

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, **L. Frederick Francis**

Name of the Holding Company Director and Official

Chairman, CEO and 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.

Signature of Holding Company Director and Official

03/28/2019

Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID _____
 C.I. _____

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

WestStar Bank Holding Company, Inc.

Legal Title of Holding Company

500 N. Mesa St.

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

El Paso

TX

79901

City

State

Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Socorro E. Rodriguez

SVP/Treasurer

Name

Title

915-747-1632

Area Code / Phone Number / Extension

915-342-1944

Area Code / FAX Number

srodriguez@weststarbank.com

E-mail Address

N/A

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

Is confidential treatment requested for any portion of this report submission?	0=No 1=Yes	1
In accordance with the General Instructions for this report (check only one),		
1. a letter justifying this request is being provided along with the report	<input checked="" type="checkbox"/>	
2. a letter justifying this request has been provided separately ...	<input type="checkbox"/>	
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."		

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

N/A

Legal Title of Subsidiary Holding Company

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

City

State

Zip Code

Physical Location (if different from mailing address)

N/A

Legal Title of Subsidiary Holding Company

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

City

State

Zip Code

Physical Location (if different from mailing address)

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WestStar Bank

Holding Company, Inc.

2018 Annual Report

**WestStar Bank Holding Company, Inc.
and Subsidiary**

Annual Financial Report

December 31, 2018 and 2017

WestStar Bank Holding Company, Inc. and Subsidiary

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Independent Auditor's Report

To the Board of Directors and Stockholders
WestStar Bank Holding Company, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of WestStar Bank Holding Company, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matter

We have also audited, in accordance with auditing standards generally accepted in the United States of America, WestStar Bank Holding Company, Inc. and Subsidiary's internal control over financial reporting, as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report, dated March 7, 2019, expressed an unqualified opinion on the effectiveness of WestStar Bank Holding Company, Inc. and Subsidiary's internal control over financial reporting.

RSM US LLP

San Antonio, Texas

March 7, 2019

WestStar Bank Holding Company, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2018 and 2017

(Dollars in Thousands, Except Share Data)

	Assets	
	<u>2018</u>	<u>2017</u>
Cash and due from banks	\$ 19,197	\$ 18,076
Interest-bearing deposits in other depository institutions	<u>6,698</u>	<u>9,216</u>
Cash and cash equivalents	25,895	27,292
Securities available for sale	453,368	372,923
Securities to be held to maturity (fair value of \$11,825 and \$15,460 at December 31, 2018 and 2017, respectively)	11,710	15,067
Restricted investment securities	5,663	7,631
Loans held for sale	214	1,811
Loans – net of allowance for loan losses and deferred loan fees of \$15,240 (\$12,149 in 2017)	1,238,359	1,167,061
Bank premises and equipment – net	28,381	17,811
Accrued interest receivable	5,716	5,617
Goodwill and intangible assets – net	43,029	43,265
Other real estate owned – net	-	252
Prepaid expenses and other assets	<u>9,582</u>	<u>8,731</u>
	<u>\$ 1,821,917</u>	<u>\$ 1,667,461</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	\$ 563,161	\$ 496,488
Interest-bearing	<u>1,002,301</u>	<u>914,781</u>
Total deposits	1,565,462	1,411,269
Accrued interest payable	83	56
Federal Home Loan Bank ("FHLB") advances	5,000	18,000
Accrued expenses and other liabilities	<u>22,288</u>	<u>15,524</u>
Total liabilities	<u>1,592,833</u>	<u>1,444,849</u>
Commitments and contingencies (notes 6, 9, 10, 11, and 13)		
Stockholders' Equity		
Common stock – \$5 par value; 3,000,000 shares authorized; 1,931,660 shares issued and outstanding (1,924,600 shares issued and outstanding in 2017)	9,658	9,623
Additional paid-in capital	147,249	145,638
Retained earnings	83,760	71,998
Accumulated other comprehensive loss	<u>(11,583)</u>	<u>(4,647)</u>
Total stockholders' equity	<u>229,084</u>	<u>222,612</u>
	<u>\$ 1,821,917</u>	<u>\$ 1,667,461</u>

Notes to the consolidated financial statements form an integral part of these statements.

WestStar Bank Holding Company, Inc. and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2018 and 2017

(Dollars in Thousands, Except Share Data)

	<u>2018</u>	<u>2017</u>
Interest income:		
Loans – including fees	\$ 68,406	\$ 60,206
Securities available for sale	9,432	8,162
Securities held to maturity	496	607
Other	<u>1,486</u>	<u>527</u>
Total interest income	<u>79,820</u>	<u>69,502</u>
Interest expense:		
Deposits	5,597	2,732
FHLB advances	<u>584</u>	<u>203</u>
Total interest expense	<u>6,181</u>	<u>2,935</u>
Net interest income	73,639	66,567
Provision for loan losses	<u>3,044</u>	<u>2,662</u>
Net interest income after provision for loan losses	<u>70,595</u>	<u>63,905</u>
Noninterest income:		
Service charges and fees on deposit accounts	3,493	3,578
Fees from trust services	4,417	3,850
Fees from insurance activities	7,210	5,978
Net realized gains on sales of available for sale securities	-	16
Net realized gains on sales of mortgage loans held for sale	2,001	2,092
Other operating income	<u>3,429</u>	<u>3,286</u>
Total noninterest income	<u>20,550</u>	<u>18,800</u>
Noninterest expense:		
Salaries and employee benefits	29,254	26,492
Net occupancy and equipment expenses	4,679	4,263
Data processing and software expenses	2,343	2,383
Professional services	2,649	2,578
Other operating expenses	<u>7,831</u>	<u>7,605</u>
Total noninterest expense	<u>46,756</u>	<u>43,321</u>
Net income	<u>\$ 44,389</u>	<u>\$ 39,384</u>
Weighted-average number of shares outstanding	<u>1,928,628</u>	<u>1,917,687</u>
Basic earnings per share	<u>\$ 23.02</u>	<u>\$ 20.54</u>

Notes to the consolidated financial statements form an integral part of these statements.

WestStar Bank Holding Company, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2018 and 2017

(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Net income	\$ <u>44,389</u>	\$ <u>39,384</u>
Other items of comprehensive income (loss):		
Unrealized holding gains (losses) on securities:		
Unrealized holding gains (losses) arising during the year	(6,936)	1,130
Less reclassification adjustment for gains included in net income	<u>-</u>	<u>(16)</u>
Total other items of comprehensive income (loss)	<u>(6,936)</u>	<u>1,114</u>
Comprehensive income	\$ <u><u>37,453</u></u>	\$ <u><u>40,498</u></u>

Notes to the consolidated financial statements form an integral part of these statements.

WestStar Bank Holding Company, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2018 and 2017
(Dollars in Thousands, Except Share Data)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2016	1,907,852	\$ 9,539	\$ 141,940	\$ 59,458	\$ (5,761)	\$ 205,176
Net income	-	-	-	39,384	-	39,384
Change in net unrealized gains (losses) on investment securities	-	-	-	-	1,114	1,114
Contribution of stock to ESOP	1,922	10	421	-	-	431
Issuance of stock	700	4	154	-	-	158
Issuance of stock for Dividend Reinvestment Plan ("DRIP")	14,126	70	3,123	-	-	3,193
Cash dividends declared	-	-	-	(26,844)	-	(26,844)
Balance at December 31, 2017	1,924,600	\$ 9,623	\$ 145,638	\$ 71,998	\$ (4,647)	\$ 222,612
Net income	-	-	-	44,389	-	44,389
Change in net unrealized gains (losses) on investment securities	-	-	-	-	(6,936)	(6,936)
Contribution of stock to ESOP	1,860	9	422	-	-	431
Issuance of stock	5,200	26	1,189	-	-	1,215
Cash dividends declared	-	-	-	(32,627)	-	(32,627)
Balance at December 31, 2018	<u>1,931,660</u>	<u>\$ 9,658</u>	<u>\$ 147,249</u>	<u>\$ 83,760</u>	<u>\$ (11,583)</u>	<u>\$ 229,084</u>

Notes to the consolidated financial statements form an integral part of these statements.

