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, Will Lucas
Name of the Holding Company Director and Official

President/CEO/Director
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.

Will Lucas
Signature of Holding Company Director and Official

8-21-19
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

Shelby Bancshares, Inc.
Legal Title of Holding Company

P.O. Box 1806
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Center	TX	75935

111 Selma Street
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Tony McGowen	CPA

936-634-6621
Area Code / Phone Number / Extension

936-634-8183
Area Code / FAX Number

tmcgowen@axleyrode.com
E-mail Address

www.shelbysavingsbank.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."

SHELBY BANCSHARES, INC.
CENTER, TEXAS
DOMESTIC HOLDING COMPANY
ANNUAL REPORT F.R.Y-6

Item 1: Annual Report to Shareholders

See attached copy of the annual report of Shelby Bancshares, Inc. and Subsidiary.

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

SHELBY BANCSHARES, INC. AND SUBSIDIARY
Center, Texas

December 31, 2018 and 2017

AXLEY&RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

Board of Directors
Shelby Bancshares, Inc. and Subsidiary
Center, Texas

We have audited the accompanying consolidated financial statements of Shelby Bancshares, Inc. and Subsidiary (an S corporation), which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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 consolidated financial position of Shelby Bancshares, Inc. and Subsidiary as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
March 25, 2019

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash on hand	$ 5 150 490	$ 5 296 854
Interest-bearing demand deposits in other banks	27 411 655	28 159 309
TOTAL CASH AND CASH EQUIVALENTS	32 562 145	33 456 163
Investment securities available for sale	30 307 589	27 450 523
Loans receivable, net	217 585 318	210 654 069
Real estate and other assets acquired in settlement of loans	90 706	-
Property and equipment	8 040 077	8 451 380
Federal Home Loan Bank stock	1 573 900	1 537 900
Accrued interest receivable	1 599 746	1 395 815
Cash value life insurance	3 501 670	3 419 459
Intangible assets	275 000	-
Other assets	343 465	389 003
TOTAL ASSETS	$ 295 879 616	$ 286 754 312
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Noninterest-bearing deposits	$ 45 046 913	$ 48 041 269
Interest-bearing deposit	189 548 181	179 561 806
TOTAL DEPOSITS	234 595 094	227 603 075
Advances from borrowers for taxes and insurance	397 231	430 835
Accrued interest payable	119 479	94 517
Distributions payable	559 542	548 442
Federal Home Loan Bank advances	20 576 727	21 257 291
Other liabilities	605 453	450 922
TOTAL LIABILITIES	256 853 526	250 385 082
Stockholders' Equity:		
Capital Stock: $1 par value, 500,000 shares authorized, 93,257 (2018) and 91,407 (2017) shares issued and outstanding, respectively	93 257	91 407
Additional paid-in capital	10 281 165	9 308 608
Retained earnings	29 151 368	27 210 587
Accumulated other comprehensive income	(499 700)	(241 372)
TOTAL STOCKHOLDERS' EQUITY	39 026 090	36 369 230
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 295 879 616	$ 286 754 312

The accompanying notes are an integral part of these statements.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2018 and 2017

	2018	2017
Interest Income:		
Loans Receivable:		
First mortgage loans	$ 8 435 617	$ 8 083 358
Consumer and other loans	3 900 913	3 599 726
Mortgage-backed and related securities	79 635	-
U. S. Government agencies	354 463	457 979
Municipal bonds	185 347	130 556
Other interest-earning assets	392 338	195 443
TOTAL INTEREST INCOME	13 348 313	12 467 062
Interest Expense:		
Deposits	1 453 151	1 163 054
Federal Home Loan Bank advances	697 770	724 894
TOTAL INTEREST EXPENSE	2 150 921	1 887 948
NET INTEREST INCOME	11 197 392	10 579 114
Provision for losses on loans	286 757	339 214
NET INTEREST INCOME AFTER PROVISION FOR LOSSES ON LOANS	10 910 635	10 239 900
Noninterest Income:		
Service charges and overdraft fees on deposit accounts	1 033 519	1 015 049
Commission income	116 199	-
Loan late charges	133 510	130 434
Increase in cash value of life insurance	82 211	85 269
Gain on sale of loans held for sale	38 954	100 997
Realized gain (loss) on sale of available for sale securities	-	(3 922)
Other	870 545	913 527
TOTAL NONINTEREST INCOME	2 274 938	2 241 354
Noninterest Expense:		
General and Administrative:		
Compensation and benefits	4 993 335	4 493 373
Occupancy and equipment	1 595 202	1 363 386
Advertising	288 184	293 425
Computer service	792 491	756 419
Director's fees	345 600	265 900
Office supplies	149 901	168 435
(Gain)/loss on sale of real estate and other assets acquired in settlement of loans	(3 978)	(26 076)
Other	1 474 811	1 249 063
NONINTEREST EXPENSE	9 635 546	8 563 925
NET INCOME	$ 3 550 027	$ 3 917 329

The accompanying notes are an integral part of these statements.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017

		2018		2017
NET INCOME	$	3 550 027	$	3 917 329
Other Comprehensive Income, Net of Tax:				
Unrealized Gains (Losses) on Securities:				
Unrealized holding gains (losses) arising during the period		(258 328)		72 369
Less reclassification adjustment for gains (losses) realized on sale of available for sale securities		-		72 171
Other Comprehensive Income (Loss)		(258 328)		144 540
COMPREHENSIVE INCOME	$	3 291 699	$	4 061 869

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

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2018 and 2017

	SHARES	CAPITAL STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS' EQUITY
Balance December 31, 2016	91 707	$ 91 707	$ 9 431 809	$ 24 870 029	$ (385 912)	$ 34 007 633
Net income	-	-	-	3 917 329	-	3 917 329
Other comprehensive loss	-	-	-	-	144 540	144 540
Repurchase of capital stock	(420)	(420)	(167 580)	-	-	(168 000)
Sale of capital stock	120	120	44 379	-	-	44 499
Distributions	-	-	-	(1 576 771)	-	(1 576 771)
Balance December 31, 2017	91 407	91 407	9 308 608	27 210 587	(241 372)	36 369 230
Net income	-	-	-	3 550 027	-	3 550 027
Other comprehensive income	-	-	-	-	(258 328)	(258 328)
Repurchase of capital stock	(150)	(150)	(59 931)	-	-	(60 081)
Sale of capital stock	2 000	2 000	1 032 488	-	-	1 034 488
Distributions	-	-	-	(1 609 246)	-	(1 609 246)
Balance December 31, 2018	93 257	$ 93 257	$ 10 281 165	$ 29 151 368	$ (499 700)	$ 39 026 090

The accompanying notes are an integral part of these statements.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net income	$ 3 550 027	$ 3 917 329
Noncash Charges (Credits) to Net Income:		
Depreciation of property and equipment	801 921	650 503
Amortization of deferred loan fees and costs (net)	136 297	140 578
Gain on sale of loans	(38 954)	(100 997)
(Gain) loss on sale of real estate and other assets acquired in settlement of loans	(3 978)	(26 076)
Realized (gain) loss on the sale of available-for-sale securities	-	3 922
Amortization of premiums on investment securities	97 295	87 394
Accretion of discount on investment securities	(814)	(16 743)
Increase in cash value life insurance	(82 211)	(85 269)
Provision for losses on loans	286 757	339 214
Stock dividends received (Federal Home Loan Bank stock)	(36 000)	(24 100)
Proceeds from sale of single family residential loans held for sale	1 850 154	2 849 431
Origination of single family residential loans held for sale	(1 811 200)	(2 748 434)
Change in Operating Assets and Liabilities:		
Decrease (increase) in accrued interest receivable	(203 931)	163 619
Decrease (increase) in other assets	45 538	(27 946)
Increase (decrease) in accrued interest payable	24 962	(3 469)
Increase (decrease) in other liabilities	154 531	57 015
NET CASH PROVIDED BY OPERATING ACTIVITIES	4 770 394	5 175 971
Cash Flows from Investing Activities:		
Purchase of securities available for sale	(5 237 084)	(6 613 537)
Net increase in loans receivable funded	(7 477 813)	9 723 332
Decrease (increase) in loans held for sale - Non single family residence	-	2 690 000
Purchases of property and equipment	(390 618)	(2 319 710)
Proceeds from calls/maturities of investments available for sale	2 000 000	21 467 803
Principal received on mortgage-backed securities available for sale	25 209	-
Proceeds from sale of real estate and other assets acquired in settlement of loans	36 782	327 576
Purchase of book of business from Schillings and Shoop Insurance Agency	(275 000)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(11 318 524)	25 275 464
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	6 992 019	(11 177 396)
Payments on Federal Home Loan Bank advances	(2 680 564)	(3 051 238)
Federal Home Loan Bank advances	4 000 000	2 000 000
Net decrease in short term (three months or less) non amortizing advances	(2 000 000)	(6 000 000)
Repurchase and retirement of holding company stock	(60 081)	(168 000)
Proceeds from sale of holding company stock	1 034 488	44 499
Cash distributions paid	(1 598 146)	(1 578 571)
Net increase (decrease) in advances from borrowers for taxes and insurance	(33 604)	34 227
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	5 654 112	(19 896 479)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(894 018)	10 554 956
Cash and cash equivalents at beginning of year	33 456 163	22 901 207
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 32 562 145	$ 33 456 163

	2018	2017
Supplementary Information:		
Cash Paid During the Year for:		
Interest	$ 2 125 959	$ 1 891 417
Supplementary Schedule of Noncash Investing and Financing Activities:		
Distributions payable	$ 559 542	$ 548 442
Increase (decrease) in unrealized gain on securities available for sale	$ (258 328)	$ 144 540
Loans transferred to real estate and other assets acquired in settlement of loans (net)	$ 123 510	$ 157 848

The accompanying notes are an integral part of these statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Shelby Bancshares, Inc. (the "Company") was created in 2000 as a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary. The Company owns 100% of Shelby Savings Bank, SSB (the "Savings Bank"). The Savings Bank owns 100% of Shelby Insurance Agency, LLC (the “Agency”).

The Savings Bank provides a variety of financial services to individuals and corporate customers through its five full service locations in Center (2), San Augustine, Hemphill, and Palestine, Texas. The Saving Bank's primary deposit products are interest-bearing checking accounts and certificates of deposit. Its primary lending products are commercial, consumer, single family residential and poultry farm loans.

