	$ 142,636
Special mention	490	-	-	-	6,257	-
Substandard	15	431	-	-	2,241	1,167
Doubtful	-	1	-	-	-	-
Total	$ 43,532	$ 51,987	$ 49,317	$ 50,512	$ 185,604	$ 143,803

Credit exposure to governmental entities:

	Tax exempt	
	2018	2017
Pass	$ 35,451	$ 37,748
Special mention	-	-
Substandard	-	-
Doubtful	-	-
Total	$ 35,451	$ 37,748

Credit exposure to consumer, residential and agricultural:

	Consumer		1-4 Family residential		Agricultural	
	2018	2017	2018	2017	2018	2017
Performing	$ 5,547	$ 6,730	$ 74,916	$ 66,075	$ 9,884	$ 10,494
Nonperforming	803	77	18	1,240	6	24
Total	$ 6,350	$ 6,807	$ 74,934	$ 67,315	$ 9,890	$ 10,518

(Dollars in thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

CREDIT QUALITY – CONTINUED

	CD Secured	
	2018	2017
Performing	$ 5,990	$ 5,618
Nonperforming	-	-
Total	$ 5,990	$ 5,618

Credit exposure to other:

	Unallocated	
	2018	2017
Pass	$ 21,002	$ 29,121
Special mention	-	-
Substandard	-	-
Doubtful	-	-
Total	$ 21,002	$ 29,121

The following tables summarize the payment status of loans in the Company's total loan portfolio, including an aging of delinquent loans, loans 90 days or more past due continuing to accrue interest and loans classified as nonperforming as of December 31, 2018 and 2017:

Age Analysis of Past Due Loans

December 31, 2018

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ 251	$ 21	$ 6	$ 278	$ 43,254	$ 43,532	$ 6
Commercial - real estate:							
Construction	103	-	-	103	$ 49,214	49,317	-
Other	2,313	165	-	2,478	$183,126	185,604	-
Tax exempt	-	-	-	-	$ 35,451	35,451	-
Consumer	82	1	-	83	$ 6,267	6,350	-
1-4 Family residential	669	17	5	691	$ 74,243	74,934	5
Agricultural	2	-	-	2	$ 9,888	9,890	-
CD Secured	-	-	-	-	$ 5,990	5,990	-
Unallocated	20	-	-	20	$ 20,982	21,002	-
Total	$ 3,440	$ 204	$ 11	$ 3,655	$428,415	$432,070	$ 11

(Dollars in thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

CREDIT QUALITY – CONTINUED

Age Analysis of Past Due Loans

December 31, 2017

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ 239	$ 35	$ -	$ 274	$ 51,713	$ 51,987	$ -
Commercial - real estate:							
Construction	79	-	-	79	50,433	50,512	-
Other	33	-	-	33	143,770	143,803	-
Tax exempt	-	-	-	-	37,748	37,748	-
Consumer	107	-	-	107	6,700	6,807	-
1-4 Family residential	1,177	-	7	1,184	66,131	67,315	7
Agricultural	134	8	-	142	10,376	10,518	-
CD Secured	-	-	-	-	5,618	5,618	-
Unallocated	-	-	-	-	29,121	29,121	-
Total	$ 1,769	$ 43	$ 7	$ 1,819	$401,610	$403,429	$ 7

At December 31, 2018 and 2017, the Company maintained no non-accrual loans within its loan portfolio.

TROUBLED DEBT RESTRUCTURINGS AND IMPAIRED LOANS

The tables below detail TDR's recognized during the year ended:

	December 31, 2018		
	Number of Contracts	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments
Troubled Debt Restructurings:			
Commercial - real estate:			
Other	2	$ 2,417	$ 2,417
1-4 Family residential	1	73	73

	December 31, 2017		
	Number of Contracts	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments
Troubled Debt Restructurings:			
Commercial - real estate:			
Other	2	$ 2,460	$ 2,460
1-4 Family residential	1	74	74

TDRs accounted for $2,490 and $2,534 of impaired loans as of December 31, 2018 and 2017, respectively. There were no TDRs classified as Non-performing. TDRs in 2018 and 2017 consisted of agreements to lower interest rates below market rates and extend payment terms. There were no loans as of December 31, 2018 that had been modified as troubled debt restructurings during 2018 and then subsequently re-defaulted in 2018.

(Dollars in thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

TROUBLED DEBT RESTRUCTURINGS AND IMPAIRED LOANS - CONTINUED

The following tables present the information about the Company's impaired loans at December 31, 2018 and 2017:

	December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial - real estate:					
Construction	-	-	-	-	-
Other	2,241	2,241	-	2,260	101
Tax exempt	-	-	-	-	-
Consumer	-	-	-	-	-
1-4 Family residential	-	-	-	-	-
Agricultural	-	-	-	-	-
CD Secured	-	-	-	-	-
Unallocated	-	-	-	-	-
	2,241	2,241	-	2,260	101
With allowance recorded:					
Commercial	15	15	5	23	1
Commercial - real estate:					
Construction	-	-	-	-	-
Other	-	-	-	-	-
Tax exempt	-	-	-	-	-
Consumer	803	803	163	1,024	60
1-4 Family residential	18	18	2	25	1
Agricultural	6	6	1	9	1
CD Secured	-	-	-	-	-
Unallocated	-	-	-	-	-
	842	842	171	1,081	63
Total by portfolio segment class:					
Commercial	15	15	5	23	1
Commercial - real estate:					
Construction	-	-	-	-	-
Other	2,241	2,241	-	2,260	101
Tax exempt	-	-	-	-	-
Consumer	803	803	163	1,024	60
1-4 Family residential	18	18	2	25	1
Agricultural	6	6	1	9	1
CD Secured	-	-	-	-	-
Unallocated	-	-	-	-	-
	$ 3,083	$ 3,083	$ 171	$ 3,341	$ 164

(Dollars in thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

TROUBLED DEBT RESTRUCTURINGS AND IMPAIRED LOANS – CONTINUED

	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial - real estate:					
Construction	-	-	-	-	-
Other	-	-	-	-	-
Tax exempt	-	-	-	-	-
Consumer	-	-	-	-	-
1-4 Family residential	-	-	-	-	-
Agricultural	-	-	-	-	-
CD Secured	-	-	-	-	-
Unallocated	-	-	-	-	-
	-	-	-	-	-
With allowance recorded:					
Commercial	432	432	106	544	30
Commercial - real estate:					
Construction	-	-	-	-	-
Other	1,167	1,167	12	1,214	74
Tax exempt	-	-	-	-	-
Consumer	77	77	25	116	7
1-4 Family residential	1,240	1,240	108	914	36
Agricultural	24	24	1	215	2
CD Secured	-	-	-	-	-
Unallocated	-	-	-	-	-
	2,940	2,940	252	3,003	149
Total by portfolio segment class:					
Commercial	432	432	106	544	30
Commercial - real estate:					
Construction	-	-	-	-	-
Other	1,167	1,167	12	1,214	74
Tax exempt	-	-	-	-	-
Consumer	77	77	25	116	7
1-4 Family residential	1,240	1,240	108	914	36
Agricultural	24	24	1	215	2
CD Secured	-	-	-	-	-
Unallocated	-	-	-	-	-
	$ 2,940	$ 2,940	$ 252	$ 3,003	$ 149

There were no commitments to lend additional funds to borrowers whose loans were classified as impaired or whose loan terms had been modified in a troubled debt restructuring at December 31, 2018 and 2017

(Dollars in thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

ALLOWANCE FOR LOAN LOSSES

The tables below summarize changes in the allowance for loan losses, by portfolio segment, during the years ended December 31, 2018 and 2017:

	December 31, 2018				
	Commercial	Commercial Real Estate	Tax Exempt	Consumer	1-4 Family Residential
Allowance for Loan Losses:					
Beginning Balance	$ 1,510	$ 1,502	$ -	$ (200)	$ 2,632
Charge-offs	(29)	-	-	(174)	-
Recoveries	8	-	-	82	-
Provisions	-	-	-	250	-
Ending Balance	$ 1,489	$ 1,502	$ -	$ (42)	$ 2,632
Evaluated for impairment:					
Individually	$ 5	$	$ -	$ 163	$ 2
Collectively	1,484	1,502	-	(205)	2,630
	$ 1,489	$ 1,502	$ -	$ (42)	$ 2,632
Loan Portfolio:					
Evaluated for impairment:					
Individually	$ 15	$ 2,241	$ -	$ 803	$ 18
Collectively	43,517	232,680	35,451	5,547	74,916
Ending balance	$ 43,532	$ 234,921	$ 35,451	$ 6,350	$ 74,934

Table continued from above:

	Agricultural	CD Secured	Unallocated	Total
Allowance for Loan Losses:				
Beginning Balance	$ (1,208)	$ -	$ 1,052	$ 5,288
Charge-offs	-	-	-	(203)
Recoveries	7	-	-	97
Provisions	250	-	-	500
Ending Balance	$ (951)	$ -	$ 1,052	$ 5,682
Evaluated for impairment:				
Individually	$ 1	$ -	$ -	$ 171
Collectively	(952)	-	1,052	5,511
	$ (951)	$ -	$ 1,052	$ 5,682
Loan Portfolio:				
Evaluated for impairment:				
Individually	$ 6	$ -	$ -	$ 3,083
Collectively	9,884	5,990	21,002	428,987
Ending balance	$ 9,890	$ 5,990	$ 21,002	$ 432,070

(Dollars in thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

ALLOWANCE FOR LOAN LOSSES – CONTINUED

December 31, 2017

	Commercial	Commercial Real Estate	Tax Exempt	Consumer	1-4 Family Residential
Allowance for Loan Losses:					
Beginning Balance	$ 1,583	$ 1,502	$ -	$ (292)	$ 2,632
Charge-offs	(74)	(211)	-	(262)	-
Recoveries	1	211	-	124	-
Provisions	-	-	-	230	-
Ending Balance	$ 1,510	$ 1,502	$ -	$ (200)	$ 2,632
Evaluated for impairment:					
Individually	$ 106	$ 12	$ -	$ 25	$ 108
Collectively	1,404	1,490	-	(225)	2,524
	$ 1,510	$ 1,502	$ -	$ (200)	$ 2,632
Loan Portfolio:					
Evaluated for impairment:					
Individually	$ 432	$ 1,167	$ -	$ 77	$ 1,240
Collectively	51,555	193,148	37,748	6,730	66,075
Ending balance	$ 51,987	$ 194,315	$ 37,748	$ 6,807	$ 67,315