WestStar Bank Holding Company, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2018 and 2017

(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Net income	\$ 44,389	\$ 39,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock dividend from FHLB	(72)	(9)
Contribution of stock to ESOP	431	431
Contribution of stock for director compensation	47	46
(Gain)Loss on disposition of bank premises and equipment	11	(18)
(Gain)Loss on sale of other real estate owned	4	(13)
(Gain) on sale of securities available for sale	-	(16)
(Gain)Loss on loans originated for sale	(2,001)	(2,093)
Loans originated for sale	(67,918)	(69,359)
Proceeds from loans sold	71,516	71,589
Depreciation of bank premises and equipment	1,685	1,491
Amortization of core deposit intangible	237	242
Accretion of discounts on investment securities	(66)	(23)
Amortization of premiums on investment securities	1,757	1,747
Provision for loan losses	3,044	2,662
Amortization of deferred loan fees	1,494	1,369
Accretion of fair value discount	2,169	1,638
Net change in:		
Accrued interest receivable	(99)	(869)
Prepaid expenses and other assets	(851)	(853)
Accrued interest payable	27	7
Accrued expenses and other liabilities	1,119	1,005
Net cash provided by operating activities	<u>56,923</u>	<u>48,358</u>
Cash Flows From Investing Activities		
Purchases of securities available for sale	(745,953)	(628,728)
Proceeds from sale of securities available for sale	2,995	42,417
Purchase of FHLB and FRB stock	(1,586)	(8,227)
Proceeds from sale of FHLB and FRB stock	3,626	5,075
Principal payments of securities available for sale	48,149	46,813
Principal payments of securities held to maturity	3,313	3,701
Maturity of United States agency securities available for sale	600,000	500,000
Maturity of municipal securities available for sale	5,780	710
Purchases of bank premises and equipment	(12,267)	(1,527)
Proceeds from sale of bank premises and equipment	1	3,283
Proceeds from sale of other real estate owned	515	314
Net change in loans	<u>(78,273)</u>	<u>(110,945)</u>
Net cash used in investing activities	<u>(173,700)</u>	<u>(147,114)</u>

Notes to the consolidated financial statements form an integral part of these statements.

WestStar Bank Holding Company, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2018 and 2017

(Dollars in Thousands)

(Continued)

	<u>2018</u>	<u>2017</u>
Cash Flows From Financing Activities		
Net change in deposits	154,193	111,481
Net change in advances	(13,000)	18,000
Proceeds from issuance of common stock	1,168	3,305
Dividends paid	<u>(26,981)</u>	<u>(24,440)</u>
Net cash provided by financing activities	<u>115,380</u>	<u>108,346</u>
Net increase (decrease) in cash and cash equivalents	(1,397)	9,590
Cash and cash equivalents at beginning of year	<u>27,292</u>	<u>17,702</u>
Cash and cash equivalents at end of year	\$ <u><u>25,895</u></u>	\$ <u><u>27,292</u></u>

Schedules of Other Cash Flow Information and Noncash Activities

Interest paid	\$ <u><u>6,154</u></u>	\$ <u><u>2,928</u></u>
Dividends declared – not yet paid	\$ <u><u>12,382</u></u>	\$ <u><u>6,736</u></u>
Loans transferred to other real estate owned – net	\$ <u><u>267</u></u>	\$ <u><u>252</u></u>
Sale of other real estate owned - financed	\$ <u><u>-</u></u>	\$ <u><u>257</u></u>

Notes to the consolidated financial statements form an integral part of these statements.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of WestStar Bank Holding Company, Inc. (the "Holding Company"), its wholly owned subsidiary WestStar Bank (the "Bank"), and the Bank's wholly owned subsidiaries WestStar Insurance Agency, Inc. (the "Insurance Agency"), WestStar Title, LLC. (the "Title Company"), and WestStar Tower Properties, LLC. ("WestStar Tower Properties") (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Bank, headquartered in El Paso, Texas, is a Texas state-chartered bank that opened for business on May 1, 1990. The Bank is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation (Bank Insurance Fund) within prescribed limits. The Bank is also a member of the Federal Home Loan Bank of Dallas.

The Bank provides traditional banking, wealth management, and treasury management services. The Bank primarily services individual and corporate customers in El Paso, Texas; Las Cruces, New Mexico; and Northern Mexico. Its primary deposit products are demand, NOW, money market, savings, and time accounts. Its primary lending products are real estate and commercial loans.

The Bank operates three wholly owned subsidiaries, WestStar Insurance Agency, Inc., WestStar Title, LLC., and WestStar Tower Properties, LLC. The Insurance Agency sells and services property, casualty, life and health insurance policies. The Title Company offers services that include, but are not limited to, examining title records, acting as escrow agent in the closing of commercial and residential real estate transactions and issuing owner's and loan title insurance policies. WestStar Tower Properties holds the real estate investment for WestStar Tower, the new headquarters for the Company, currently under construction and scheduled to be in service during the fourth quarter of 2020.

The Bank is subject to competition from other financial institutions. The Holding Company, Bank, Insurance Agency and Title Company are subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as 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 in the near term relate to the determination of the allowance for loan losses, valuation of goodwill, and the valuation of available-for-sale securities.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

New and Recently Issued Accounting Standards

In August 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-14, an amendment to ASU No. 2014-09, *Revenue Recognition—Revenue from Contracts with Customers (Topic 606)*. This ASU provides guidance on when to recognize revenue from contracts with customers. The objective of this ASU is to eliminate diversity in practice related to this topic and to streamline and enhance revenue recognition requirements. The ASU defines five steps to recognize revenue including, identify the contract with a customer, identify the performance obligations in the contract, determine a transaction price, allocate the transaction price to the performance obligations and then recognize the revenue when or as the entity satisfies a performance obligation. This amended update is effective for annual reporting periods beginning after December 15, 2018, and the Company does not believe this ASU will have a material impact on its future consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825-10)*. The ASU applies to all entities that hold financial assets or owe financial liabilities and represents the finalization of just one component of the FASB's broader financial instruments project. The most far-reaching ramification of the ASU is the elimination of the available-for-sale classification for equity securities and a new requirement to carry those equity securities with readily determinable fair values at fair value through net income. Other notable changes brought about by the ASU involve: (a) applying a practicability exception from fair value accounting to equity securities that do not have a readily determinable fair value, (b) assessing the need for a valuation allowance on a deferred tax asset related to an available-for-sale debt security, (c) applying the fair value option to liabilities and the treatment of changes in fair value attributable to instrument-specific credit risk and (d) adding disclosures and eliminating certain disclosures. This ASU is effective for fiscal years beginning after December 15, 2018. The Company does not believe this ASU will have a material impact on its future consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* and subsequently issued amendments and technical corrections in ASU 2018-01, ASU 2018-10 and ASU 2018-11. The new standard, which is codified in ASC 842, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Company is currently evaluating the effect this standard will have on the consolidated financial statements.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

New and Recently Issued Accounting Standards (continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial instruments. The existing incurred loss model will be replaced with a current expected credit loss (“CECL”) model for both originated and acquired financial instruments carried at amortized cost and off-balance sheet credit exposures, including loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in leases, and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance sheet credit exposures will be recognized through a liability. Expected credit losses on available-for-sale debt securities will also be recognized through an allowance; however, the allowance for an individual available-for-sale debt security will be limited to the amount by which fair value is below amortized cost. Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and therefore the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense.

Expanded disclosures will also be required. Transition will generally be on a modified retrospective basis, with certain prospective application transition provisions for securities for which other-than-temporary impairment had previously been recognized and for assets that had previously been accounted for in accordance with Subtopic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*. This ASU is effective for the Company in fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the effect this standard will have on the consolidated financial statements.

Significant Group Concentrations of Credit Risk

Most of the Company’s activities are with customers located within El Paso County, Texas and the surrounding areas. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. Commercial real estate, including commercial construction loans, represented 69% of the total portfolio at December 31, 2018 and 2017.