Shelby Insurance Agency, LLC is an insurance agency selling various types of insurance policies and is subject to regulation by the Texas Department of Insurance.

Basis of Accounting: The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and conform with practices within the banking industry. The following is a description of the more significant of those policies.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company, the Bank and the Agency. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 fair value of securities available for sale, the allowance for losses on loans and the valuation of real estate and other assets acquired in settlement of loans. In connection with the determination of the allowances for losses on loans and valuation of real estate and other assets acquired in settlement of loans, management may obtain independent appraisals.

A majority of the Savings Bank's loan portfolio consists of loans in the above mentioned locations (see nature of operations). The regional economy depends heavily on the poultry and timber producing industries. Accordingly, the ultimate collectability of a substantial portion of the Savings Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of real estate and other assets acquired in settlement of loans (if any) are susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans and real estate and other assets acquired in settlement of loans, future additions to the allowances may be necessary based on changes in local economic conditions, other risk characteristics applicable to portfolio segments or borrowers' circumstances. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Savings Bank's allowances for losses on loans and real estate and other assets acquired in settlement of loans. Such agencies may require the Savings Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

As a result of the changes inherent in the estimation process, management's estimate of the fair value of securities available for sale, the allowance for losses on loans and the valuation of real estate and other assets acquired in settlement of loans may change in the near term.

Cash and Cash Equivalents: Cash and cash equivalents, for purposes of the statement of cash flows, include cash and due from banks, Federal funds sold and certain investment securities and interest bearing deposits in banks with original maturities of three months or less.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment Securities: Securities classified as held-to-maturity are those debt securities the Savings Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives. As of December 31, 2018 and 2017, the Savings Bank had no held-to-maturity securities.

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Savings Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Savings Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with an unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of stockholders' equity.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Gains and losses realized on sales of investments securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things, (i) the length of time and extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Savings Bank does not intend to sell these securities, and (iv) it is more likely than not that the Savings Bank will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted stock consists of stock from the Federal Home Loan Bank, which are restricted as to their marketability. Because no ready market exists for these investments and they have no quoted market value, the Savings Bank's investment in these stocks are carried at cost. The Bank is required to maintain certain stock balances in the Federal Home Loan Bank.

Loans: Loans are stated at the amount of unpaid principal, reduced by the allowance for loan losses, net deferred loan origination fees, unearned discounts on loans purchased, deferred gains and market rate discounts on sales of real estate owned acquired in settlement of loans and the undisbursed portion of construction loans. The major loan portfolio segments include residential real estate, poultry related, commercial real estate, automobiles and other vehicles, equipment, stocks and bonds, bank deposit secured, cattle and livestock, unsecured, and other. Within these categories, loans are secured most significantly by poultry, but are also secured by real estate account receivables, inventory, income producing commercial properties, personal properties such as vehicles and boats and other items of property, plant and equipment.

The Savings Bank maintains certain recently originated loans in a separate category until all documents are procured or other outstanding items are cleared up. These loans are then recorded in the appropriate collateral loan category with interest being accrued from the loan origination date. At December 31, 2018 and 2017, the Savings Bank had approximately $1,111,000 and $63,000 of these loans and they are included with Other Loans in Note 3.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Interest on loans is calculated by using the simple interest method on the daily balances of the principal amounts outstanding. The recognition of income on a loan is discontinued, and previously accrued interest is reversed when, in the opinion of management, it is probable that the borrower will be unable to meet payments as they become due. This generally occurs when the loan becomes 90 days delinquent, but may occur sooner should borrower circumstance dictate.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. An allowance is established for uncollectible interest at the time a loan is ninety days past due. Past due status is determined based on contractual terms. The allowance is established by a charge to interest income equal to all interest previously accrued and uncollected, and income is subsequently recognized only to the extent that cash payments are received until, in management's judgement, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status. The balances in this allowance at the year ends presented were $11,960 and $16,010, respectively, and are shown on the consolidated statements of financial condition netted against accrued interest receivable.

Loan fees are accounted for in accordance with Financial Accounting Standards Board Codification Section 310.20 *Non-Refundable Fees and Costs*. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using a method that approximates the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Savings Bank's historical prepayment experience (or on a loan by loan basis). Commitment fees and costs relating to commitments that the likelihood of exercise is remote are recognized over the commitment period on a straight-line basis. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the life of the loan as an adjustment of yield.

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

The allowance is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Savings Bank has concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines that significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owned.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Savings Bank's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Savings Bank's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Savings Bank does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Savings Bank's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, real estate, installment, overdrafts, and consumer and other). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity, and size of the individual loans within the particular loan category. Classified loans are assigned higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentration of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements).

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Savings Bank to make additions to the allowance for loan losses based on their judgements of collectability based on information available to them at the time of their examination.

Management considers loans impaired when, based on current information, it is probable that the Savings Bank will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Savings Bank's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual when loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Savings Bank’s charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Savings Bank's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged off as follows: (a) closed end loans are normally charged-off no later than 120 days after becoming delinquent, (b) consumer loans to borrowers who subsequently declare bankruptcy, where the Savings Bank is an unsecured creditor, are charged-off within 60 days of receipt of notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of borrower will cause a charge-off to be incurred at such time an actual loss is determined. All other types of loans are generally evaluated for loss potential at the 90^{th} day past due threshold, and any loss is recognized no later than the 120^{th} day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognized loss.

Loans Held for Sale: Loans held for sale generally consist of single family residential loans and are designated and approved for sale prior to funding the loan. Funds from the sale of these loans are considered as operating for purposes of the Statement of Cash Flows. Periodically, the Savings Bank will sell a participating interest in loans that are secured by other than single family residences. Proceeds from the sale of these participating interests are not considered as operating for cash flow purposes as these loans are generally not acquired/made for the purposes of resale.

All loans held for sale are carried at their lower of cost or market value in compliance with the applicable accounting standards. Market value is determined on a loan by loan basis. Given that the turnaround time between funding and sale of these loans is so short, market value is considered to approximate book value by the Savings Bank.

The Savings Bank also services the loans it sells. See the related accounting policy for loan servicing and Note 5 for further information regarding the loan servicing.

Loan Servicing: The Savings Bank services some mortgage loans that it has originated and sold. Such loan balances are not included in the accompanying consolidated Statements of Condition. Mortgage servicing rights on loans originated by the Bank, and on those purchased, are capitalized as assets at the estimated fair value on the date of origination or purchase. Management periodically evaluates mortgage servicing rights for impairment. Mortgage servicing rights are considered to be impaired when the carrying value exceeds the estimated fair value at the date of evaluation. Mortgage servicing rights are amortized against surviving income over the lives of the respective loans.

Real Estate and Other Assets Acquired in Settlement of Loans: Real estate and other assets acquired in settlement of loans are initially recorded at fair value on the date of acquisition less estimated costs to sell. Adjustments are made to reflect declines, if any, in fair values below the recorded amounts at the date of foreclosure are charged to the allowance for losses on loans. Declines in value subsequent to repossession are charged to expense which is included in other noninterest expense on the consolidated statements of income. Costs of holding real estate and other assets acquired in settlement of loans are reflected in income currently. Gains on sales of such assets are taken into income based on the buyer's initial and continuing investment in the property and reflected as part of other income on the consolidated statements of income. Any income deferred from these sales is recognized on the installment method. Other assets acquired in settlement of loans consist primarily of reacquired personal property.

The Savings Bank expects to dispose of assets acquired in settlement of loans in the next year. Approximately $90,706 and $-0- of residential real estate is included in real estate and other assets acquired in settlement of loans at December 31, 2018 and 2017, respectively.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

During the years ended December 31, 2018 and 2017, investments in mortgage loans secured by residential real estate properties where formal foreclosure procedures were in process totaled $-0- and $61,000 respectively.

Insignificant amounts of other assets acquired in settlement of loans were repossessed during 2018 and 2017.

Property and Equipment: Savings Bank property and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed using the straight-line method based on estimated useful lives of the assets. 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 statements of income. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

Intangible Assets: Intangible assets consist of the customer relationship value and goodwill related to the purchase of a book of business from an insurance company as follows:

	CUSTOMER RELATIONSHIP VALUE	GOODWILL
Allocated amounts	$ 137 500	$ 137 500
Accumulated amortization	-	-
BALANCE DECEMBER 31, 2018	$ 137 500	$ 137 500

The customer relationship value will be amortized over 20 years using the straight-line.

Goodwill represents the excess of the purchase price over the fair value of the assets and liabilities acquired in acquisitions accounted for using the purchase method. The Company conducts an annual impairment test of goodwill based on the fair value of the applicable reporting unit. If the reporting unit’s fair value is greater than its carrying amount, goodwill is not impaired and no loss is recognized. If the implied fair value of the reporting unit’s goodwill is less than its recorded amount, goodwill is considered impaired and the Company must recognize a loss.

Cash Value of Life Insurance: Cash value of Life Insurance is carried at the aggregate cash value of the life insurance policies owned where the Savings Bank is named beneficiary. Appreciation in value of these insurance policies is classified as noninterest income.

Off-Balance Sheet Financial Instruments: In the ordinary course of business the Savings Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit and lines of credit. Such financial instruments are recorded in the financial statements when they are funded and at that time became subject to management's evaluation related to collectability.

Advertising: Advertising costs are expensed when incurred.

Income Taxes: The Company, with the consent of its stockholders, elected under the Internal Revenue Code of 1986 to be a subchapter S Corporation. Under the provisions for a subchapter S Corporation, the Company does not pay corporate income taxes on its income. In lieu of corporate income taxes, the stockholders are taxed on their proportionate share of the Company's income. Tax returns for the Company include the amounts of the Savings Bank and the Company combined.

Additionally, the Company is required to pay its tax to the State of Texas based on gross margin (as defined). This tax has been deemed an income tax by the Financial Accounting Standards Board and consequently requires accrual in the year the taxable gross margin is earned. For the years presented, the Consolidated Statements of Income reflects approximately $14,900 and $13,200 as state income tax expense included in "Other Noninterest Expenses". The state income tax expense amounts were not considered significant to report separately as income tax expense on the consolidated statements of income.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Stock Based Compensation: Periodically the Company provides capital stock as a portion of specified employee's compensation. No such compensation was provided during the periods presented.