Table continued from above:

	Agricultural	CD Secured	Unallocated	Total
Allowance for Loan Losses:				
Beginning Balance	$ (1,443)	$ -	$ 1,052	$ 5,034
Charge-offs	(8)	-	-	(555)
Recoveries	13	-	-	349
Provisions	230	-	-	460
Ending Balance	$ (1,208)	$ -	$ 1,052	$ 5,288
Evaluated for impairment:				
Individually	$ 1	$ -	$ -	$ 252
Collectively	(1,209)	-	1,052	5,036
	$ (1,208)	$ -	$ 1,052	$ 5,288
Loan Portfolio:				
Evaluated for impairment:				
Individually	$ 24	$ -	$ -	$ 2,940
Collectively	10,494	5,618	29,121	400,489
Ending balance	$ 10,518	$ 5,618	$ 29,121	$ 403,429

There have been no changes to the Company's accounting policies or methodology from the prior period that affected the current provision for credit losses.

(Dollars in thousands)

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

Most of the Company's business activity is with customers located within the State of Texas. Investments in state and municipal securities involve governmental entities within the Company's market area. The Company also maintains deposits with other financial institutions in amounts that exceed Federal Deposit Insurance Corporation (FDIC) insurance coverage. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 6 - PREMISES, EQUIPMENT AND CAPITALIZED SOFTWARE

Major classifications of premises and equipment, stated at cost, were as follows at December 31:

	2018	2017
Land	$ 3,130	$ 3,068
Buildings and improvements	11,941	11,300
Furniture and equipment	10,115	8,150
Construction in progress	746	262
	25,932	22,780
Less accumulated depreciation	(13,351)	(11,824)
Net premises and equipment	$ 12,581	$ 10,956

Capitalized software is stated at cost less accumulated amortization and is included as other assets in the consolidated balance sheets. The costs and accumulated amortization associated with capitalized software were as follows at December 31:

	2018	2017
Capitalized software	$ 1,737	$ 1,604
Less accumulated amortization	(1,568)	(1,507)
Net capitalized software	$ 169	$ 97

Depreciation expense and software amortization expense for the years ended December 31, 2018 and 2017 totaled $1,635 and $1,441, respectively.

(Dollars in thousands)

NOTE 7 - DEPOSITS

Certificates of deposit and other time deposit accounts in denominations that meet or exceed the FDIC insurance coverage limit of $250 totaled $11,841 and $9,889 at December 31, 2018 and 2017, respectively, and are included in interest-bearing deposits in the consolidated balance sheet. At December 31, 2018, scheduled maturities for each of the following five years for total certificates of deposit and other time deposit are as follows:

Years ending December 31,		
2019	$	81,014
2020		15,750
2021		7,866
2022		4,344
2023		1,730
	$	110,704

Overdrawn demand deposit accounts with balances totaling $174 and $169 were classified as loans as of December 31, 2018 and 2017, respectively.

Deposits from certain directors, executive officers, significant shareholders and their affiliates totaled $15,773 and $10,322 at December 31, 2018 and 2017, respectively.

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES, NOTES PAYABLE AND LINES OF CREDIT

The Company maintains a line of credit with the FHLB. The amount available under the FHLB line is determined by a borrowing base calculation which considers securities and loans held by the Company. Advances under the line bear interest at a variable interest rate. Advances are secured by all deposit accounts held by the Company at the FHLB, certain mortgage loans, certain investment securities, all FHLB stock held by the Company and other collateral. At December 31, 2018 and 2017, the Company maintained outstanding FHLB advances of $-0- and $25,000, respectively. At December 31, 2017 interest rates on the open advances ranged from 1.30% to 1.44%, and maturities ranged from one month to five months.

As of December 31, 2018 and 2017, the Company maintained a note payable with an unaffiliated financial institution. Terms are such that the loan bears interest at prime, plus 0.75 percent, and requires quarterly principal payments of $250, plus accrued interest. The loan is collateralized by 250,000 shares of the Bank's common stock. The loan agreement contains restrictive covenants including, among other things, the maintenance of certain financial ratios. The loan matures in April 2020, at which time any unpaid principal is due in full. The loan had an outstanding balance of $1,250 and $2,250 at December 31, 2018 and 2017, respectively.

Future maturities of notes payable are as follows as of December 31, 2018:

Years ending December 31,		
2019	$	1,000
2020		250
	$	1,250

The Company maintains additional lines of credit with unaffiliated financial institutions. As of December 31, 2018 and 2017, the Company had not utilized the lines of credit.

NOTE 9 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company has agreed to sell certain investment securities under agreements to repurchase the securities on specified dates on a short-term basis. The agreements bear interest at stated rates, which are determined on the original date of repurchase or subsequent renewal dates. At December 31, 2018, the agreements maintained interest rates of 1.6% and maturities within one month. At December 31, 2017, the agreement maintained interest rates ranging from .015% to 0.65% and maturity of one month. Such securities sold totaled $17,416 and $12,237 at December 31, 2018 and 2017, respectively.