Acquisition Accounting

Mergers and acquisitions are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangible assets, and assumed liabilities are recorded at their respective acquisition date fair values. If the consideration given exceeds the fair value of net assets received, goodwill is recognized.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

Securities

The Bank classifies investment securities into one of two categories, held to maturity or available for sale. Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using a method that approximates the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of held to maturity and available for sale securities are evaluated to determine whether declines in fair value below their amortized cost are other than temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors including, but not limited to: (1) the length of time and the extent to which the fair value has been less than the amortized cost; (2) the financial condition and near-term prospects of the issuer; (3) the current market conditions; and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.

Restricted Investment Securities

Restricted investment securities include Federal Home Loan Bank (“FHLB”) stock and Federal Reserve Bank stock, which are carried at cost on the consolidated balance sheets. These equity securities are “restricted” in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other marketable equity securities. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. There has been no impairment to date.

Loans Held for Sale

Loans held for sale consist primarily of single-family residential mortgages. The loans are generally on the consolidated balance sheet for no more than 30 days. Substantially all mortgage loans originated are sold to various investors in the secondary market with servicing released. Mortgage loans held for sale are carried at fair value in accordance with the provisions of the Fair Value Options Subsections (the “Fair Value Option”) of the Accounting Standards Codification (“ASC”). Changes in the fair value of the loans held for sale are recognized in earnings and fees and costs associated with origination are recognized as incurred. The specific identification method is used to determine realized gains and losses on sales of loans, which are reported as net gains (losses) in noninterest income. Loans sold are subject to certain indemnification provisions with investors, including the repurchase of loans sold and repayment of certain sales proceeds to investors under certain conditions. In December 2018, the Company exited the business of originating mortgage loans for sale into the secondary market.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

Loans

The Company grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout El Paso County, Texas. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

The Company has lending policies and procedures in place to grant loans to borrowers after underwriting standards are satisfied. Commercial and residential real estate loans are subject to underwriting standards that evaluate cash flow and fair value of the collateral. The collectability of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on collateral, geography, and risk criteria.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets and frequently include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and collect amounts due from their customers.

Consumer loans are originated after evaluation of the credit history and repayment ability of the borrower based on current personal income. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower's income.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees on originated loans. Interest income is accrued on the unpaid principal balance.

Loan origination fees are deferred and recognized as an adjustment of the related loan yield using the interest method.

A loan is considered delinquent when principal and/or interest amounts are not current, in accordance with the contractual loan agreement.

The accrual of interest on real estate and commercial loans is generally discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

Loans (continued)

At the time accrual on interest is discontinued, any unpaid amounts previously accrued in the current year on these loans are reversed from income and any amounts accrued in prior years are charged against the allowance for loan losses. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

Loans are fully charged off or partially charged down to the fair value of the collateral securing the loan when management determines the asset to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy, or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan.

In situations related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include interest rate reductions, payment forbearance, or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above, for impaired loans.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

Acquired Loans

Loans acquired in a business combination are recorded at estimated fair value on their purchase date without a carryover of the related allowance for loan losses. Acquired loans were segregated between those considered to be credit impaired and those without credit impairment at acquisition. To make this determination, management considered such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans was determined by discounting expected cash flows, both principal and interest, at prevailing market interest rates. The difference between the fair value and principal balances due at acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

Purchased credit impaired (“PCI”) loans are acquired loans with evidence of deterioration of credit quality since origination and it is probable, at the acquisition date, that the Company will not be able to collect all contractually required amounts. PCI loans acquired are accounted for on an individual loan basis. The fair value was initially based on an estimate of cash flows, both principal and interest, expected to be collected, discounted at prevailing market rates of interest. Management estimated cash flows using key assumptions such as default rates, loss severity rates assuming default, and estimated collateral values. The excess of cash flows expected to be collected from a loan over its estimated fair value at acquisition is referred to as the accretable yield and is recognized in interest income using an effective yield method over the remaining life of the loan. When the timing/and or amounts of expected cash flows on such loans are not reasonably estimable, the fair value discount is not accreted into income.

Allowance for Loan Losses

The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management’s best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company’s methodology for the allowance for loan losses includes allowance allocations calculated in accordance with the ASC, *Receivables*, and ASC, *Contingencies*. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools, and specific loss allocations, with adjustments for current events and conditions.

The Company’s process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations, and loan quality trends, including trends in nonaccrual, past-due, and classified loans; current period loan charge-offs; and recoveries. The determination also includes qualitative aspects, such as changes in local, regional, or national economies or markets, and other factors. Such qualitative factors are highly judgmental and require constant refinement. The Company has an internal loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade, and assist senior management in maintaining an adequate allowance for loan losses by reviewing and refining the methodology, as needed, based on changing circumstances.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses (continued)

The Company's allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with the ASC based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with the ASC based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

While management uses the best information available to make its evaluation, future additions to the allowance could be required based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Long Lived Assets

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows from operations of the asset are less than the carrying value of the asset. The cash flows used for this analysis are those directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds its fair value.

Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is recognized on the straight-line method over the estimated useful lives of the asset which range from 3 to 39 years. Depreciation on leasehold improvements is recognized on the straight-line method over the shorter of the related lease term or the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred. Renewals and betterments that significantly extend the useful life of an asset are capitalized. At the time an asset is sold or otherwise disposed of, the depreciated balance is written off and the resulting gain or loss is recognized.

Goodwill

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for as purchases. Under ASC Topic 350, goodwill of a reporting unit is not amortized but is tested for impairment on an annual basis, or between annual tests if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying amount. The Company's goodwill impairment assessment in 2018 and 2017 concluded no impairment existed. Any future impairment will be recorded as noninterest expense in the period of assessment.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

Core Deposit Intangibles

Core deposit intangibles, the portion of an acquisition purchase price which represents value assigned to the existing deposit base, have finite lives and are amortized using the accelerated method over a period of 10 years. Intangible assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. Amortization of intangible assets is recorded as noninterest expense.

Other Real Estate Owned – Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at their fair value establishing a new cost basis. Subsequent to foreclosure, valuations on foreclosed property are periodically obtained by Company management. Revenue and expenses from operations and changes in the valuation allowance are included in other operating income and expenses.

Bank Owned Life Insurance

The Company owns life insurance policies on certain officers and directors. The Company carries the investment at the policies' cash surrender values. The Company pays the premiums, owns the cash value, and is the primary beneficiary on the policies exclusive of the amount designated to the employee's beneficiary. The policies had an aggregate cash surrender value totaling \$7.3 million and \$6.4 million as of December 31, 2018 and 2017, respectively which is included in prepaid expenses and other assets in the consolidated balance sheets.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Wealth Management Assets

The Bank provides trust and investment services. The Bank recognizes income for these services on the accrual basis. Assets held by the Wealth Management Division of the Bank in fiduciary or agency capacity are not assets of the Company and are not included in the consolidated balance sheets. Total assets held by the Wealth Management Division were \$545 million and \$525 million as of December 31, 2018 and 2017.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Interest income and expense is recognized on the accrual method based on the respective outstanding balances. Other revenue is recognized at the time the service is rendered or transactions occur.

Income Taxes

The Company, with the consent of its stockholders, has elected under the Internal Revenue Code to be taxed as an S Corporation. The stockholders of an S Corporation are taxed on their proportionate share of the entity's taxable income. Therefore, no provision or liability for federal income taxes has been included in the consolidated financial statements. Certain specific deductions and credits flow through the Company to its stockholders.

The Company accounts for uncertainty in income taxes in accordance with the provisions of ASC 740, *Accounting for Uncertainty in Income Taxes*, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

The Company is subject to Texas franchise tax and New Mexico income tax.

Earnings Per Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period.

Off-Balance Sheet Credit-Related Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks, and interest-bearing deposits in other depository institutions.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

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 components of comprehensive income (loss).

Advertising

Advertising costs are expensed as incurred. The amount of advertising expense incurred during the years ended December 31, 2018 and 2017 totaled \$484 thousand and \$607 thousand, respectively.