Fair Values of Financial Instruments: The Savings Bank 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 apply complex hedge accounting provisions. This guidance clarifies the 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 established 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 asset or liabilities (Level 2 measurements and lowest priority to unobservable inputs (Level 3 measurements).

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although 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 equity section of the balance sheet, such items, along with net income, are included in comprehensive income.

Uncertain Tax Positions: FASB Codification section 740 requires recognition, measurement and disclosure of uncertain tax positions. The Company believes that is has no significant uncertain tax provisions that qualify for either recognition or disclosure in the consolidated financial statements. The Company is generally no longer subject to Federal tax examinations for years before 2015.

Reclassifications: Certain reclassifications have been made to the prior period's financial statements in order to conform to the classifications used for the current year. These reclassifications had no effect on the capital, net income or net cash flows of the Savings Bank.

Subsequent Events: Management has evaluated subsequent events through March 25, 2019, the date the financial statements were available to be issued.

New Authoritative Accounting Guidance: The FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Current GAAP requires and *incurred loss* methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Users of financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the *probable* threshold. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for financial institutions other than public entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. At this time, the Savings Bank has not determined the impact on its financial statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which made the following changes that may affect the Company: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows from financing activities. (2) Proceeds from Settlement of Bank-Owned Life Insurance Policies: Cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash flows from investing activities. The cash payments for premiums on bank-owned policies may be classified as cash flows for investing activities, operating activities, or a combination of investing and operating. The amendments in the ASU will be effective for entities other than public business entities for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Savings Bank does not expect the guidance to have a material impact on its financial statements.

The FASB issued ASU 2017-08, *Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities.* This Update shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. This Update does not change the accounting for callable debt securities held at a discount. This Update will be effective for entities other than public business entities for fiscal years beginning after December 15, 2019, and interim period within fiscal years beginning after December 15, 2020, with early adoption permitted. At this time, the Company has not determined the impact of this Update on its financial statements.

2. INVESTMENT SECURITIES

The amortized costs and approximate fair values of investment securities are summarized as follows (all classified available for sale):

	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSSES	FAIR VALUES
December 31, 2018:				
U.S. Agency Securities	$ 21 404 465	$ -	$ (444 995)	$ 20 959 470
State and Municipal	6 419 113	56 298	(52 369)	6 423 042
Mortgage-backed Securities				
FNMA	2 983 711	-	(58 634)	2 925 077
	$ 30 807 289	$ 56 298	$ (555 998)	$ 30 307 589
December 31, 2017:				
U.S. Agency Securities	$ 23 454 064	$ 522	$ (347 925)	$ 23 106 661
State and Municipal	4 237 831	111 499	(5 468)	4 343 862
	$ 27 691 895	$ 112 021	$ (353 393)	$ 27 450 523

The maturities of investment securities at December 31, 2018 were as follows:

	SECURITIES AVAILABLE FOR SALE	
	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 7 479 355	$ 7 421 573
Due from one to five years	15 070 867	14 706 450
Due from six to ten years	1 986 947	1 994 901
Over ten years	3 286 409	3 259 588
Mortgaged-backed securities	2 983 711	2 925 077
	$ 30 807 289	$ 30 307 589

2. INVESTMENT SECURITIES - CONTINUED

Securities with carrying amounts of approximately $17,475,000 and $17,630,000 were pledged to secure funds for public purposes at December 31, 2018 and 2017, respectively.

Proceeds from sales, maturities and calls of securities during the years ended December 31, 2018 and 2017 totaled $2,000,000 and $21,467,803 resulting in realized gains/(losses) on sales of available for securities of $-0- and $(3,922), respectively. Realized gains/(losses) on sale of available for sale securities are included in the Noninterest Income on the Consolidated Statements of Income.

The December 31, 2018 and 2017 securities with gross unrealized losses by investment category and length of time that individual securities have been in a continuous loss position follows:

DESCRIPTION OF SECURITIES	LESS THAN 12 MONTHS FAIR VALUE	LESS THAN 12 MONTHS UNREALIZED LOSSES	12 MONTHS OR GREATER FAIR VALUE	12 MONTHS OR GREATER UNREALIZED LOSSES	TOTAL FAIR VALUE	TOTAL UNREALIZED LOSSES
December 31, 2018						
U.S. Agency securities	$ 1 974 420	$ 31 819	$ 18 985 050	$ 413 176	$ 20 959 470	$ 444 995
State and municipal	$ 2 537 626	$ 47 182	$ 425 780	$ 5 187	$ 2 963 406	$ 52 369
Mortgage-backed securities	$ 2 925 077	$ 58 634	$ -	$ -	$ 2 925 077	$ 58 634
December 31, 2017						
U.S. Agency securities	$ 10 513 725	$ 80 690	$ 10 584 448	$ 267 235	$ 21 098 173	$ 347 925
State and municipal	$ 199 464	$ 544	$ 226 476	$ 4 924	$ 425 940	$ 5 468

Management evaluates securities for other-than-temporary impairment on a periodic basis. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Savings Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2018 and 2017, the debt and equity securities with unrealized losses have depreciated 2.03% and 1.62% from the Savings Bank's amortized cost basis. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are guaranteed by the federal government or its agencies, whether downgrades by rating agencies have occurred, and the results of reviews of the issuer's financial condition. Management has the ability to hold debt and equity securities until maturity, or for the foreseeable future if classified as available-for-sale and as a result no declines are deemed to be other-than-temporary.

3. LOANS RECEIVABLE

The Savings Bank's goal is to mitigate risk from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based on credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

As of December 31, 2018, the real estate loans and poultry loans portfolios constituted 41.70% and 33.47, respectively, of the total loan portfolio. The real estate loans can be broken down further into the following categories: 22.76% residential real estate and 18.94% commercial real estate, as a percentage of total loans. Poultry loans can be broken down further into 0.34% residential poultry and 33.13% commercial poultry, as a percentage of total loans.

3. LOANS RECEIVABLE - CONTINUED

The Savings Bank's construction and land development loans are secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner occupied commercial properties. Borrower are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio ordinarily at 1.20 to 1.00. These loans are generally underwritten with a term not greater than 20 years or the remaining useful life of the property, whichever is lower.

Residential real estate loans are secured by improved real property of the borrower and are underwritten with terms up to 30 years.

The Savings Bank also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. The category represents 13% of the loan portfolio at December 31, 2018. Loans in this category generally carry a variable of interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

<u>Outstanding Loans</u>:

The following table presents an aged analysis of the Savings Bank's loans by major portfolio segment as of December 31, 2018 and December 31, 2017:

2018

	0-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL
Residential real estate	$ 1 559 963	$ 301 893	$ 193 293	$ 2 055 149	$ 49 822 645	$ 51 877 794
Poultry related	-	-	-	-	76 296 576	76 296 576
Commercial real estate	788 199	118 336	2 436	908 971	42 266 771	43 175 742
Automobiles and other vehicles	191 830	25 784	20 178	237 792	7 161 346	7 399 138
Equipment	73 392	11 954	78 005	163 351	9 301 628	9 464 979
Stocks and bonds	-	-	-	-	300 055	300 055
Bank deposit secured	38 307	-	-	38 307	4 208 865	4 247 172
Cattle and other livestock	-	-	-	-	10 804 076	10 804 076
Unsecured	17 099	3 814	2 453	23 366	16 770 840	16 794 206
Other	300 000	-	-	300 000	7 306 119	7 606 119
	$ 2 968 790	$ 461 781	$ 296 365	$ 3 726 936	$ 224 238 921	227 965 857
Construction loans in process						(7 846 640)
						220 119 217
Net deferred loan fees, premiums and discounts						206 692
Allowance for loan losses						(2 740 591)
						$ 217 585 318

2017

	0-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL
Residential real estate	$ 2 094 919	$ 916 150	$ 362 809	$ 3 373 878	$ 46 653 866	$ 50 027 744
Poultry related	-	-	-	-	70 944 470	70 944 470
Commercial real estate	481 260	5 630	-	486 890	39 395 754	39 882 644
Automobiles and other vehicles	212 346	43 182	22 669	278 197	7 967 687	8 245 884
Equipment	502 104	47 059	-	549 163	10 190 771	10 739 934
Stocks and bonds	-	-	-	-	47 660	47 660
Bank deposit secured	42 697	-	-	42 697	4 301 761	4 344 458
Cattle and other livestock	-	-	-	-	10 180 013	10 180 013
Unsecured	42 656	5 752	10 675	59 083	13 242 398	13 301 481
Other	-	-	-	-	7 289 693	7 289 693
	$ 3 375 982	$ 1 017 773	$ 396 153	$ 4 789 908	$ 210 214 073	215 003 981
Construction loans in process						(2 014 593)
						212 989 388
Net deferred loan fees, premiums and discounts						153 593
Allowance for loan losses						(2 488 912)
						$ 210 654 069

3. LOANS RECEIVABLE - CONTINUED

Nonaccrual Loans:

The table below includes the Savings Bank's nonaccrual loans, including nonperforming trouble debt restructures and loans past due 90 days, or more at December 31, 2018 and 2017:

	NONACCRUAL LOANS DECEMBER 31,		ACCRUING PAST DUE 90 DAYS OR MORE DECEMBER 31,	
	2018	2017	2018	2017
Residential real estate	$ 351 258	$ 362 809	$ -	$ -
Commercial real estate	51 088	-	-	-
Automobiles and other vehicles	20 178	22 669	-	-
Equipment	149 367	-	-	-
Unsecured	2 453	10 675	-	-
	$ 574 344	$ 396 153	$ -	$ -

The difference between interest income that would have been recorded under the original terms of such loans and that which was recorded is not significant to these financial statements.

Credit Quality Indicators:

The Savings Bank monitors credit quality within its major portfolio segments. The results of this classification process is a factor in the risk characteristics used in establishing the allowance for loan losses. These loans are evaluated and internally classified by the Savings Bank as pass, special mention, substandard, doubtful or loss.

Satisfactory - An asset classified *satisfactory* is one that does not possess any weaknesses by management sufficient to warrant a more adverse classification.

Special Mention - A *special mention* does not warrant adverse classification yet, but possesses credit deficiencies or potential weaknesses requiring management's close attention. A Special Mention asset is one, which has the potential to weaken and have increased risk in the future. This category is a monitoring and early warning system for assets that have potential to deteriorate to substandard level. This category is also for assets that have improved from substandard classification, but have not improved sufficiently or maintained the improvement for a sufficient time period to be classified as pass.