NOTE 10 - JUNIOR SUBORDINATED DEBENTURES/TRUST PREFERRED SECURITIES

In December 2005, the Company, in a private placement, issued $7,000 (7,000 shares with a liquidation amount of $1 per security) of floating rate (three-month LIBOR plus 1.45 percent) Trust Preferred Securities (TruPS) through a newly formed, wholly owned subsidiary, Alliance Capital Trust III (Trust III). Concurrent with the issuance of the TruPS, Trust III issued common securities to the Company in the aggregate liquidation value of $217. Trust III invested the total proceeds from the sale of the TruPS and the common securities in $7,217 of Floating Rate (three-month LIBOR plus 1.45 percent) Junior Subordinated Deferred Interest Debentures (the Debentures) issued by the Company. The net proceeds from the sale of the Debentures were used to repurchase shares of stock necessary to qualify for S Corporation federal income tax status. In accordance with FASB ASC 810, *Consolidation*, Trust III is not consolidated with the Company in the consolidated financial statements.

With certain exceptions, the amount of the principal, and any accrued and unpaid interest on the Debentures, is subordinated in right of payment to the prior payment in full of all senior indebtedness of the Company. The terms of the TruPS are such that they qualify as Tier I capital under the Federal Reserve Board's regulatory capital guidelines applicable to bank holding companies. Interest on the Debentures is payable quarterly on January 7, April 7, July 7 and October 7 of each year. The interest is deferrable on a cumulative basis for up to five consecutive years following a suspension of dividend payments on all other capital stock. No principal payments are due until maturity on January 7, 2036.

The TruPS are guaranteed by the Company and are subject to redemption by the Company. Upon the occurrence of certain special events, the Company will have the right to call the securities at a redemption price equal to 103 percent of the principal amount to be redeemed plus accrued interest on the date of redemption. On any interest payment date prior to maturity, the Debentures are redeemable for cash at the option of the Company, on at least 30 but not more than 60 days' notice, in whole or in part, at a redemption price equal to 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption. Any redemption is subject to the Company obtaining the prior approval of the Federal Reserve Bank. In the event the Debentures are redeemed, a like amount of the TruPS will be redeemed.

NOTE 11 - REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer for 2018 is 1.875% and for 2017 is 1.25%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2018 and 2017, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered

(Dollars in thousands)

NOTE 11 - REGULATORY MATTERS – CONTINUED

deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2018 and 2017, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The following tables outline the regulatory components of the Bank's capital and capital ratios under the rules applicable at December 31, 2018 and 2017:

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018:						
Total capital (to risk-weighted assets)	$ 79,280	15.52%	$ 50,442	9.88%	$ 51,081	10.00%
Tier I capital (to risk-weighted assets)	73,598	14.41%	40,226	7.88%	40,865	8.00%
Common equity tier I capital	73,598	14.41%	32,564	6.38%	33,203	6.50%
Leverage capital (to adjusted average total assets)	73,598	9.91%	29,711	4.00%	37,138	5.00%
December 31, 2017:						
Total capital (to risk-weighted assets)	$ 74,467	15.05%	$ 45,758	9.25%	$ 49,468	10.00%
Tier I capital (to risk-weighted assets)	69,179	13.98%	35,864	7.25%	39,574	8.00%
Common equity tier I capital	69,179	13.98%	28,444	5.75%	32,154	6.50%
Leverage capital (to adjusted average total assets)	69,179	9.34%	29,630	4.00%	37,038	5.00%

Dividends paid by the Company are mainly provided by dividends from its subsidiaries. However, certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends, loans or advances. These guidelines do not currently restrict the Bank from paying normal dividends to the Company.

NOTE 12 - EMPLOYEE BENEFITS

EMPLOYEE BENEFIT PLAN

The Company has a defined contribution plan covering substantially all employees. The plan provides for employee deferrals, subject to certain limitations imposed by the Internal Revenue Code, with Company matching contributions at the rate of 100 percent up to 4 percent of each participant's base salary. The Company may also make discretionary contributions to the plan upon the approval of the Board of Directors. The plan includes an employee stock ownership plan (ESOP) feature, which enables participants to invest in stock of the Company. The Company's total contributions to the plan were $308 in 2018 and $303 in 2017.

HEALTH PLAN

The Company has a partially self-insured health benefit plan which covers substantially all employees and provides hospital, surgical and major medical coverage. Eligible claims under the plan are covered by an insurance company to the extent they exceed $45 per employee or to the extent that claims exceed $1,000 per year for the consolidated group. Expenses related to the plan totaled $958 in 2018 and $1,136 in 2017.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

The Company maintains a nonqualified deferred compensation and retention plan for certain officers of the Company. The Company has purchased life insurance policies to fund the plan. These policies had aggregate cash surrender values of $10,778 and $11,149 at December 31, 2018 and 2017, respectively. The Company also has a supplemental employee retirement plan (SERP) for certain officers of the Company for which the Company has purchased life insurance policies to fund future plan obligations. The policies had an aggregate cash surrender value of $2,471 and $2,380 at December 31, 2018 and 2017, respectively. Additionally, the Company has a SERP for certain officers of the Company which is not funded by purchased life insurance policies.