Subsequent Events

The Company has evaluated subsequent events that occurred after December 31, 2018 through March 7, 2019, the date the consolidated financial statements were available to be issued.

2. Fair Value Measurements

The Company follows the provisions of the ASC, *Fair Value Measurements and Disclosures*. The disclosures required about fair value measurements include, among other things: (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a “class” basis rather than a major category basis for assets and liabilities; and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.
- Level 2 – Observable inputs other than Level 1 prices. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, yield curves, prepayment speeds, default rates, credit risks, and loss severities) and inputs that are derived from or corroborated by market data, among others.
- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

2. Fair Value Measurements (continued)

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available for sale securities and loans held for sale. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held to maturity and available for sale securities, goodwill, core deposits and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs.

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively-traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities generally include certain United States government and agency securities, corporate debt securities, and certain derivatives. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Loans Held for Sale – Mortgage loans held for sale are reported at fair value using Level 2 inputs that consist of commitments on hand from investors or prevailing market prices. These instruments are held for relatively short periods, typically no more than 30 days. As a result, changes in instrument-specific credit risk are not a significant component of the change in fair value.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

2. Fair Value Measurements (continued)

The following table summarizes assets measured at fair value by class on a recurring basis as reported on the consolidated balance sheets as of December 31, 2017 and 2016, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	<u>Total Fair Value Measurement</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
As of December 31, 2018				
Assets:				
U.S. government agencies:				
Residential mortgage-backed securities	331,384	-	331,384	-
Residential collateralized mortgage obligations	8,684	-	8,684	-
Commercial collateralized mortgage obligations	6,130	-	6,130	-
States and political subdivisions	57,552	-	57,552	-
Residential collateralized mortgage obligations	411	-	411	-
Commercial collateralized mortgage obligations	12,445	-	12,445	-
Asset backed securities	6,314	-	6,314	-
U.S. Corporate debt securities	29,482	-	29,482	-
Mutual funds	966	966	-	-
Loans held for sale	214	-	214	-
	<u>\$ 453,582</u>	<u>\$ 966</u>	<u>\$ 452,616</u>	<u>\$ -</u>
As of December 31, 2017				
Assets:				
U.S. Treasury securities	\$ 1,996	\$ 1,996	\$ -	\$ -
U.S. government agencies:				
Residential mortgage-backed securities	289,854	-	289,854	-
Residential collateralized mortgage obligations	1,395	-	1,395	-
Commercial collateralized mortgage obligations	2,040	-	2,040	-
States and political subdivisions	57,904	-	57,904	-
Commercial collateralized mortgage obligations	7,127	-	7,127	-
U.S. Corporate debt securities	11,620	-	11,620	-
Mutual funds	987	987	-	-
Loans held for sale	1,811	-	1,811	-
	<u>\$ 374,734</u>	<u>\$ 2,983</u>	<u>\$ 371,751</u>	<u>\$ -</u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

2. Fair Value Measurements (continued)

A description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Other Real Estate Owned - Other real estate owned, upon initial recognition, is measured and reported at fair value less estimated costs of disposal through a charge-off to the allowance for loan losses based upon the fair value of the other real estate acquired, establishing a new cost basis. The fair value of other real estate owned is estimated based on appraisals with further adjustments made to the appraised values due to various factors, including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and on the collateral. Because the assumptions used to estimate the fair value of other real estate owned are not observable in the marketplace, such valuations have been classified as Level 3.

Impaired Loans - The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with ASC Topic 310. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral was determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where significant adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting commercial loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.

The following table summarizes assets for the years ended December 31, 2018 and 2017 that are measured at fair value on a nonrecurring basis (dollars in thousands):

	<u>Total Fair Value Measurement</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
As of December 31, 2018				
Assets:				
Impaired loans	8,776	-	-	8,776
Purchased credit impaired loans	2,141	-	-	2,141
	<u>\$ 10,917</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,917</u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

2. Fair Value Measurements (continued)

	<u>Total Fair Value Measurement</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
As of December 31, 2017				
Assets:				
Other real estate owned	\$ 252	\$ -	\$ -	\$ 252
Impaired loans	9,628	-	-	9,628
Purchased credit impaired loans	3,309	-	-	3,309
	<u>\$ 13,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,189</u>

3. Cash and Due From Banks and Interest-Bearing Deposits in Other Depository Institutions

Cash and due from banks consist primarily of funds held on deposit in a noninterest-bearing transaction account at a correspondent bank. All of a depositor's accounts at an insured depository institution are insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000. At times, the Company may also maintain cash in an account with a custodian bank. The account maintained at the custodian bank is not insured by the FDIC.

Interest-bearing deposits in other depository institutions consist of interest-bearing demand deposit accounts with the Federal Home Loan Bank of Dallas and the Federal Reserve Bank. The Company is required to maintain average balances on hand or with the Federal Reserve Bank. The required reserve balances amounted to \$3.0 million and \$2.4 million at December 31, 2018 and 2017, respectively.

4. Investment Securities

Investment securities are principally investments in United States government agency mortgage-backed securities, U.S. government agency and non-agency collateralized mortgage obligations, securities issued by states and political subdivisions, asset-backed securities and U.S. corporate debt securities. A portion of the Company's securities issued by states and political subdivisions are tax-exempt. Tax-exempt interest income earned was \$1.5 million and \$1.6 million for the years ended December 31, 2018 and 2017, respectively.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

4. Investment Securities (continued)

The amortized cost and fair value of securities, with gross unrealized gains and losses, were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities Available for Sale at December 31, 2018				
U.S. government agencies:				
Residential mortgage-backed securities	340,662	193	(9,471)	331,384
Residential collateralized mortgage obligations	8,748	8	(72)	8,684
Commercial collateralized mortgage obligations	6,188	16	(74)	6,130
States and political subdivisions	58,733	154	(1,335)	57,552
Residential collateralized mortgage obligations	411	-	-	411
Commercial collateralized mortgage obligations	12,701	-	(256)	12,445
Asset-backed securities	6,321	4	(11)	6,314
U.S. Corporate debt securities	30,186	80	(784)	29,482
Total debt securities	463,950	455	(12,003)	452,402
Mutual funds	1,000	-	(34)	966
Total securities available for sale	\$ 464,950	\$ 455	\$ (12,037)	\$ 453,368
Securities Available for Sale at December 31, 2017				
U.S. Treasury securities	\$ 1,996	\$ -	\$ -	\$ 1,996
U.S. government agencies:				
Residential mortgage-backed securities	294,558	227	(4,931)	289,854
Residential collateralized mortgage obligations	1,395	-	-	1,395
Commercial collateralized mortgage obligations	2,040	-	-	2,040
States and political subdivisions	57,834	637	(567)	57,904
Commercial collateralized mortgage obligations	7,127	-	-	7,127
U.S. Corporate debt securities	11,620	-	-	11,620
Total debt securities	376,570	864	(5,498)	371,936
Mutual funds	1,000	-	(13)	987
Total securities available for sale	\$ 377,570	\$ 864	\$ (5,511)	\$ 372,923
Securities to Be Held to Maturity at December 31, 2018				
U.S. government agency residential mortgage-backed securities	\$ 11,710	\$ 153	\$ (38)	\$ 11,825
Securities to Be Held to Maturity at December 31, 2017				
U.S. government agency residential mortgage-backed securities	\$ 15,067	\$ 393	\$ -	\$ 15,460

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

4. Investment Securities (continued)

At December 31, 2018 and 2017, the Company had investment securities carried at approximately \$89.2 million and \$107.4 million, respectively, pledged to secure public funds and for other purposes required or permitted by law.