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

Doubtful - An asset classified *doubtful* has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss - Asset classified *loss* are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future. Amounts classified as loss are generally charged off to the allowance for loan losses upon such classification.

3. LOANS RECEIVABLE - CONTINUED

The following table presents the Saving Bank's loan classification as of December 31, 2018 and 2017 by its major loan portfolio category.

2018

	SATISFACTORY	SPECIAL MENTION	SUB STANDARD	DOUBTFUL	LOSS	TOTAL
Residential real estate	$ 49 493 572	$ 798 449	$ 1 583 729	$ -	$ 2 044	$ 51 877 794
Poultry related loans	76 296 576	-	-	-	-	76 296 576
Commercial real estate	40 326 706	2 703 340	145 696	-	-	43 175 742
Automobiles and other vehicles	7 276 224	39 362	71 958	11 594	-	7 399 138
Equipment	8 769 872	417 959	277 148	-	-	9 464 979
Stocks and bonds	300 055	-	-	-	-	300 055
Bank deposit secured loans	4 247 172	-	-	-	-	4 247 172
Cattle and other livestock	10 804 076	-	-	-	-	10 804 076
Unsecured	16 567 165	24 231	202 810	-	-	16 794 206
Other	7 205 829	400 290	-	-	-	7 606 119
	$ 221 287 247	$ 4 383 631	$ 2 281 341	$ 11 594	$ 2 044	$ 227 965 857

2017

	SATISFACTORY	SPECIAL MENTION	SUB STANDARD	DOUBTFUL	LOSS	TOTAL
Residential real estate	$ 47 417 090	$ 857 287	$ 1 751 323	$ -	$ 2 044	$ 50 027 744
Poultry related loans	70 944 470	-	-	-	-	70 944 470
Commercial real estate	38 442 038	1 279 743	160 863	-	-	39 882 644
Automobiles and other vehicles	7 978 082	137 555	130 247	-	-	8 245 884
Equipment	9 735 382	771 654	232 898	-	-	10 739 934
Stocks and bonds	47 660	-	-	-	-	47 660
Bank deposit secured loans	4 344 458	-	-	-	-	4 344 458
Cattle and other livestock	10 160 855	19 158	-	-	-	10 180 013
Unsecured	13 232 141	44 647	11 709	2 310	10 674	13 301 481
Other	6 525 107	764 586	-	-	-	7 289 693
	$ 208 827 283	$ 3 874 630	$ 2 287 040	$ 2 310	$ 12 718	$ 215 003 981

During 2018 and 2017, the Savings Bank purchased participating interest in loans totaling approximately $-0- (2018) and $-0- (2017). The balances of all participating interest in loans purchased at December 31, 2018 and 2017 totaled approximately $3,400,000 and $4,300,000, respectively. Of these participation interests purchased approximately $2,100,000 (2018) and $2,300,000 (2017) were guaranteed by the U.S. Small Business Administration. The Savings Bank has not acquired any loans that have deteriorated credit quality.

Overdraft demand accounts included as loans, categorized as other loans in the schedule above totaled approximately $155,000 and $111,000 at December 31, 2018 and 2017.

Allowance for Loan Losses:

The tables below summarize the changes in the allowance for loan losses for 2018 and 2017 by major loan portfolio segment:

2018

	BALANCE DECEMBER 31, 2017	LOANS CHARGED OFF (NET)	PROVISION FOR LOAN LOSSES	TRANSFERS	BALANCE DECEMBER 31, 2018
Residential real estate	$ 311 508	$ (1 508)	$ 20 095	$ -	$ 330 095
Poultry related	1 179 516	-	133 196	-	1 312 712
Commercial real estate	191 514	-	48 363	-	239 877
Automobiles and other vehicles	100 806	(25 681)	6 359	-	81 484
Equipment	262 423	28 935	(4 456)	-	286 902
Stocks and bonds	357	-	1 611	-	1 968
Bank deposit secured	-	305	(305)	-	-
Cattle and other livestock	57 509	-	29 528	-	87 037
Unsecured	98 992	16 813	(28 648)	-	87 157
Other	113 297	(53 942)	81 550	-	140 905
Unallocated	172 990	-	(536)	-	172 454
	$ 2 488 912	$ (35 078)	$ 286 757	$ -	$ 2 740 591

3. LOANS RECEIVABLE - CONTINUED

2017	BALANCE DECEMBER 31, 2016	LOANS CHARGED OFF (NET)	PROVISION FOR LOAN LOSSES	TRANSFERS	BALANCE DECEMBER 31, 2017
Residential real estate	$ 253 337	$ (64 939)	$ 123 110	$ -	$ 311 508
Poultry related	1 398 724	-	(219 208)	-	1 179 516
Commercial real estate	346 162	-	(154 648)	-	191 514
Automobiles and other vehicles	127 714	(6 450)	(20 458)	-	100 806
Equipment	157 331	(182 270)	287 362	-	262 423
Stocks and bonds	480	-	(123)	-	357
Bank deposit secured	-	-	-	-	-
Cattle and other livestock	45 659	(37 780)	49 630	-	57 509
Unsecured	793 659	(706 172)	11 505	-	98 992
Other	60 776	(36 533)	89 054	-	113 297
Unallocated	-	-	172 990	-	172 990
	$ 3 183 842	$ (1 034 144)	$ 339 214	$ -	$ 2 488 912

The table below represents the allowance and the carrying value of outstanding loans and leased by portfolio segment at December 31, 2018 and 2017:

	DECEMBER 31, 2018			DECEMBER 31, 2017		
	IMPAIRED LOANS AND TROUBLE DEBT RESTRUCTURINGS:			IMPAIRED LOANS AND TROUBLE DEBT RESTRUCTURINGS:		
	ALLOWANCE FOR LOANS AND LEASE LOSSES	UNPAID PRINCIPAL BALANCE	ALLOWANCE AS A PERCENTAGE OF UNPAID PRINCIPAL BALANCE	ALLOWANCE FOR LOANS AND LEASE LOSSES	UNPAID PRINCIPAL BALANCE	ALLOWANCE AS A PERCENTAGE OF UNPAID PRINCIPAL BALANCE
Residential real estate	$ 2 044	$ 52 703	4.00%	$ 2 044	$ 57 053	4.00%
Poultry related	-	-	- %	-	-	- %
Commercial real estate	-	-	- %	-	-	- %
Automobiles and other vehicles	-	-	- %	-	-	- %
Equipment	-	-	- %	-	-	- %
Stocks and bonds	-	-	- %	-	-	- %
Bank deposit secured	-	-	- %	-	-	- %
Cattle and other livestock	-	-	- %	-	-	- %
Unsecured	-	-	- %	10 674	10 674	100.00%
Other	-	-	- %	-	-	- %
TOTAL	$ 2 044	$ 52 703	4.00%	$ 12 718	$ 67 727	19.00%

	COLLECTIVELY EVALUATED FOR IMPAIRMENT			COLLECTIVELY EVALUATED FOR IMPAIRMENT		
	ALLOWANCE FOR LOANS AND LEASE LOSSES	UNPAID PRINCIPAL BALANCE	ALLOWANCE AS A PERCENTAGE OF UNPAID PRINCIPAL BALANCE	ALLOWANCE FOR LOANS AND LEASE LOSSES	UNPAID PRINCIPAL BALANCE	ALLOWANCE AS A PERCENTAGE OF UNPAID PRINCIPAL BALANCE
Residential real estate	$ 328 051	$ 51 825 091	0.63%	$ 309 464	$ 49 970 691	0.62%
Poultry related	1 312 712	76 296 576	1.72%	1 179 516	70 944 470	1.66%
Commercial real estate	239 877	43 175 742	0.56%	191 514	39 882 644	0.48%
Automobiles and other vehicles	81 484	7 399 138	1.10%	100 806	8 245 884	1.22%
Equipment	286 902	9 464 979	3.03%	262 423	10 739 934	2.44%
Stocks and bonds	1 968	300 055	0.66%	357	47 660	0.75%
Bank deposit secured	-	4 247 172	- %	-	4 344 458	- %
Cattle and other livestock	87 037	10 804 076	0.81%	57 509	10 180 013	0.56%
Unsecured	87 157	16 794 206	0.52%	88 318	13 290 807	0.66%
Other	140 905	7 606 119	1.85%	113 297	7 289 693	1.55%
TOTAL	$ 2 566 093	$ 227 913 154	1.13%	$ 2 303 204	$ 214 936 254	1.07%

	TOTAL			TOTAL		
	ALLOWANCE FOR LOANS AND LEASE LOSSES	UNPAID PRINCIPAL BALANCE	ALLOWANCE AS A PERCENTAGE OF UNPAID PRINCIPAL BALANCE	ALLOWANCE FOR LOANS AND LEASE LOSSES	UNPAID PRINCIPAL BALANCE	ALLOWANCE AS A PERCENTAGE OF UNPAID PRINCIPAL BALANCE
Residential real estate	$ 330 095	$ 51 877 794	0.64%	$ 311 508	$ 50 027 744	0.62%
Poultry related	1 312 712	76 296 576	1.72%	1 179 516	70 944 470	1.66%
Commercial real estate	239 877	43 175 742	0.56%	191 514	39 882 644	0.48%
Automobiles and other vehicles	81 484	7 399 138	1.10%	100 806	8 245 884	1.22%
Equipment	286 902	9 464 979	3.03%	262 423	10 739 934	2.44%
Stocks and bonds	1 968	300 055	0.66%	357	47 660	0.75%
Bank deposit secured	-	4 247 172	- %	-	4 344 458	- %
Cattle and other livestock	87 037	10 804 076	0.81%	57 509	10 180 013	0.56%
Unsecured	87 157	16 794 206	0.52%	98 992	13 301 481	0.74%
Other	140 905	7 606 119	1.85%	113 297	7 289 693	1.55%
	2 568 137	227 965 857	1.13%	2 315 922	215 003 981	1.08%
Unallocated	172 451	-		172 990	-	
TOTAL	$ 2 740 591	$ 227 965 857	1.20%	$ 2 488 912	$ 215 003 981	1.16%

3. LOANS RECEIVABLE - CONTINUED

Impaired Loans and Trouble Debt Restructurings:

A loan is considered impaired when, based on current information and events, it is probable that the Savings Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Information on impaired loans for the year ended December 31, 2018 and 2017 are as follows:

	DECEMBER 31, 2018							
PORTFOLIO SEGMENT		UNPAID PRINCIPAL BALANCE		CARRYING VALUE		RELATED ALLOWANCE		AVERAGE CARRYING AMOUNT
Residential real estate	$	52 703	$	50 659	$	2 044	$	52 834
Unsecured	$	-	$	-	$	-	$	-

	DECEMBER 31, 2017							
PORTFOLIO SEGMENT		UNPAID PRINCIPAL BALANCE		CARRYING VALUE		RELATED ALLOWANCE		AVERAGE CARRYING AMOUNT
Residential real estate	$	57 053	$	55 009	$	2 044	$	56 847
Unsecured	$	10 674	$	-	$	10 674	$	-

All loans Savings Bank classified as impaired as of December 31, 2018 and 2017 have a related allowance.