Expenses related to these SERPs, totaling $46 in 2018 and $354 in 2017, were recognized to accrue the estimated present value of the liability related to services provided. The recorded liability was $3,685 and $3,765 at December 31, 2018 and 2017, respectively.

OTHER

The Company has additional life insurance policies on a certain officer of the Company. The policies had an aggregate cash surrender value of $4,048 and $3,932 at December 31, 2018 and 2017, respectively.

NOTE 13 - FAIR VALUE INFORMATION

FINANCIAL INSTRUMENTS

FASB ASC 825, *Financial Instruments*, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes must be recorded in earnings.

The fair value of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The estimated fair value approximates carrying value for all financial instruments except the following:

<u>Securities</u>: Fair values for securities are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

<u>Loans</u>: The fair value of fixed-rate loans and variable-rate loans which reprice on an infrequent basis is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality.

<u>Deposits</u>: The fair value of deposit liabilities with defined maturities is estimated by discounting future cash flows using the interest rates currently offered for deposits.

(Dollars in thousands)

NOTE 13 - FAIR VALUE INFORMATION - CONTINUED

FINANCIAL INSTRUMENTS - CONTINUED

Federal funds purchased and Federal Home Loan Bank advances: Fair values of federal funds purchased and Federal Home Loan Bank advances are the amounts payable on demand at the reporting date.

Off-Balance Sheet Instruments: The fair value of off-balance sheet instruments is stated at the face value of the instruments, which approximates fair value.

The estimated year-end fair values of financial instruments are detailed in the following table:

	2018		2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 32,535	$ 32,535	$ 20,081	$ 20,081
Federal funds sold	14,200	14,200	400	400
Available for sale securities	230,712	230,712	291,396	291,396
Held to maturity securities	1,110	1,207	1,170	1,299
Loans held for sale	92	92	423	423
Loans, net	426,025	413,419	397,533	384,139
FHLB stock	2,000	2,000	1,952	1,952
Interest receivable	2,418	2,418	2,389	2,389
Financial liabilities:				
Deposits	652,853	653,158	639,330	639,280
Securities sold under agreements to repurchase	17,416	17,416	12,237	12,237
Federal Home Loan Bank advances	-	-	25,000	25,000
Notes payable	1,250	1,250	2,250	2,250
Junior subordinated debentures	7,217	7,217	7,217	7,217
Interest payable	202	202	174	174
Unrecognized financial instruments:				
Commitments to extend credit	110,148	110,148	112,077	112,077
Letters of credit	146	146	253	253

FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC 820 defines fair value as 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. Under this guidance, fair value measurements are not adjusted for transaction costs.

FASB ASC 820 also establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

(Dollars in thousands)

NOTE 13 - FAIR VALUE INFORMATION - CONTINUED

FAIR VALUE MEASUREMENTS - CONTINUED

The three levels of the fair value hierarchy under this guidance are described below.

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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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

Following is a description of the valuation methodologies used for assets measured at fair value. The methodology used to value investment securities is described above. There have been no changes in the methodologies used at December 31, 2018 and 2017. The Company had no liabilities recognized at fair value.

Loans held for sale: Valued at cost, which approximates fair value.

Other real estate owned and repossessed collateral: Valued at the date of repossession based on appraisals of the underlying property performed by third-party appraisers. Subsequently, assets are carried at the lower of this carrying amount or fair value less cost to sell.

Certain assets are measured at fair value on a nonrecurring basis, but are subject to fair value adjustments in certain circumstances. These assets are included in the tables below as of the periods indicated for which a nonrecurring change in fair value has been recorded during the reporting period.

	Assets at fair value as of December 31, 2018			
	Total	Level 1	Level 2	Level 3
U.S. government agency securities	$ 5,799	$ -	$ 5,799	$ -
Mortgage-backed securities	198,954	-	198,954	-
State and political subdivisions	24,258	-	24,258	-
Equity securities	631	-	631	-
Mutual funds	1,070	1,070	-	-
Loans held for sale	92	-	-	92
Total on a recurring basis	230,804	1,070	229,642	92
Other real estate owned and repossessed collateral	13	-	-	13
Total on a nonrecurring basis	13	-	-	13
Total assets at fair value	$ 230,817	$ 1,070	$ 229,642	$ 105

(Dollars in thousands)

NOTE 13 - FAIR VALUE INFORMATION - CONTINUED

FAIR VALUE MEASUREMENTS – CONTINUED

	Assets at fair value as of December 31, 2017			
	Total	Level 1	Level 2	Level 3
U.S. government agency securities	$ 5,907	$ -	$ 5,907	$ -
Mortgage-backed securities	255,185	-	255,185	-
State and political subdivisions	28,598	-	28,598	-
Equity securities	631	-	631	-
Mutual funds	1,075	1,075	-	-
Loans held for sale	423	-	-	423
Total on a recurring basis	291,819	1,075	290,321	423
Other real estate owned and repossessed collateral	479	-	-	479
Total on a nonrecurring basis	479	-	-	479
Total assets at fair value	$ 292,298	$ 1,075	$ 290,321	$ 902

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value at December 31, 2018 and 2017.