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

	<u>Amortized Cost</u>	<u>Fair Value</u>
Securities available for sale:		
Due in one year or less	\$ 601	\$ 598
Due after one year through five years	22,092	22,021
Due after five years through ten years	43,951	43,268
Due after ten years	<u>28,596</u>	<u>27,461</u>
	95,240	93,348
U.S. government agencies:		
Residential mortgage-backed securities	340,662	331,384
Residential collateralized mortgage obligations	8,748	8,684
Commercial collateralized mortgage obligations	6,188	6,130
Residential collateralized mortgage obligations	411	411
Commercial collateralized mortgage obligations	<u>12,701</u>	<u>12,445</u>
	<u>\$ 463,950</u>	<u>\$ 452,402</u>
Securities to be held to maturity:		
U.S. government agency residential mortgage-backed securities	<u>\$ 11,710</u>	<u>\$ 11,825</u>

For the year ended December 31, 2018 and 2017, proceeds from the sale of available for sale securities amounted to \$3.0 million and \$42.4 million, respectively. Gross realized losses amounted to \$200 for the year ended December 31, 2018. Gross realized gains amounted to \$106 thousand and gross realized losses amounted to \$90 thousand for the year ended December 31, 2017.

There were no sales of securities classified as held to maturity during the years ended December 31, 2018 and 2017.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

4. Investment Securities (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (dollars in thousands):

	December 31, 2018			December 31, 2017		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
Securities Available for Sale						
U.S. government agency:						
Residential mortgage-backed securities						
Unrealized losses for less than 12 months	17	\$ 66,909	\$ (232)	20	\$ 145,235	\$ (1,585)
Unrealized losses for twelve months or more	43	227,730	(9,239)	19	118,399	(3,346)
	<u>60</u>	<u>294,639</u>	<u>(9,471)</u>	<u>39</u>	<u>263,634</u>	<u>(4,931)</u>
Collateralized mortgage obligations						
Unrealized losses for less than 12 months	7	7,075	(105)	-	-	-
Unrealized losses for twelve months or more	1	1,990	(41)	-	-	-
	<u>8</u>	<u>9,065</u>	<u>(146)</u>	<u>-</u>	<u>-</u>	<u>-</u>
States and political subdivisions						
Unrealized losses for less than 12 months	18	8,913	(138)	8	6,861	(71)
Unrealized losses for twelve months or more	30	15,428	(1,197)	20	8,996	(496)
	<u>48</u>	<u>24,341</u>	<u>(1,335)</u>	<u>28</u>	<u>15,857</u>	<u>(567)</u>
Collateralized mortgage obligations						
Unrealized losses for less than 12 months	4	3,146	(53)	-	-	-
Unrealized losses for twelve months or more	7	6,726	(203)	-	-	-
	<u>11</u>	<u>9,872</u>	<u>(256)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Asset-backed securities						
Unrealized losses for less than 12 months	5	4,345	(11)	-	-	-
Unrealized losses for twelve months or more	-	-	-	-	-	-
	<u>5</u>	<u>4,345</u>	<u>(11)</u>	<u>-</u>	<u>-</u>	<u>-</u>
U.S. Corporate debt securities						
Unrealized losses for less than 12 months	12	10,392	(217)	-	-	-
Unrealized losses for twelve months or more	12	10,024	(567)	-	-	-
	<u>24</u>	<u>20,416</u>	<u>(784)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Mutual funds						
Unrealized losses for less than 12 months	-	-	-	1	987	(13)
Unrealized losses for twelve months or more	1	966	(34)	-	-	-
	<u>1</u>	<u>966</u>	<u>(34)</u>	<u>1</u>	<u>987</u>	<u>(13)</u>
Total securities available for sale						
Unrealized losses for less than 12 months	63	100,780	(756)	29	153,083	(1,669)
Unrealized losses for twelve months or more	94	262,864	(11,281)	39	127,395	(3,842)
	<u>157</u>	<u>\$ 363,644</u>	<u>\$ (12,037)</u>	<u>68</u>	<u>\$ 280,478</u>	<u>\$ (5,511)</u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

4. Investment Securities (continued)

	December 31, 2018			December 31, 2017		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
Securities to be Held to Maturity						
U.S. government agency:						
Residential mortgage-backed securities						
Unrealized losses for less than 12 months	15	\$ 3,672	\$ (26)	-	\$ -	\$ -
Unrealized losses for twelve months or more	3	724	(12)	-	-	-
	<u>18</u>	<u>\$ 4,396</u>	<u>\$ (38)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than the amortized cost; (2) the financial condition and near-term prospects of the issuer; (3) the current market conditions; and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.

Declines in the fair value of held to maturity and available for sale securities below their amortized cost basis that are deemed to be other than temporary are carried at fair value. Any portion of a decline in value associated with credit loss is recognized in earnings as realized losses.

Management has the ability and intent to hold the securities classified as held to maturity in the table above until they mature, at which time we expect to receive full value for the securities. Furthermore, as of December 31, 2018, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. Any unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if the market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2018 and 2017, management believes the impairment detailed in the tables above are temporary and no impairment loss has been realized in our consolidated income statement.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

5. Loans and Allowance for Loan Losses

The components of loans in the consolidated balance sheets were as follows (dollars in thousands):

	December 31,	
	2018	2017
Real estate:		
Construction, land development, and other land loans	\$ 202,936	\$ 213,195
Farmland	32,416	37,210
1-4 family residential properties	53,923	60,788
Multifamily residential properties	110,612	111,382
Nonfarm nonresidential properties	474,773	404,339
Commercial and industrial loans	376,552	349,272
Consumer nonreal estate and other loans:		
Automobile loans	259	499
Other loans	2,128	2,525
	<u>1,253,599</u>	<u>1,179,210</u>
Net deferred loan fees	(2,444)	(1,955)
Allowance for loan losses	<u>(12,796)</u>	<u>(10,194)</u>
	<u>\$ 1,238,359</u>	<u>\$ 1,167,061</u>

Included in other loans are deposit overdrafts that have been reclassified as loans of approximately \$41 thousand and \$277 thousand as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, foreign loans totaled approximately \$65.5 million and \$59.7 million, respectively.

As part of the Bank's on-going monitoring of the credit quality of the loan portfolio, management assigns risk grades to the real estate and commercial loans. The loans are graded on a scale of 1 to 10. A description of the 10 risk grades is as follows:

- **Grades 1 and 2** – These grades include loans that are of the highest quality and with minimal risk. The borrower should have ready access to the capital markets or financing. Credit exceptions should be minor or nonexistent. Financial ratios should be strong and clearly above peers. All credit information should be complete with updates readily obtainable. The Bank's relationship with management should be strong and well maintained. Management should have both depth and experience. The business should be well established with superior history and be in a stable industry. There should be no noncompliance issues with regard to the loan agreement. Regardless of the borrower's reputed strength, if the Bank lacks adequate, timely financial information or a strong relationship with management, the borrower rating will not fit in these first two categories.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

5. Loans and Allowance for Loan Losses (continued)

- **Grades 3, 4, 5, and 6** – These grades include loans with acceptable risk. Although the borrower’s strengths will vary, the Bank should be comfortable with the financial and management capabilities of such borrowers. Exceptions should be controllable and mitigated by other strengths. The borrower’s recent history should be acceptable. A Grade 6 loan may need to be watched more closely than better grades, but it is not a workout loan.
- **Grade 7** – This grade includes loans with unacceptable risk characteristics. Loans in this category are currently protected as to collectibility; however, the loans have a potential weakness which may, if not checked or corrected, cause the Bank’s credit exposure to increase in the future. Loans in this category carry an undue and unwarranted credit risk, but not to a degree that justifies a more adverse risk rating.
- **Grade 8** – This grade includes loans with unacceptable risk characteristics. This grade equates to the regulators’ substandard category. This risk grade includes loans that may not be fully collectible because of problems with the borrower’s net worth and paying capacity or with the value of the collateral. Loans may be adequately supported by collateral, but may have well-defined weaknesses. Loans that contain weaknesses, if not corrected, could result in a loss to the Bank. The borrower may be in bankruptcy and access to funds or collateral is dependent on judicial action. Loans in this category may need a specific allocation of the allowance for loan and lease losses, but it is less than 50%. Loans in this category may need to be on nonaccrual.
- **Grade 9** – This grade includes loans with unacceptable risk characteristics. This grade equates to the regulators’ doubtful category. Loans in this risk grade category have weaknesses of Grade 8 loans; however, the severity of these weaknesses makes full collection highly improbable based on current conditions. Loans in this category have an extremely high probability of loss. However, certain important outstanding issues do not allow the Bank to accurately determine the amount of the loss.
- **Grade 10** – This grade equates to the regulators’ classification of loss. Loans in this risk grade category are uncollectible or of such little value that continuing to consider them as assets is not warranted. Loans may become totally collateral-dependent for repayment, but the Bank’s ability to obtain control of its collateral cannot be assured within a reasonable period of time. Loans in this category could have repayment potential; however, repayment cannot be measured, or is too far in the future that it can no longer be justified as an asset of the Bank. Losses are taken as soon as the loss is clearly identified.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