Income recognized during the periods presented related to impaired loans is not considered significant for separate disclosure.

The Savings Bank had no significant commitments to lend additional funds to debtors whose loans have been modified.

4. LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31 are summarized as follows:

		2018		2017
Loans sold to Federal National Mortgage Association (FNMA)	$	24 310 663	$	26 439 528
Participating interests in loans sold to other institutions	$	5 609 401	$	8 451 895

Sales of these loans to FNMA resulted in income from the sale of loans for the years presented of $38,954 and $100,997, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing for FNMA and included in demand deposits were approximately $126,000 and $150,000 at December 31, 2018 and 2017, respectively.

The Savings Bank has mortgage servicing rights of approximately $81,000 and $94,000 at December 31, 2018 and 2017 as a result of loan sales to FNMA. Amortization of mortgage servicing rights were approximately $21,000 and $17,600 for the years presented and approximately $8,100 and $6,600 were added for these periods. Mortgage servicing rights are stated at cost. The Savings Bank has determined that no significant impairment existed for mortgage servicing rights at December 31, 2018 and 2017. Mortgage servicing rights are included in other assets on the consolidated statements of financial condition.

4. LOAN SERVICING - CONTINUED

Additionally, the Savings Bank has sold participating interests in certain other loans to various financial institutions. The Savings Bank is the lead lender and is therefore servicing these loans. The unpaid balances of the participating interests sold in these loans at December 31, 2018 and 2017 were $5,609,401 and $8,451,895, respectively, and these amounts have been reduced from loans receivable in the accompanying Consolidated Statements of Financial Condition. No servicing rights have been recorded on these sold participating interests as the interest sale differential does not materially differ from a normal expected servicing fee.

5. PROPERTY AND EQUIPMENT

Property and Equipment is recorded at cost and is summarized by major classifications as follows:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Building and improvements	$ 9 271 818	$ 7 528 027
Furniture, fixtures and equipment	4 320 756	3 750 386
Automobiles	184 143	145 624
Land	1 496 740	1 496 740
Construction In Process	-	1 961 851
	15 273 457	14 882 628
Less accumulated depreciation	(7 233 380)	(6 431 248)
TOTAL	$ 8 040 077	$ 8 451 380

Depreciation expense was $801,921 and $650,503 for the periods ended December 31, 2018 and 2017, respectively.

The Savings Bank leased a facility in Palestine, Texas used for a loan production office. The lease expired May 31, 2017 and had a cost of $1,700 per month. Total rent expense for 2017 was $19,900.

6. DEPOSITS

The following table summarizes deposits by category at December 31:

	2018	2017
Noninterest-bearing		
Demand	$ 45 046 913	$ 48 041 269
Interest-bearing		
Interest-bearing demand	69 657 500	67 436 557
Savings	26 976 227	23 547 640
Time deposits less than $250,000	84 131 751	79 452 688
Time deposits $250,000 and over	8 782 703	9 124 921
Total interest-bearing	189 548 181	179 561 806
Total deposits	$ 234 595 094	$ 227 603 075

The scheduled maturities of certificates of deposits are as follows at December 31, 2018:

YEAR ENDING DECEMBER 31,	CDARS	QWICKRATE	OTHER CERTIFICATES OF DEPOSITS	TOTAL
2019	$ 1 083 717	$ 16 710 000	$ 49 260 659	$ 67 054 376
2020	-	4 170 000	11 541 902	15 711 902
2021	-	3 235 000	3 565 607	6 800 607
2022	-	-	1 675 714	1 675 714
2023	-	-	1 671 855	1 671 855
	$ 1 083 717	$ 24 115 000	$ 67 715 737	$ 92 914 454

6. DEPOSITS - CONTINUED

The Savings Bank participates in the Certificate of Deposit Account Registry Service (CDARS). The CDARS program allocates depositor's funds across participating member banks, in an effort to ensure that funds are eligible for full FDIC insurance coverage. As a participating member, the Savings bank is able to receive these funds, in the form of Certificates of Deposit, in exchange for paying interest. The total balance of CDARS funds held by the Savings bank was approximately $1,084,000 and $5,796,000 as of the years end December 31, 2018 and 2017, respectively.

In addition, the Savings Bank participates in QwickRate. QwickRate is a nationwide clearinghouse for certificates of deposit among financial institutions and similar investors and is used as a source of liquidity for the Savings Bank. At December 31, 2018 and 2017, the Savings Bank had certificates of deposit of $24,115,000 and $19,206,000 from QwickRate.

7. FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank Advances as of December 31 are as follows:

ADVANCE NUMBER	INTEREST RATE	2018	2017
39002159	6.06%	$ 199 911	$ 271 794
39002375	6.12%	206 931	278 670
2478000003	6.26%	275 265	343 479
2478000004	6.06%	271 863	339 541
2478000005	5.84%	273 800	340 547
2478000006	5.62%	275 643	341 492
2478000008	4.99%	280 896	344 264
3947000001	4.75%	-	15 464
3947000003	4.12%	-	58 750
3947000011	4.26%	29 848	116 894
3947000012	4.83%	68 982	157 162
3947000013	4.75%	75 805	162 908
3947000028	4.12%	-	20 259
3947000029	4.02%	-	20 162
3947000030	3.68%	-	19 854
3947000031	3.98%	-	60 279
3947000032	4.19%	1 219 780	1 389 572
3947000033	3.60%	136 040	248 184
3947000036	3.66%	568 095	632 746
3947000037	4.00%	714 471	757 664
3947000040	2.75%	1 233 166	1 360 226
3947000042	1.83%	370 920	472 620
3947000044	1.75%	757 067	960 035
3947000046	2.40%	1 231 417	1 359 102
3947000052	2.81%	2 304 226	2 482 070
3947000058	2.37%	1 401 108	1 590 308
3947000089	2.48%	1 814 407	1 895 262
*3947000101	1.00%	-	2 000 000
4216000001	4.91%	1 138 737	1 275 654
4216000012	2.87%	1 370 337	1 452 912
4216000013	3.14%	470 820	489 417
1893000030	3.37%	3 887 192	-
		$ 20 576 727	$ 21 257 291

These advances are collateralized by a blanket coverage on all first mortgage real estate loans, Federal Home Loan Bank Stock, deposit accounts at the Federal Home Loan Bank and certain unpledged securities held in safekeeping at the Federal Home Loan Bank and continue to be available based on an availability computation. The advances are generally subject to prepayment penalties and are generally at fixed interest rates. These advances marked * are non-amortizing term advances.

7. FEDERAL HOME LOAN BANK ADVANCES - CONTINUED

Maturities of these advances for the next five years and thereafter are as follows:

YEAR ENDING DECEMBER 31		AMOUNTS
2019	$	2 707 633
2020		2 537 744
2021		2 519 118
2022		2 208 098
2023		1 826 392
Thereafter		8 777 742
	$	20 576 727

8. REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Savings Bank to maintain minimum amounts and ratios (set forth in the table below) of Total, Common Equity and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018, that the Company and the Savings Bank meet all capital adequacy requirements to which they are subject.

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

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

As of December 31, 2018, the most recent notification from the Federal Deposit Insurance Corporation categorized the Savings Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Savings Bank must maintain minimum total risk-based, Common Equity Tier I risk based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Savings Bank's category. The Company's and the Savings Bank's actual capital amounts and ratios as of December 31, 2018 and 2017 are presented in the following table.

8. REGULATORY MATTERS - CONTINUED

	ACTUAL		MINIMUM CAPITAL REQUIRED UNDER BASEL III PHASE-IN FOR CAPITAL ADEQUACY PURPOSES		REQUIRED TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 2018:						
Total Capital (to risk weighted assets)						
Savings Bank	$ 42 233 000	17.72%	$ 23 536 000	≥ 9.875%	$ 2 383 000	≥ 10.00%
Consolidated	$ 42 265 000	17.73%	$ 23 536 000	≥ 9.875%	N/A	N/A
Tier I Capital (to risk weighted assets)						
Savings Bank	$ 39 484 000	16.57%	$ 18 765 000	≥ 7.875%	$ 19 063 000	≥ 8.00%
Consolidated	$ 39 526 000	16.59%	$ 18 765 000	≥ 7.875%	N/A	N/A
Tier I Capital (to average assets)						
Savings Bank	$ 39 484 000	13.24%	$ 11 929 000	≥ 4.000%	$ 14 911 000	≥ 5.00%
Consolidated	$ 39 526 000	13.26%	$ 11 929 000	≥ 4.000%	N/A	N/A
Common Equity Tier I Capital (to risk weighted assets)						
Savings Bank	$ 39 484 000	16.57%	$ 12 808 000	≥ 5.375%	$ 15 489 000	≥ 6.50%
Consolidated	$ 39 526 000	16.59%	$ 12 808 000	≥ 5.375%	N/A	N/A
As of December 31, 2017:						
Total Capital (to risk weighted assets)						
Savings Bank	$ 38 706 000	17.02%	$ 21 036 000	≥ 9.250%	$ 2 274 000	≥ 10.00%
Consolidated	$ 39 087 000	17.18%	$ 21 036 000	≥ 9.250%	N/A	N/A
Tier I Capital (to risk weighted assets)						
Savings Bank	$ 36 230 000	15.93%	$ 16 489 000	≥ 7.250%	$ 18 195 000	≥ 8.00%
Consolidated	$ 36 611 000	16.10%	$ 16 489 000	≥ 7.250%	N/A	N/A
Tier I Capital (to average assets)						
Savings Bank	$ 36 230 000	12.69%	$ 11 420 000	≥ 4.000%	$ 14 275 000	≥ 5.00%
Consolidated	$ 36 611 000	12.83%	$ 11 420 000	≥ 4.000%	N/A	N/A
Common Equity Tier I Capital (to risk weighted assets)						
Savings Bank	$ 36 230 000	15.93%	$ 13 077 000	≥ 5.750%	$ 14 783 000	≥ 6.50%
Consolidated	$ 36 611 000	16.10%	$ 13 077 000	≥ 5.750%	N/A	N/A

The above 2018 risk-weighted capital ratios for capital adequacy purposes include a 1.875% capital conservation buffer. The capital conservation buffer will be fully phased in by 2019 to 2.50%. Financial institutions with a buffer greater than 1.875% (2018) are not subject to limits on capital distributions or discretionary bonus payments beyond those currently included in regulations. As reflected above, the Saving Bank's capital was sufficient to exceed its minimum capital requirements including the required capital conservation buffer.