The following table sets forth the activity related to loans held for sale during the years ended December 31, 2018 and 2017:

	2018	2017
Beginning balance	$ 423	$ 1,120
Net gains included in earnings	545	625
Loans sold, net of originations	(876)	(1,322)
Ending balance	$ 92	$ 423

NOTE 14 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into various transactions, which, in accordance with U.S. generally accepted accounting principles, are not included in the consolidated balance sheets. These transactions are referred to as "off-balance sheet commitments." The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and letters of credit, which involve elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Customers use credit commitments to ensure that funds will be available for working capital purposes, for capital expenditures and to ensure access to funds at specified terms and conditions. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses.

(Dollars in thousands)

NOTE 14 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table below. If the commitment were funded, the Company would be entitled to seek recovery from the customer. As of December 31, 2018 and 2017, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

Commitments and letters of credit outstanding at year-end were as follows:

	Contract or Notional Amount	
	2018	2017
Commitments to extend credit	$ 110,148	$ 112,077
Letters of credit	146	253

The Company is involved in certain claims and lawsuits occurring in the normal course of business. Management, after consultation with legal counsel, does not believe that the outcome of these actions, if determined adversely, would have a material impact on the consolidated financial statements of the Company.

A significant portion of the Company's loan portfolio is collateralized by residential or commercial real estate located in Hopkins, Hunt, Collin and Rockwall Counties in Texas. Significant fluctuations in real estate markets could have a material impact on the value of the collateral underlying these loans.

The current economic environment presents financial institutions with circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The consolidated financial statements have been prepared using values and information currently available to the Company. Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

NOTE 15 - OPERATING LEASES

The Company leases office machinery and property for certain branch locations with terms ranging from 36 to 63 months. Monthly lease payments range from approximately $1 to $5 and terminate on varying dates, ranging from August 2020 to December 2020. At December 31, 2018, future minimum lease payments are as follows:

Years ending December 31,	
2019	$ 18
2020	14
	$ 32

Lease expenses related to lease agreements with terms less than and greater than 12 months totaled $129 and $126 for the years ended December 31, 2018 and 2017, respectively.

ALLIANCE BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Dollars in thousands)
CONTINUED

NOTE 16 - OTHER INCOME

Other income consisted of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Earnings on bank owned life insurance	$ 608	$ 614
Insurance claims	354	-
Other investment income	85	15
Financial service income	482	473
Other	451	677
	$ 1,980	$ 1,779

NOTE 17 - OTHER EXPENSE

Other expense consisted of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Directors' fees	$ 367	$ 313
Professional fees	417	331
FICO and FDIC assessments	223	233
Dues, license and subscriptions	273	163
Check card expense	1,098	1,049
Public relations	216	228
Online expense	750	643
Other losses	143	107
Other	1,904	1,699
	$ 5,391	$ 4,766

NOTE 18 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through February 25, 2019, the date on which the financial statements were available to be issued.

Schedule I

ALLIANCE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2018
(Dollars in Thousands)

	Alliance Bancshares, Inc.	Alliance Bank	Galyean Insurance Agency	AB Royalties LLC	Eliminating Entries	Consolidated
Assets						
Cash and cash equivalents	$ 81	32,533	$ 6,448	$ -	$ (6,527)	$ 32,535
Federal funds sold	-	14,200	-	-	-	14,200
Available for sale securities	-	230,712	-	-	-	230,712
Held to maturity securities	-	1,110	-	-	-	1,110
Investment in subsidiaries	69,877	-	-	-	(69,877)	-
Loans held for sale	-	92	-	-	-	92
Loans, net	-	426,025	-	-	-	426,025
Premises and equipment, net	-	12,574	7	-	-	12,581
Federal Home Loan Bank stock	-	2,000	-	-	-	2,000
Other real estate owned	-	216	-	-	-	216
Interest receivable	-	2,418	-	-	-	2,418
Goodwill	-	2,800	142	-	-	2,942
Bank owned life insurance	-	17,297	-	-	-	17,297
Other assets	417	3,129	474	-	-	4,020
	$ 70,375	$ 745,106	$ 7,071	$ -	$ (76,404)	$ 746,148
Liabilities						
Deposits:						
Non-interest-bearing	$ -	$ 157,251	$ -	$ -	$ (81)	$ 157,170
Interest-bearing	-	502,129	-		(6,446)	495,683
Total deposits	-	659,380	-		(6,527)	652,853
Securities sold under agreements to repurchase	-	17,416	-	-	-	17,416
Interest payable and other liabilities	-	5,048	456	-	-	5,504
Other notes payable	1,250	-	-	-	-	1,250
Junior subordinated debentures/ trust preferred securities	7,217	-	-	-	-	7,217
Total liabilities	8,467	681,844	456	-	(6,527)	684,240
Stockholders' Equity						
Common stock	500	2,500	1	-	(2,501)	500
Additional paid-in capital	4,935	28,111	3,015	-	(31,126)	4,935
Retained earnings	67,699	39,345	3,599	-	(42,944)	67,699
Accumulated other comprehensive loss	(6,694)	(6,694)	-	-	6,694	(6,694)
Treasury stock, at cost	(4,532)	-	-	-	-	(4,532)
Total stockholders' equity	61,908	63,262	6,615	-	(69,877)	61,908
	$ 70,375	$ 745,106	$ 7,071	$ -	$ (76,404)	$ 746,148