5. Loans and Allowance for Loan Losses (continued)

At December 31, 2018 and 2017, the Company's real estate and commercial loan portfolio risk grades by loan segment were as follows (dollars in thousands):

	<u>Pass</u> <u>(Grades 1-7)</u>	<u>Substandard</u> <u>(Grade 8)</u>	<u>Doubtful</u> <u>(Grade 9)</u>	<u>Loss</u> <u>(Grade 10)</u>	<u>Total</u>
December 31, 2018					
Real estate:					
Construction, land development, and other land loans	\$ 199,565	\$ 3,371	\$ -	\$ -	\$ 202,936
Farmland	28,919	3,497	-	-	32,416
1-4 family residential properties	53,288	635	-	-	53,923
Multifamily residential properties	109,360	1,252	-	-	110,612
Nonfarm nonresidential properties	469,026	5,747	-	-	474,773
Commercial and industrial loans	<u>369,859</u>	<u>6,693</u>	<u>-</u>	<u>-</u>	<u>376,552</u>
	<u>\$ 1,230,017</u>	<u>\$ 21,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,251,212</u>
December 31, 2017					
Real estate:					
Construction, land development, and other land loans	\$ 208,547	\$ 4,648	\$ -	\$ -	\$ 213,195
Farmland	33,002	4,208	-	-	37,210
1-4 family residential properties	58,523	2,265	-	-	60,788
Multifamily residential properties	100,961	10,421	-	-	111,382
Nonfarm nonresidential properties	397,328	7,011	-	-	404,339
Commercial and industrial loans	<u>344,949</u>	<u>4,157</u>	<u>166</u>	<u>-</u>	<u>349,272</u>
	<u>\$ 1,143,310</u>	<u>\$ 32,710</u>	<u>\$ 166</u>	<u>\$ -</u>	<u>\$ 1,176,186</u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

5. Loans and Allowance for Loan Losses (continued)

The Company grades its consumer loans as either performing or nonperforming (defined by the Company as greater than 30 days past due). At December 31, 2018 and 2017, the Company's consumer loans were graded as follows (dollars in thousands):

	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
December 31, 2018			
Consumer nonreal estate and other loans:			
Automobile loans	\$ 258	\$ 1	\$ 259
Other loans	<u>2,121</u>	<u>7</u>	<u>2,128</u>
	<u>\$ 2,379</u>	<u>\$ 8</u>	<u>\$ 2,387</u>
December 31, 2017			
Consumer nonreal estate and other loans:			
Automobile loans	\$ 497	\$ 2	\$ 499
Other loans	<u>2,512</u>	<u>13</u>	<u>2,525</u>
	<u>\$ 3,009</u>	<u>\$ 15</u>	<u>\$ 3,024</u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

5. Loans and Allowance for Loan Losses (continued)

An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2018 and 2017 were as follows (dollars in thousands):

	Current Loans	Loans 30-89 Days Past Due	Accruing Loans 90 Days or More Past Due	Nonaccrual Loans	Total Loans
December 31, 2018					
Real estate:					
Construction, land development, and other land loans	\$ 200,954	\$ 144	\$ -	\$ 1,838	\$ 202,936
Farmland	32,100	-	-	316	32,416
1-4 family residential properties	53,889	34	-	-	53,923
Multifamily residential properties	110,612	-	-	-	110,612
Nonfarm nonresidential properties	473,827	226	-	720	474,773
Commercial and industrial loans	373,853	2,350	-	349	376,552
Consumer nonreal estate and other loans:					
Automobile loans	258	-	1	-	259
Other loans	2,121	7	-	-	2,128
	<u>\$ 1,247,614</u>	<u>\$ 2,761</u>	<u>\$ 1</u>	<u>\$ 3,223</u>	<u>\$ 1,253,599</u>

December 31, 2017

Real estate:					
Construction, land development, and other land loans	\$ 210,988	\$ 518	\$ 1,689	\$ -	\$ 213,195
Farmland	36,856	354	-	-	37,210
1-4 family residential properties	59,730	484	-	574	60,788
Multifamily residential properties	111,382	-	-	-	111,382
Nonfarm nonresidential properties	402,208	539	720	872	404,339
Commercial and industrial loans	346,759	1,168	48	1,297	349,272
Consumer nonreal estate and other loans:					
Automobile loans	497	2	-	-	499
Other loans	2,512	13	-	-	2,525
	<u>\$ 1,170,932</u>	<u>\$ 3,078</u>	<u>\$ 2,457</u>	<u>\$ 2,743</u>	<u>\$ 1,179,210</u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

5. Loans and Allowance for Loan Losses (continued)

Loans are considered impaired and placed on nonaccrual status when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due. Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect the repayment of loans. An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2018 and 2017 were as follows (dollars in thousands):

	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment for Purchased Credit Impaired	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2018							
Real estate:							
Construction, land development, and other land loans	\$ 1,838	\$ -	\$ -	\$ 1,838	\$ -	\$ 919	\$ 38
Farmland	3,108	316	-	3,424	19	3,782	233
1-4 family residential properties	-	157	-	157	39	521	10
Multifamily residential properties	-	571	-	571	23	734	60
Nonfarm nonresidential properties	1,060	1,709	-	2,769	532	3,414	110
Commercial and industrial loans	165	646	2,141	2,952	181	3,304	362
	<u>\$ 6,171</u>	<u>\$ 3,399</u>	<u>\$ 2,141</u>	<u>\$ 11,711</u>	<u>\$ 794</u>	<u>\$ 12,674</u>	<u>\$ 813</u>
December 31, 2017							
Real estate:							
Construction, land development, and other land loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,688	\$ -
Farmland	4,140	-	-	4,140	-	2,070	330
1-4 family residential properties	729	155	-	884	37	1,171	28
Multifamily residential properties	-	896	-	896	40	750	66
Nonfarm nonresidential properties	1,592	1,439	1,027	4,058	124	5,262	212
Commercial and industrial loans	302	1,071	2,282	3,655	495	4,416	303
	<u>\$ 6,763</u>	<u>\$ 3,561</u>	<u>\$ 3,309</u>	<u>\$ 13,633</u>	<u>\$ 696</u>	<u>\$ 15,357</u>	<u>\$ 939</u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

5. Loans and Allowance for Loan Losses (continued)

Impaired loans also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties.

Key information related to troubled debt restructurings as of December 31, 2018 and 2017 were as follows (dollars in thousands):

	<u>Number of Loans</u>	<u>Premodification Outstanding Recorded Investment</u>	<u>Postmodification Outstanding Recorded Investment</u>
December 31, 2018			
Real estate:			
Farmland	1	2,513	2,513
1-4 family residential properties	4	357	357
Nonfarm nonresidential properties	4	1,486	1,486
Commercial and industrial loans	9	668	668
	<u>18</u>	<u>\$ 5,024</u>	<u>\$ 5,024</u>
December 31, 2017			
Real estate:			
Construction, land development and other land loans	1	\$ 250	\$ 250
Farmland	1	2,795	2,795
1-4 family residential properties	5	442	442
Nonfarm nonresidential properties	8	3,241	3,241
Commercial and industrial loans	12	1,908	1,372
	<u>27</u>	<u>\$ 8,636</u>	<u>\$ 8,100</u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

5. Loans and Allowance for Loan Losses (continued)

Troubled debt restructurings that have defaulted in the current period within 12 months of their modification date as of December 31, 2018 and 2017 are shown in the table below. The Company reports these defaulted troubled debt restructurings based on payment default of 30 days past due (dollars in thousands).