9. RELATED PARTY TRANSACTIONS

The aggregate amount of loans to directors, principal officers and their related interests at December 31, 2018 and 2017 are presented in the following table. Activity during the years presented for these loans are approximately as follows:

	2018	2017
Balance, beginning of years	$ 1 197 000	2 806 000
Advances	1 102 000	$ 292 000
Repayments	(905 000)	(1 181 000)
Reductions - No longer employed	-	-
BALANCE END OF YEAR	$ 1 394 000	$ 1 917 000

The aggregate amount of deposits to such related parties at December 31, 2018 and 2017 amounted to approximately $2,985,000 and $5,396,000, respectively.

10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Savings Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include mortgage commitments to extend credit, stand-by letters of credit and lines of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated statements of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Savings Bank has in particular classes of financial instruments.

The Savings Bank's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual notional amount of those instruments. The Savings Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Savings Bank had Financial Instruments whose contract or notional amounts represent credit risk of the following:

	CONTRACTUAL OR NOTIONAL AMOUNT DECEMBER 31,	
	2018	2017
Financial Instruments Whose Contract Amounts Represent Off-Balance-Sheet Credit Risk:		
Mortgage commitments	$ 16 332 315	$ 22 493 143
Stand-by letters of credit	$ 776 041	$ 373 873
Lines of credit	$ 38 201 381	$ 38 677 284

Mortgage commitments are agreements to lend to a customer to construct a building or purchase real estate. Commitments generally do not have fixed expiration dates or other termination clauses and may require payment of a fee. These commitments may be at fixed or variable rates. The Savings Bank evaluates each customer's creditworthiness on a case-by-case basis. The Savings Bank generally requires collateral upon extension of credit. The Savings Bank files a materials and mechanics lien on mortgage commitments once the loan begins funding.

Of the total unfunded lines of credit referred to above approximately $-0- are related to the poultry industry either as a major source of repayment, as collateral, or both. Of the mortgage commitments referred to above, $5,957,000 are related to the poultry industry either as a major source of repayment, as collateral, or both.

Stand-by letters of credit are conditional commitments issued by the Savings Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. All guarantees existing at December 31, 2018 expire before December 31, 2018. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Unfunded lines of credit are commitments by the Savings Bank to customers to extend credit. These lines of credit have expiration dates and may be collateralized depending on the Savings Bank's evaluation of the particular credit involved. At December 31, 2018, approximately 50% were unsecured or secured by life insurance policies and the remaining were secured mainly by cattle, equipment, inventory and accounts receivable.

11. CONCENTRATION OF CREDIT RISK

The Savings Bank grants commercial, real estate and consumer loans to customers mainly in Center, San Augustine and Hemphill, Texas and surrounding areas. The Savings Bank also grants poultry and other types of loans to customers in the Bryan, College Station and Palestine, Texas areas. Although the Savings Bank has a diversified loan portfolio, a substantial portion of the debtors' ability to honor their contracts is dependent upon the economy in the above described areas. This economy is strongly dependent on the poultry industry which the Savings Bank supports through its loan portfolio (See Notes 2 and 10). Collateral for these poultry loans is generally poultry houses together with the related real estate and single family dwellings. The Savings Bank generally requires collateral for all loans and expects payment from cash flows of the borrowers.

Shelby Savings Bank, SSB may from time to time carry certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Savings Bank.

12. DIVIDEND RESTRICTIONS

Financial institutions are is subject to certain restrictions on the amount of dividends they may pay without prior regulatory approval. The Savings Bank normally restricts dividends to a lesser amount. At December 31, 2018, retained earnings of approximately $6,826,000 was available to the Savings Bank for the payment of dividends without prior regulatory approval. This amount available is reduced subsequent to December 31, 2018 to approximately $5,294,000 since it is based on the current year to date earnings retained plus the previous two years retained income. In addition, dividends may be limited without regulatory approval if certain capital requirements will not be met subsequent to the dividend.

13. RETIREMENT PLAN

The Savings Bank has a 401(k) Retirement Plan ("Plan"). The plan is in effect for substantially all full-time employees (if they elect to be covered) who have completed one year of service and attained 18 years of age. The Savings Bank, at its discretion, may match a portion of each employees contribution. The Savings Bank, at its discretion, may make an additional contribution as of each December 31. Contributions to the plan amounted to $85,586 and $83,335 for 2018 and 2017, respectively and are included in compensation and benefits on the consolidated statements of income. Vesting in the Savings Bank's discretionary matching contributions is over a seven year period.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements*, 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. The 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). The three levels of the fair value hierarchy under this guidance are described below:

- Level 1 - Valuations for asset and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS - CONTINUED

- Level 2 - Valuations for assets or liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable asset or liabilities which use observable inputs other than Level 1 prices, such as quoted prices from similar assets or liabilities; quoted prices in active 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.

Fair values of assets and liabilities are presented on the consolidated balance sheets measured on a recurring basis at December 31, 2018 and 2017 are as follows:

			FAIR VALUE MEASUREMENTS AT REPORTING DATE USING					
		FAIR VALUE		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL1)		SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)		SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2018:								
Available for Sale Securities:								
U.S. Agency Securities	$	20 959 470	$	-	$	20 959 470	$	-
State and Municipal		6 423 042		-		6 423 042		-
Mortgage-backed Securities		2 925 077		-		2 925 077		-
	$	30 307 589	$	-	$	30 307 589	$	-
December 31, 2017:								
Available for Sale Securities:								
U.S. Agency Securities	$	23 106 661	$	-	$	23 106 661	$	-
State and Municipal		4 343 862		-		4 343 862		-
	$	27 450 523	$	-	$	27 450 523	$	-

Fair market value for available for sale securities are provided by a third party servicer. The servicer generally estimates the market values of available for sale securities based on several factors. These include the use of third party bond pricing services priced based on current sales activity on similar securities. Additional, the servicer evaluates the inputs from the third party pricing services and compares these prices to inputs they have observed for similar securities from sources such as dealer commentaries and actual market transactions. If a variances exists, the servicer will make a determination of market value based on all available information. The inputs used in this valuation process are generally descriptive of those considered Level 2 in nature in current accounting guidance.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS - CONTINUED

The following tables set forth the Savings Bank financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2018 and 2017:

	DECEMBER 31, 2018	FAIR VALUE MEASUREMENTS USING: QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Impaired Loans:				
Residential real estate	$ 52 703	$ -	$ -	$ 52 703
Unsecured	-	-	-	-
TOTAL IMPAIRED LOANS	$ 52 703	$ -	$ -	$ 52 703
Real Estate Owned and Other Assets Acquired in Settlement of Loans:				
Residential real estate	$ 53 445	$ -	$ -	$ 53 445
Other	37 261	-	-	37 261
TOTAL REAL ESTATE OWNED AND OTHER ASSETS ACQUIRED IN SETTLEMENT OF LOANS	$ 90 706	$ -	$ -	$ 90 706

	DECEMBER 31, 2017	FAIR VALUE MEASUREMENTS USING: QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Impaired Loans:				
Residential real estate	$ 57 053	$ -	$ -	$ 57 053
Unsecured	10 674	-	-	10 674
TOTAL IMPAIRED LOANS	$ 67 727	$ -	$ -	$ 67 727
Real Estate Owned and Other Assets Acquired in Settlement of Loans:				
Residential real estate	$ -	$ -	$ -	$ -
Other	-	-	-	-
TOTAL REAL ESTATE OWNED AND OTHER ASSETS ACQUIRED IN SETTLEMENT OF LOANS	$ -	$ -	$ -	$ -

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

Impaired Loans

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

14. FAIR VALUES OF FINANCIAL INSTRUMENTS - CONTINUED

Real Estate and Other Assets Acquired in the Settlement of Loans

Real estate and other assets acquired in the settlement of loans are recorded at the fair value of the property, less any selling costs, as applicable, at the time of foreclosure. If necessary, carrying amounts are reduced to reflect this value through charges to the allowance for possible credit losses upon foreclosure. Subsequent to foreclosure, real estate is carried at the lower of its new cost basis or fair value, less estimated costs to sell. Real estate and other assets acquired in the settlement of loans is fair valued under Level 3 at the lower of cost or fair value based on property appraisals less estimated costs, which include both observable and unobservable inputs, at the time of transfer and as appropriate thereafter.

15. RESTRICTION ON CASH AND DUE FROM BANKS

The Savings Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2018, was approximately $-0-.

16. LINE OF CREDIT

The Savings Bank has a line of credit to purchase Federal funds in the amount of $8,000,000 should those funds be needed for liquidity purposes. The Savings Bank had $-0- and $-0- of Federal funds purchased drawn at December 31, 2018 and 2017, respectively.

17. COMPONENTS OF OTHER COMPREHENSIVE INCOME

The following table presents the changes in each component of accumulated other comprehensive income for the years ended December 31, 2018 and 2017:

	SECURITIES AVAILABLE FOR SALE	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
Balance at January 1, 2017	$ (385 912)	$ (385 912)
Other comprehensive income before reclassification	72 369	72 369
Amounts reclassified from accumulated other comprehensive income	72 171	72 171
Balance at December 31, 2017	(241 372)	(241 372)
Other comprehensive income before reclassification	(258 328)	(258 328)
Balance at December 31, 2018	$ (499 700)	$ (499 700)

18. INTANGIBLE ASSETS

Effective as of the close of business April 6, 2018, Shelby Insurance Agency, Inc. acquired certain assets, accounts, and/or policies of Schillings and Shoop Insurance Agency. The following table reflects the fair value of the assets purchased and liabilities assumed at the purchase date.