ALLIANCE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Dollars in Thousands)

Schedule II

	Alliance Bancshares, Inc.	Alliance Bank	Galyean Insurance Agency	AB Royalties LLC	Eliminating Entries	Consolidated
Interest income						
Loans	$ -	$ 20,524	$ -	$ -	$ -	$ 20,524
Securities:						
Taxable	-	4,780	-	-	-	4,780
Nontaxable	-	450	-	-	-	450
Federal funds sold and other deposits	7	388	-	-	-	395
Total interest income	7	26,142	-	-	-	26,149
Interest expense						
Deposits	-	2,848	-	-	(14)	2,834
Notes payable and other borrowings	99	265	-	-	-	364
Junior subordinated debentures	267	-	-	-	-	267
Total interest expense	366	3,113	-	-	(14)	3,465
Net interest income	(359)	23,029	-	-	14	22,684
Provision for loan losses	-	500	-	-	-	500
Net interest income after provision	(359)	22,529	-	-	14	22,184
Non-interest income						
Dividends from subsidiary	4,471	-	-	-	(4,471)	-
Equity in undistributed earnings	4,441	-	-	-	(4,441)	-
Service charges	-	5,265	-	-	-	5,265
Insurance agency revenue	-	-	2,515	-	-	2,515
Net realized gain on sale of securities	70	-	-	-	-	70
Net loss on sale of other real estate	-	6	-	-	-	6
Net gain on sale of loans	-	545	-	-	-	545
Other operating income	-	1,986	-	8	(14)	1,980
Total non-interest income	8,982	7,802	2,515	8	(8,926)	10,381
Non-interest expense						
Employee compensation and benefits	-	10,670	1,589	-	-	12,259
Occupancy expenses	-	4,595	189	-	-	4,784
Equipment and supplies	-	224	10	-	-	234
Data processing fees	-	491	98	-	-	589
Marketing expenses	-	700	41	-	-	741
Other operating expenses	56	5,195	140	-	-	5,391
Total non-interest expense	56	21,875	2,067	-	-	23,998
Net earnings	$ 8,567	$ 8,456	$ 448	$ 8	$ (8,912)	$ 8,567

Report Item 2a: ORGANIZATIONAL CHART

Alliance Bancshares, Inc.
Sulphur Springs, Texas/U S
Incorporated in Texas
indirect ownership of 100% of Alliance Bank

Alliance Capital Trust III
Sulphur Springs, Texas/U S
Incorporated in Texas
100% owned by Alliance Bancshares, Inc.

Alliance Bank
Sulphur Springs, Texas/U S
Incorporated in Texas
(Managing Member of Galyean Insurance Agency)
Sulphur Springs, TX 75482
Incorporated in Texas
(Managing Member of AB Royalties, LLC.)
Sulphur Springs, TX 75482
Incorporated in Texas

***No entity has a LEI**

Form FR Y-6
Alliance Bancshares, Inc.
Sulphur Springs, Texas
Fiscal year Ending December 31, 2018

Report Item 2b

Branch Verification Listing

Results: A list of branches for your holding company: ALLIANCE BANCSHARES, INC. (2127068) of SULPHUR SPRINGS, TX.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	176464	ALLIANCE BANK	100 WEST JEFFERSON STREET	SULPHUR SPRINGS	TX	75482	HOPKINS	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	
OK		Full Service	2068152	COMMERCE BRANCH	1717 STATE HIGHWAY 24	COMMERCE	TX	75428	HUNT	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	
OK		Limited Service	3303681	GREENVILLE WESLEY STREET BRANCH	9901 WESLEY STREET	GREENVILLE	TX	75402-3608	HUNT	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	
OK		Full Service	405155	WESLEY BRANCH	6609 WESLEY	GREENVILLE	TX	75402-7394	HUNT	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	
OK		Full Service	3383021	ROCKWALL BRANCH	6130 S. FM 549	ROCKWALL	TX	75032	ROCKWALL	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	
OK		Full Service	4923442	ROCKWALL NORTH BRANCH	3045 NORTH GOLIAD STREET	ROCKWALL	TX	75087	ROCKWALL	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	
OK		Limited Service	3546282	DRIVE IN FACILITY	1437 S BROADWAY	SULPHUR SPRINGS	TX	75482	HOPKINS	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	
OK		Limited Service	179063	DRIVE-IN FACILITY	310 CHURCH ST	SULPHUR SPRINGS	TX	75482	HOPKINS	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	
OK		Limited Service	413169	SOUTH BROADWAY BRANCH	1226 S BROADWAY	SULPHUR SPRINGS	TX	75482	HOPKINS	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	
OK		Full Service	2068460	WOLFE CITY BRANCH	101 E MAIN	WOLFE CITY	TX	75496	HUNT	UNITED STATES	Not Required	Not Required	ALLIANCE BANK	176464	

Report item 3: **SECURITIES HOLDERS**

Alliance Bancshares, Inc.