	<u>Recorded Investment</u>	
	<u>December 31, 2018</u>	<u>2017</u>
Troubled debt restructurings that subsequently defaulted:		
Farmland	\$ 2,513	\$ -
Nonfarm nonresidential properties	-	494
Commercial and industrial loans	201	522

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2018 and 2017 were as follows (dollars in thousands):

Year Ended December 31, 2018	<u>Loans Secured by Real Estate</u>	<u>Commercial and Industrial</u>	<u>Consumer</u>	<u>Total</u>
Balance at beginning of year	\$ 6,449	\$ 3,697	\$ 48	\$ 10,194
Provision for loan losses	1,804	1,252	(12)	3,044
Charge-offs	(40)	(450)	(43)	(533)
Recoveries	<u>10</u>	<u>58</u>	<u>23</u>	<u>91</u>
Net (charge-offs)recoveries	<u>(30)</u>	<u>(392)</u>	<u>(20)</u>	<u>(442)</u>
Balance at end of year	<u>\$ 8,223</u>	<u>\$ 4,557</u>	<u>\$ 16</u>	<u>\$ 12,796</u>
Allocation:				
Individually evaluated for impairment	\$ 613	\$ 181	\$ -	\$ 794
Collectively evaluated for impairment	7,610	4,376	16	12,002
Purchased credit impaired loans	-	-	-	-

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

5. Loans and Allowance for Loan Losses (continued)

Year Ended December 31, 2017	<u>Loans Secured Loans Secured by Real Estate</u>	<u>Commercial Commercial and Industrial</u>	<u>Consumer</u>	<u>Total</u>
Balance at beginning of year	\$ 5,697	\$ 2,382	\$ 22	\$ 8,101
Provision for loan losses	722	1,886	54	2,662
Charge-offs	(23)	(646)	(37)	(706)
Recoveries	<u>53</u>	<u>75</u>	<u>9</u>	<u>137</u>
Net (charge-offs)recoveries	<u>30</u>	<u>(571)</u>	<u>(28)</u>	<u>(569)</u>
Balance at end of year	<u>\$ 6,449</u>	<u>\$ 3,697</u>	<u>\$ 48</u>	<u>\$ 10,194</u>
Allocation:				
Individually evaluated for impairment	\$ 201	\$ 495	\$ -	\$ 696
Collectively evaluated for impairment	6,248	3,202	48	9,498
Purchased credit impaired loans	-	-	-	-

During the year ended December 31, 2018, the Company did not implement any significant changes to its allowance for loan loss methodology.

The Company's recorded investment in loans as of December 31, 2018 and 2017 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology were as follows (dollars in thousands):

Year Ended December 31, 2018	<u>Loans Secured by Real Estate</u>	<u>Commercial and Industrial</u>	<u>Consumer</u>	<u>Total</u>
Loans individually evaluated for impairment	\$ 8,759	\$ 811	\$ -	\$ 9,570
Loans collectively evaluated for impairment	865,901	373,600	2,387	1,241,888
Purchase credit impaired loans	<u>-</u>	<u>2,141</u>	<u>-</u>	<u>2,141</u>
Balance at end of year	<u>\$ 874,660</u>	<u>\$ 376,552</u>	<u>\$ 2,387</u>	<u>\$ 1,253,599</u>
Year Ended December 31, 2017				
Loans individually evaluated for impairment	\$ 8,951	\$ 1,373	\$ -	\$ 10,324
Loans collectively evaluated for impairment	816,936	345,617	3,024	1,165,577
Purchase credit impaired loans	<u>1,027</u>	<u>2,282</u>	<u>-</u>	<u>3,309</u>
Balance at end of year	<u>\$ 826,914</u>	<u>\$ 349,272</u>	<u>\$ 3,024</u>	<u>\$ 1,179,210</u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

6. Bank Premises and Equipment

Components of Bank premises and equipment included in the consolidated balance sheets were as follows (dollars in thousands):

	December 31,	
	2018	2017
Land	\$ 5,150	\$ 5,140
Buildings and improvements	23,815	13,103
Furniture and equipment	5,783	5,094
Computer software	350	370
Leasehold improvements	<u>1,958</u>	<u>1,810</u>
	37,056	25,517
Less accumulated depreciation and amortization	<u>(8,675)</u>	<u>(7,706)</u>
	<u>\$ 28,381</u>	<u>\$ 17,811</u>

During 2018, the Company formed WestStar Tower Properties, LLC. to hold the real estate investment for WestStar Tower, the new headquarters for the Company. WestStar Tower is currently under construction in downtown El Paso and it is anticipated the Company will move into the Tower during the fourth quarter of 2020. WestStar Tower will be a 19-story Class A, LEED-certified office building with a structured parking garage. Upon completion of the Tower, the Company will occupy three floors of office space and house its main branch on the ground level. It is anticipated the Company's total investment in this property will be approximately \$58 million of which \$10.6 million has already been paid in the form of a deposit. As a result of the new headquarters being built, the Company entered into an agreement to sell its current headquarters at 500 N. Mesa for \$4 million. The sale is currently in the due diligence phase with an anticipated close date of August 2019.

In 2018, the Company also entered into a contract to purchase approximately 1 acre of land in far East El Paso for \$600 thousand in order to relocate its Ysleta branch. It is anticipated the purchase will close during the second quarter of 2019 and construction of the new branch will commence at that time. The Company plans to open the new branch location during the first quarter of 2020.

The Company closed its El Dorado branch in April 2017 and sold the branch premises for a loss of approximately \$162 thousand during the year. In December 2017, the Resler branch premises was sold for a gain of approximately \$180 thousand.

Depreciation expense for the years ended December 31, 2018 and 2017 amounted to \$1.7 million and \$1.5 million, respectively.

The Company leases various property in the El Paso, Texas and Las Cruces, New Mexico area. The leased properties are used by the Company to operate branches, office space and to house the Insurance Agency and Title Company. The lease terms range from three years to twenty years with options to renew.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

6. Bank Premises and Equipment (continued)

Rent expense on these leases totaled \$504 thousand and \$458 thousand for the years ended December 31, 2018 and 2017, respectively.

The future minimum rental commitments under these leases are as follows (dollars in thousands):

Year ending December 31,	
2019	\$ 528
2020	537
2021	293
2022	238
2023	205
Thereafter	<u>379</u>
	\$ <u><u>2,180</u></u>

In the past, the Company subleased portions of its premises to various tenants under rental agreements. The Company paid certain taxes and operating expenses on the premises and provided for general maintenance. Rental income, including income received under month-to-month rent contracts, totaled \$3 thousand for the year ended December 31, 2018 (\$137 thousand in 2017). The rental income is netted against net occupancy and equipment expenses in the accompanying consolidated statements of income.

7. Goodwill and Intangible Assets

As of December 31, 2018 and 2017, the carrying amount of goodwill was \$41.5 million which was recorded in connection with the First Fabens Bancorporation, Inc. merger ("FFB Merger").

The Company recognized \$2.1 million of core deposit intangible in 2016 due to the FFB Merger. The core deposit intangible is being amortized using the accelerated method over a period of 10 years. The amount of the core deposit intangible, net of accumulated amortization, was \$1.5 million and \$1.8 million as of December 31, 2018 and 2017, respectively. Amortization expense during 2018 and 2017 were \$237 thousand and \$241 thousand, respectively. Estimated future amortization expense is as follows (dollars in thousands):

Year ending December 31,	
2019	\$ 231
2020	225
2021	217
2022	208
2023	199
Thereafter	<u>462</u>
	\$ <u><u>1,542</u></u>

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

8. Deposits

The aggregate amount of certificates of deposit (“CDs”) in denominations exceeding \$250 thousand, were approximately \$120.6 million and \$129.8 million at December 31, 2018 and 2017, respectively.