	FAIR VALUE
Customer relationship value	$ 137 500
Goodwill	137 500
TOTAL INTANGIBLE ASSETS	$ 275 000

AXLEY&RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Board of Directors
Shelby Bancshares, Inc. and Subsidiary
Center, Texas

We have audited the consolidated financial statements of Shelby Bancshares, Inc. and Subsidiary as of and for the years ended December 31, 2018 and 2017, and our report thereon dated March 25, 2019, which expressed an unmodified opinion on those financial statements appears on page 3. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information 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.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
March 25, 2019

www.axleyrode.com

CONSOLIDATING STATEMENTS

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL CONDITION
December 31, 2018

		SHELBY BANCSHARES, INC.
ASSETS		
Cash and cash equivalents	$	576 703
Interest-bearing demand deposits in other banks		-
TOTAL CASH AND CASH EQUIVALENTS		576 703
Investment securities available for sale		-
Investment in subsidiary		38 984 957
Loans receivable		-
Real estate and other assets acquired in settlement of loans		-
Property and equipment		-
Federal Home Loan Bank stock		-
Accrued interest receivable		-
Cash value life insurance		-
Intangible assets		-
Other assets		24 753
TOTAL ASSETS	$	39 586 413
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Noninterest-bearing deposits	$	-
Interest-bearing deposits		-
TOTAL DEPOSITS		-
Advances from borrowers for taxes and insurance		-
Accrued interest payable		-
Distributions payable		559 542
Federal Home Loan Bank advances		-
Other liabilities		781
TOTAL LIABILITIES		560 323
Stockholders' Equity:		
Capital stock		93 257
Additional paid-in capital		10 281 165
Retained earnings		29 151 368
Accumulated other comprehensive income		(499 700)
TOTAL STOCKHOLDERS' EQUITY		39 026 090
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	39 586 413

See independent auditors' report on additional information.

	SHELBY SAVINGS BANK SSB	SHELBY INSURANCE AGENCY, INC.	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
	$ 5 150 490	$ 49 596	$ (626 299)	$ 5 150 490
	27 411 655	-	-	27 411 655
	32 562 145	49 596	(626 299)	32 562 145
	30 307 589	-	-	30 307 589
	482 387	-	(39 467 344)	-
	217 585 318	-	-	217 585 318
	90 706	-	-	90 706
	7 878 822	161 255	-	8 040 077
	1 573 900	-	-	1 573 900
	1 599 746	-	-	1 599 746
	3 501 670	-	-	3 501 670
	-	275 000	-	275 000
	318 712	-	-	343 465
	$ 295 900 995	$ 485 851	$ (40 093 643)	$ 295 879 616
	$ 45 673 212	$ -	$ (626 299)	$ 45 046 913
	189 548 181	-	-	189 548 181
	235 221 393	-	(626 299)	234 595 094
	397 231	-	-	397 231
	119 479	-	-	119 479
	-	-	-	559 542
	20 576 727	-	-	20 576 727
	601 208	3 464	-	605 453
	256 916 038	3 464	(626 299)	256 853 526
	731 899	558 006	(1 289 905)	93 257
	4 398 007	-	(4 398 007)	10 281 165
	34 354 751	(75 619)	(34 279 132)	29 151 368
	(499 700)	-	499 700	(499 700)
	38 984 957	482 387	(39 467 344)	39 026 090
	$ 295 900 995	$ 485 851	$ (40 093 643)	$ 295 879 616

AXLEY&RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2018

		SHELBY BANCSHARES, INC.
Interest Income:		
Loans Receivable:		
First mortgage loans	$	-
Consumer and other loans		-
Mortgage-backed and related securities		-
US Government agencies		-
Municipal bonds		-
Other interest-earning assets		-
TOTAL INTEREST INCOME		-
Interest Expense:		
Deposits		-
Federal Home Loan Bank advances		-
TOTAL INTEREST EXPENSE		-
NET INTEREST INCOME		-
Provision for loan losses		-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		-
Noninterest Income:		
Service charges and overdraft fees on deposit accounts		-
Commission income		-
Loan late charges		-
Increase in cash value of life insurance		-
Gain on sale of loans		-
Equity in earnings of subsidiaries		3 562 743
Other		28
TOTAL OTHER INCOME		3 562 771
Noninterest Expense:		
General and Administrative:		
Compensation and benefits		-
Occupancy and equipment		-
Advertising		-
Computer service		-
Directors fees		-
Office supplies		-
(Gain)/loss on sale of repossessed property		-
Other		12 744
TOTAL NONINTEREST EXPENSE		12 744
NET INCOME (LOSS)	$	3 550 027

See independent auditors' report on additional information.

SHELBY SAVINGS BANK SSB	SHELBY INSURANCE AGENCY, INC.	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
$ 8 435 617	$ -	$ -	$ 8 435 617
3 900 913	-	-	3 900 913
79 635	-	-	79 635
354 463	-	-	354 463
185 347	-	-	185 347
392 338	-	-	392 338
13 348 313	-	-	13 348 313
1 453 151	-	-	1 453 151
697 770	-	-	697 770
2 150 921	-	-	2 150 921
11 197 392	-	-	11 197 392
286 757	-	-	286 757
10 910 635	-	-	10 910 635
1 033 519	-	-	1 033 519
-	116 199	-	116 199
133 510	-	-	133 510
82 211	-	-	82 211
38 954	-	-	38 954
(75 619)	-	(3 487 124)	-
870 517	-	-	870 545
2 083 092	116 199	(3 487 124)	2 274 938
4 871 803	121 532	-	4 993 335
1 592 393	2 809	-	1 595 202
283 028	5 156	-	288 184
792 491	-	-	792 491
345 600	-	-	345 600
149 901	-	-	149 901
(3 978)	-	-	(3 978)
1 399 746	62 321	-	1 474 811
9 430 984	191 818	-	9 635 546
$ 3 562 743	$ (75 619)	$ (3 487 124)	$ 3 550 027

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL CONDITION
December 31, 2017

	SHELBY BANCSHARES, INC.
ASSETS	
Cash and cash equivalents	$ 929 458
Interest-bearing demand deposits in other banks	-
TOTAL CASH AND CASH EQUIVALENTS	929 458
Investment securities available for sale	-
Investment in subsidiary	35 988 991
Loans receivable	-
Property and equipment	-
Federal Home Loan Bank stock	-
Accrued interest receivable	-
Cash value life insurance	-
Other assets	4
TOTAL ASSETS	$ 36 918 453
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Noninterest-bearing deposits	$ -
Interest-bearing deposits	-
TOTAL DEPOSITS	-
Advances from borrowers for taxes and insurance	-
Accrued interest payable	-
Distributions payable	548 442
Federal Home Loan Bank advances	-
Other liabilities	781
TOTAL LIABILITIES	549 223
Stockholders' Equity:	
Capital stock	91 407
Additional paid-in capital	9 308 608
Retained earnings	27 210 587
Accumulated other comprehensive income	(241 372)
TOTAL STOCKHOLDERS' EQUITY	36 369 230
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 36 918 453

See independent auditors' report on additional information.

	SHELBY SAVINGS BANK SSB		ELIMINATING ENTRIES		CONSOLIDATED TOTALS
$	5 296 854	$	(929 458)	$	5 296 854
	28 159 309		-		28 159 309
	33 456 163		(929 458)		33 456 163
	27 450 523		-		27 450 523
	-		(35 988 991)		-
	210 654 069		-		210 654 069
	8 451 380		-		8 451 380
	1 537 900		-		1 537 900
	1 395 815		-		1 395 815
	3 419 459		-		3 419 459
	388 999		-		389 003
$	286 754 308	$	(36 918 449)	$	286 754 312
$	48 970 727	$	(929 458)	$	48 041 269
	179 561 806		-		179 561 806
	228 532 533		(929 458)		227 603 075
	430 835		-		430 835
	94 517		-		94 517
	-		-		548 442
	21 257 291		-		21 257 291
	450 141		-		450 922
	250 765 317		(929 458)		250 385 082
	731 899		(731 899)		91 407
	4 398 007		(4 398 007)		9 308 608
	31 100 457		(31 100 457)		27 210 587
	(241 372)		241 372		(241 372)
	35 988 991		(35 988 991)		36 369 230
$	286 754 308	$	(36 918 449)	$	286 754 312

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2017

		SHELBY BANCSHARES, INC.
Interest Income:		
Loans Receivable:		
First mortgage loans	$	-
Consumer and other loans		-
US Government agencies		-
Municipal bonds		-
Other interest-earning assets		-
TOTAL INTEREST INCOME		-
Interest Expense:		
Deposits		-
Federal Home Loan Bank advances		-
TOTAL INTEREST EXPENSE		-
NET INTEREST INCOME		-
Provision for loan losses		-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		-
Noninterest Income:		
Service charges and overdraft fees on deposit accounts		-
Loan late charges		-
Increase in cash value of life insurance		-
Gain on sale of loans		-
Equity in earnings of subsidiary		3 927 572
Realized gain/(loss) on sale of available for sale securities		-
Other		36
TOTAL OTHER INCOME		3 927 608
Noninterest Expense:		
General and Administrative:		
Compensation and benefits		-
Occupancy and equipment		-
Advertising		-
Computer service		-
Directors fees		-
Office supplies		-
(Gain)/loss on sale of repossessed property		-
Other		10 279
TOTAL NONINTEREST EXPENSE		10 279
NET INCOME	$	3 917 329

See independent auditors' report on additional information.