	SHAREHOLDER	NO. SHARES	PERCENTAGE
3(1)	Mary Lucy McCorkle & Joseph H. McCorkle Sulphur Springs, TX U S Citizen	39,171	8.83%
	Michael K McKenzie Sulphur Springs, TX U S Citizen	25,896	5.84%

3(2) N/A

Form FR Y-6
December 31, 2018

Report Item 4: Directors and Officers-Alliance Bancshares, Inc.
(1) (2) (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Names & Address	(2) Principal Occupation if other than with Bank Holding Co.	(3)(b) Title & Position with Bank Holding Co	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with Other Businesses	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) Names of other companies if 25% or more of voting securites are held
L. F. Bridges, III. Sulphur Springs, Tx U S Citizen	Retired Banker	Director	Chairman of Board Alliance Bank Director: Alliance Bank	Part Owner-B2 Cattle	4.55%	None	B2 Cattle - 50%
Wayne Cooper Sulphur Springs, Tx U S Citizen	Building Contractor/Developer	Director	Director: Alliance Bank	Owner Wayne Cooper Construction In Part Owner Landmark Storage Inc. Owner Stone Lake Contractors Inc. Part Owner Armstrong, Draughn & Cooper LTD Part Owner Albert Broadfoot Partners, LLC Part Owner Woodmoore Village, LLC	0.51%	None	Wayne Cooper Construction Inc. - 100% Landmark Storage Inc.- 50% Stone Lake Contractors Inc. - 100% Armstrong, Draughn & Cooper LTD - 25% Albert Broadfoot Partners, LLC - 33.3% Woodmoore Village, LLC - 33.3%
Ruth Ann Crowson Sulphur Springs, Tx U S Citizen	Banker	Director	Sr Vice President: Alliance Bank Director - Alliance Bank	None	2.00%	None	N/A
Mickey F. Eddins Sulphur Springs, Tx. U S Citizen	Western & Apparel Owner	Director	Director-Alliance Bank	Owner:M&F Industries, Inc. Part Owner: Circle E Western Store, Inc. Owner: Eddins Properties	3.11%	None	M&F Industries, Inc. - 100% Circle E Western Stores Inc. - 50% Eddins Properties - 100%
Roger E. Elliott Sulphur Springs, Tx. U S Citizen	Company Owner	Director	Director-Alliance Bank	Part Owner: Copy Products, Inc. Owner: East Oaks Accounts Part Owner: CPI Imaging LP Part Owner: Access E-Forms LP	0.90%	None	Copy Products, Inc. - 76% East Oaks Accounts - 100% CPI Imaging LP - 50% Access E-Forms LP - 50%
Charles Helm Sulphur Springs, Tx. U S Citizen	Hotel Owner	Director	Director-Alliance Bank	Part Owner Blue Crown Colony-Lufkin Owner Best Western Atrea Crown Chase Inn & Suites	0.23%	None	Blue Crown Colony Lufkin - 50% Best Western Atrea Crown Chase Inn & Suites 100%
Judy Gillis Sulphur Springs, Tx U S Citizen	Health Information Administration Consultant	Director	Director-Alliance Bank	Part Owner Gillis Holdings	1.43%	None	N/A
James M. Law Sulphur Springs, Tx. U S Citizen	Banker	Vice President/Treasure & Director	Executive VP/CFO:Alliance Bank Director: Alliance Bank	None	0.23%	None	N/A
Michael K. McKenzie Sulphur Springs, Tx U S Citizen	Company Owner	Director	Director-Alliance Bank	Owner GSC Enterprises, Inc. Part Owner McKenzie Investment LTD Owner MKM Management, LLC	5.84%	None	GSC Enterprises, Inc. - 100% McKenzie Investment LTD - 52.6% MKM Management, LLC - 100%
Ralph Preuss Sulphur Springs, Tx U S Citizen	CPA/Partner	Director	Director-Alliance Bank	Part Owner R T Preuss & C W Bawcu a Texas Partnership Owner Preuss & Associates PLLC Part Owner Preuss, Fleelker & Associates, PLLC	0.25%	None	R T Preuss & C W Bawcum, - 50% a Texas Partnership Preuss & Associates PLLC - 100% Preuss, Fleelker & Associates, PLLC - 50%

Form FR Y-6
December 31, 2018

Report Item 4: Directors and Officers-Alliance Bancshares, Inc.
(1) (2) (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Names & Address	(2) Principal Occupation if other than with Bank Holding Co.	(3)(b) Title & Position with Bank Holding Co	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with Other Businesses	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) Names of other companies if 25% or more of voting securites are held
Thomas C. Sellers Sulphur Springs, Tx U S Citizen	Banker	President and Director	President/CEO: Alliance Bank Director: Alliance Bank	None	0.43%	None	N/A
James D. Worsham Sulphur Springs, Tx U S Citizen	Banker	Director	Executive VP: Alliance Bank Director: Alliance Bank	None	0.24%	None	N/A