SHELBY SAVINGS BANK SSB	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
$ 8 083 358	$ -	$ 8 083 358
3 599 726	-	3 599 726
457 979	-	457 979
130 556	-	130 556
195 443	-	195 443
12 467 062	-	12 467 062
1 163 054	-	1 163 054
724 894	-	724 894
1 887 948	-	1 887 948
10 579 114	-	10 579 114
339 214	-	339 214
10 239 900	-	10 239 900
1 015 049	-	1 015 049
130 434	-	130 434
85 269	-	85 269
100 997	-	100 997
-	(3 927 572)	-
(3 922)	-	(3 922)
913 491	-	913 527
2 241 318	(3 927 572)	2 241 354
4 493 373	-	4 493 373
1 363 386	-	1 363 386
293 425	-	293 425
756 419	-	756 419
265 900	-	265 900
168 435	-	168 435
(26 076)	-	(26 076)
1 238 784	-	1 249 063
8 553 646	-	8 563 925
$ 3 927 572	$ (3 927 572)	$ 3 917 329

SHELBY BANCSHARES, INC.
CENTER, TEXAS
DOMESTIC HOLDING COMPANY
ANNUAL REPORT F.R.Y-6

Item 2a - Organization Chart

SHELBY BANCSHARES, INC.
Center, Texas
Incorporated in Texas

"LEI: NONE"

100% Owned

SHELBY SAVINGS BANK, SSB
Center, Texas
Incorporated in Texas

"LEI: NONE"

100% Owned

SHELBY INSURANCE AGENCY, INC
Hemphill, Texas
Incorporated in Texas

“LEI: NONE”

SHELBY BANCSHARES, INC.
CENTER, TEXAS
DOMESTIC HOLDING COMPANY
ANNUAL REPORT F.R.Y-6

Item 2b - Branch Locations

Shelby Savings Bank, SSB
Center Branch
111 Selma Street
Center, Texas 75935
936.598.5688
FULL SERVICE
ELECTRONIC BANKING
MOBILE BANKING

Shelby Savings Bank, SSB
San Augustine Branch
710 West Columbia
San Augustine, Texas 75972
936.275.3414
FULL SERVICE
MOBILE BANKING

Shelby Savings Bank, SSB
Hemphill Branch
103 Worth Street
Hemphill, Texas 75948
409.787.3102
FULL SERVICE
MOBILE BANKING

Shelby Savings Bank, SSB
Center North Branch
1110 Hurst
Center, Texas 75935
936.591.0134
LIMITED SERVICE
MOBILE BANKING

Shelby Savings Bank, SSB
Palestine Branch
2805 Loop 256
Palestine, Texas 75801
903.723.3164
FULL SERVICE
MOBILE BANKING

Results: A list of branches for your depository institution: SHELBY SAVINGS BANK, SSB (ID_RSSD: 552974).
This depository institution is held by SHELBY BANCSHARES, INC. (2960630) of CENTER, 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)	552974	SHELBY SAVINGS BANK, SSB	111 SELMA ST	CENTER	TX	75935	SHELBY	UNITED STATES	Not Required	Not Required	SHELBY SAVINGS BANK, SSB	552974	
Ok		Limited Service	3929317	CENTER NORTH BRANCH	1110 HURST STREET	CENTER	TX	75935	SHELBY	UNITED STATES	Not Required	Not Required	SHELBY SAVINGS BANK, SSB	552974	
Ok		Full Service	1403596	HEMPHILL BANKING CENTER	103 WORTH STREET	HEMPHILL	TX	75948	SABINE	UNITED STATES	Not Required	Not Required	SHELBY SAVINGS BANK, SSB	552974	
Ok		Full Service	5189580	PALESTINE BRANCH	2805 LOOP 256	PALESTINE	TX	75801	ANDERSON	UNITED STATES	Not Required	Not Required	SHELBY SAVINGS BANK, SSB	552974	
Ok		Full Service	1403587	SAN AUGUSTINE BANKING CENTER	710 WEST COLUMBIA	SAN AUGUSTINE	TX	75972	SAN AUGUSTINE	UNITED STATES	Not Required	Not Required	SHELBY SAVINGS BANK, SSB	552974	

SHELBY BANCSHARES, INC.
CENTER, TEXAS
DOMESTIC HOLDING COMPANY
ANNUAL REPORT F.R.Y-6
FISCAL YEAR ENDING DECEMBER 31, 2018
REPORT ITEM 3: SECURITIES HOLDERS
(1)a, b, c

NAME, CITY AND STATE	COUNTRY OF CITIZENSHIP	NUMBER & PERCENTAGE OF EACH CLASS OF VOTING SECURITIES
Janie Biddle Center, Texas	USA	6,218 - 6.668%*
Weldon Boles Center, Texas	USA	6,660 - 7.142%
Rick Campbell Center, Texas	USA	8,503 - 9.118%
Sammy or Barbara Dance Center, Texas	USA	6,904 - 7.403%
Angela Lee Koonce Center, Texas	USA	6,003 - 6.437%
Lisa McAdams Center, Texas	USA	5,100 - 5.469%
C. Donald Monroe Center, Texas	USA	5,110 - 5.479%

* Janie Biddle owns 3,359 (3.602%) shares of stock. She is also Trustee for the Patrick E. Biddle Marital Trust and therefore has the power to vote the Trust's 2,859 (3.066%) shares of stock. Upon Mrs. Biddle's death, the stock in the trust will go to Patrick E. Biddle's children from a prior marriage and Mrs. Biddle's stock will go to her children from a prior marriage.

SHELBY BANCSHARES, INC.
CENTER, TEXAS
DOMESTIC HOLDING COMPANY
ANNUAL REPORT F.R.Y-6
FISCAL YEAR ENDING DECEMBER 31, 2018
REPORT ITEM 3: SECURITIES HOLDERS
(2)a, b, c - Security Holders not listed in 3(1)a,b,c that had ownership control or holdings of 5% or more with power to vote during the fiscal year ended December 31, 2018.

N/A

FRY-6
SHELBY BANCSHARES, INC.
Fiscal Year Ending December 31, 2018
Report Item 4: Insiders
(1), (2), (3), a, b, c and (4) a, b, c

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
	PRINCIPAL				% OF		
	OCCUPATION				VOTING	% OF	LIST NAMES OF OTHER COMPANIES
	IF OTHER	TITLE & POSITION	TITLE	TITLE AND	SHARES IN	VOTING	(INCLUDING PARTNERSHIPS)
NAME, CITY	THAN HOLDING	WITH HOLDING	AND POSITION	POSITION WITH	BANK HOLDING	SHARES IN	IF 25% OR MORE OF
AND STATE	COMPANY	COMPANY	WITH SUBSIDIARIES	OTHER BUSINESSES	COMPANY	SUBSIDIARIES	VOTING SECURITIES ARE HELD
James Campbell	Businessman	Chairman Emeritus/	Shelby Savings Bank	General Shelters of Texas Ltd - Owner	3.1633%	None	General Shelters of Texas, Ltd - 65%
Center, Texas		Director	Chairman Emeritus/	J D Port A Cool – Partner			J D Port A Cool - 50%
USA			Director	Campbell Portable Buildings, Ltd - Owner			Campbell Portable Buildings Ltd - 100%
				JEC Rent Property - Owner			JEC Rent Properties - 100%
Rick Campbell	Businessman	Chairman/Director	Shelby Savings Bank	General Shelters of Texas, Ltd - Partner	9.1178%	None	N/A
Center, Texas			Chairman/Director	B.B.G.P. Racing - Owner			B.B.G.P. Racing - 33%
USA				Bonehill Foundation - Chairman			N/A
Sammy Dance	Retired	Secretary/Director	Shelby Savings Bank	S.D. & B.W. Dance Living Trust - Trustee	(1) 7.4032%	None	S.D. & B.W. Dance Living Trust - 50%
Center, Texas	Businessman		Secretary/Director	Sammy Dance Timber Production - Owner			Sammy Dance Timber Production - 100%
USA							
Dixon Golden	Optometrist	Director	Shelby Savings Bank	David Dixon Golden, O.D., P.A. - Owner	3.2169%	None	David Dixon Golden, O.D., P.A. - 100%
Center, Texas			Director	Pineywoods Eye Associates, P.A. - Owner			Pineywoods Eye Associates, P.A. - 50%
USA				Golden Irrevocable Insurance Trust - Owner			Golden Irrevocable Insurance Trust - 100%
				Golden-Lehman Properties - Owner			Golden-Lehman Properties - 50%
				Golden-McCall Properties - Owner			Golden-McCall Properties - 33.3%
Howell Howard	Businessman	Director	Shelby Savings Bank	Triple H Farms, LLC dba East Texas	3.2169%	None	Triple H Farms, LLC dba East Texas
Center, Texas			Director	Poultry Supply - Owner			Poultry Supply - 100%
Lisa McAdams	Businesswoman	Director	Shelby Savings Bank	JLB-McAdams Enterprises Inc dba	5.4688%	None	JLB-McAdams Enterprises Inc dba
Center, Texas			Director	McAdams Propane - Owner			McAdams Propane Co - 51%
USA				Boles Enterprises, Inc. - Owner			Boles Enterprises, Inc - 25%
				Boles Family Insurance Trust - Trustee			Boles Family Insurance Trust - 100%
				Midstream Transportation - Partner			Midstream Transportation - 33.3%
Donald Monroe	Businessman	Director	Shelby Savings Bank	Monco Motor Company - President	5.4795%	None	Monco Motor Company - 100%
Center, Texas			Director	CD Trading, LLC - Owner			CD Trading, LLC - 100%
USA							
William Lucas	Banker	President/CEO/	Shelby Savings Bank	A & W Farming and Leasing, LLC - Owner	1.3179%	None	A & W Farming and Leasing, LLC - 50%
Center, Texas		Director	President/CEO/Director	Solomon Zane Allen Trust - Secretary			N/A
USA				Will Lucas Farming - Owner			Will Lucas Farming - 100%
John Snider	Banker	Vice Chairman/	Shelby Savings Bank	Snider Grandchildren Trust - Trustee	3.2341%	None	N/A
Center, Texas		Director	Vice Chairman/Director				
USA							
Laree Bounds	Banker	Sr Vice President/	Shelby Savings Bank	None	0.0965%	None	None
Joaquin, Texas		Treasurer/Asst Sec	Sr Vice President/				
USA			Treasurer/Assistant				
			Secretary				
					2.1446%		
Robert N Harris, Jr	Businessman	Director	Shelby Savings Bank	Chickadee, LLC – VP		None	Chickadee, LLC – 50%
San Augustine, Texas			Director	NH Rang, LP – Agent			NH Ranch, LP – 50%
USA				Robert and Roy Jo Harris Farms – Partner			Robert and Roy Jo Harris – 50%

(1) Shares owned jointly with Barbara Dance.