At December 31, 2018, the scheduled maturities of CDs are as follows (dollars in thousands):

Year ending December 31,	
2019	\$ 190,973
2020	14,036
2021	1,231
2022	1,529
2023	<u>1,347</u>
	<u>\$ 209,116</u>

9. Federal Home Loan Bank Borrowings

The Bank has the ability to borrow both short-term and long-term funds from the FHLB. The borrowings are collateralized by a blanket lien on certain real estate and commercial loans, all FHLB capital stock, and certain investment securities owned by the Bank. The borrowings are subject to restrictions or penalties in the event of prepayment. With the purchase of additional FHLB capital stock, the Company could borrow up to \$625 million from FHLB as of December 31, 2018 (\$496 million in 2017).

Short-term borrowings totaled \$5 million and \$18 million at December 31, 2018 and 2017, respectively. Weighted-average interest rates for short-term borrowings were 2.70% and 1.50% at December 31, 2018 and 2017, respectively.

In conjunction with the above advances, the Bank is required to maintain FHLB capital stock. The number of shares required is a percentage of Bank assets and outstanding advances. Required stock at December 31, 2018 and 2017 totaled \$0.9 million and \$1.3 million, respectively.

10. Other Borrowings

The Bank entered into a \$20 million federal funds line of credit with Frost Bank. No funds have been drawn against this line of credit as of December 31, 2018 and 2017. The line of credit is available for one year and is renewable each year.

The Bank may borrow funds from the Federal Reserve Bank. The maximum credit available is equal to the amount of unpledged securities held in safekeeping at the Federal Reserve Bank. The total amount of unpledged securities in safekeeping totaled \$18 million as of December 31, 2018 (\$11 million in 2017). No funds were borrowed from the Federal Reserve Bank as of December 31, 2018 and 2017. There is no stated expiration date on this borrowing agreement as long as there are investments held in safekeeping with the Federal Reserve Bank.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

11. Off-Balance Sheet Activities

Credit-Related Financial Instruments

The Company is a party to credit-related 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 commitments to extend credit, standby and performance letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following financial instruments, whose contract amounts represent credit risk, were outstanding (dollars in thousands):

	Contract Amount	
	December 31,	
	2018	2017
Unfunded commitments under lines of credit	\$ 431,937	\$ 359,963
Standby and performance letters of credit	41,355	26,999

Unfunded commitments under lines of credit include revolving credit lines, straight credit lines, and interim construction loans, which are commitments for possible future extensions of credit to existing customers. These lines of credit may not be drawn upon to the total extent to which the Company is committed.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Company's credit evaluation of the customer. Collateral held varies, but may include cash; securities; accounts receivable; inventory; property, plant, and equipment; and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company may hold collateral supporting those commitments if deemed necessary.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

12. Federal Income Taxes

Taxable income is reported on the federal tax returns of the Company's stockholders. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

The Company files a United States federal income tax return, as well as a state return in Texas and New Mexico. With few exceptions, the Company is no longer subject to federal and state examinations by tax authorities for years before 2015.

13. Legal Contingencies

The Company may, from time to time, be involved in litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigations and claims will not be material to the Company's financial position.

14. Related Party Transactions

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates. Loans outstanding to principal officers and directors and their affiliates totaled \$41.2 million and \$33.8 million at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, unfunded commitments under lines of credit and standby letters of credit with related parties totaled approximately \$9.8 million and \$24.8 million, respectively.

Deposits from related parties held by the Bank at December 31, 2018 and 2017, totaled \$198.1 million and \$140.6 million, respectively.

15. Employee Benefits

The WestStar Bank 401(k) Plan and Trust (the "Plan") is a 401(k) plan which covers employees who have attained the age of 21 and have met certain eligibility requirements as to length of service. Participants in the Plan make voluntary contributions up to the annual maximum amount allowable under applicable sections of the Internal Revenue Code. The Company may elect to make discretionary contributions to the Plan on an annual basis. For the year ended December 31, 2018, the Company contributed \$431 thousand (\$430 in 2017) to the Plan.

Effective January 1, 2003, the Company elected to make discretionary contributions to the WestStar Bank Holding Company, Inc. Employee Stock Ownership Plan ("ESOP") and ceased contributions to the Plan. The ESOP was adopted on January 24, 2003. The purpose of the ESOP is to enable employees who are at least 21 years of age and have completed 1 year of service to become participants of the ESOP. Contributions to the ESOP are determined by the Company. For the years ended December 31, 2018 and 2017, the Company contributed 1,860 and 1,922 shares of its common stock, respectively. The common stock had a total fair value of \$431 thousand for the years ended December 31, 2018 and 2017. These contributions are included in salaries and employee benefits in the accompanying consolidated statements of income. Dividends paid on ESOP shares are allocated to participants based on their account balance.

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

15. Employee Benefits (continued)

In the event a terminated ESOP participant desires to sell his or her shares of the Company's stock, the Company may be required to purchase the shares from the participant at their fair market value.

At December 31, 2018 and 2017, the ESOP held 65,110 and 63,250 shares, respectively, all of which have been allocated to ESOP participants. There were no shares purchased by the Company through the ESOP's put option during the years ended December 31, 2018 and 2017.

In 2009, the Company adopted a deferred compensation plan that covers certain executive employees. Contributions for the years ended December 31, 2018 and 2017 totaled \$482 thousand and \$534 thousand, respectively.

16. Stockholders' Equity

During 2017, the Company implemented a Dividend Reinvestment Plan ("DRIP"). The purpose of the DRIP is to provide the participating shareholders of the Company with a convenient method of reinvesting cash dividends and voluntary cash contributions in additional shares of the Company's common stock. Any holder of record of shares of Company common stock is eligible to participate in the DRIP. For the year ended December 31, 2017, the Company issued 14,126 shares of common stock with a value of \$3.2 million under the DRIP. The ESOP may reinvest cash dividends in additional shares of common stock. During 2017, the ESOP reinvested \$110 thousand in the DRIP and acquired 486 shares of common stock at \$226.00 per share. The Company did not issue any shares of common stock under the DRIP during 2018.

17. Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about component classification, risk weighting, and other factors.

The Basel III capital rules became effective for the Bank on January 1, 2015, subject to a four-year phase-in period. Quantitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the following table) of Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital to Risk-Weighted Assets, and of Tier 1 Capital to Average Assets. In connection with the adoption of the Basel III capital rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital.

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "EGRRCPA") was passed which among other things updated the Small Bank Holding Company Policy Statement. The final rule implementing changes to the Policy Statement went into effect on August 30, 2018. Under the revised Policy Statement, the threshold for bank holding companies that are exempt

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

17. Minimum Regulatory Capital Requirements (continued)

from minimum capital requirements set forth in the Federal Reserve's capital adequacy guidelines was raised from \$1 billion in total consolidated assets to \$3 billion in total consolidated assets. As a result, WestStar Bank Holding Company, Inc. was not subject to the minimum capital requirements as of December 31, 2018.

Management believes, as of December 31, 2018 and 2017, that the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2018, the most recent notification from the primary regulatory agency of the Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The following tables present actual and required capital ratios as of December 31, 2018 for the Bank and 2017 for the Company and Bank under the Basel III capital rules. The minimum required capital amounts present the minimum required levels as of December 31, 2018 and 2017 based on the phase-in of the Basel III capital rules and the minimum required as of January 1, 2019 when the phase-in is complete. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

(Dollars in Thousands)	Actual		Minimum Required Basel III Current Phase-In		Minimum Required Basel III Full Phase-In		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018								
Common Equity Tier 1 Capital to Risk-Weighted Assets:								
WestStar Bank	\$197,394	12.7%	\$99,069	6.4%	\$108,782	7.0%	\$101,012	6.5%
Tier 1 Capital to Risk-Weighted Assets:								
WestStar Bank	\$197,394	12.7%	\$122,379	7.9%	\$132,092	8.5%	\$124,322	8.0%
Total Capital to Risk-Weighted Assets:								
WestStar Bank	\$210,190	13.5%	\$153,460	9.9%	\$163,173	10.5%	\$155,403	10.0%
Tier 1 Capital to Average Assets:								
WestStar Bank	\$197,394	11.0%	\$71,773	4.0%	\$71,773	4.0%	\$89,717	5.0%

WestStar Bank Holding Company, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

17. Minimum Regulatory Capital Requirements (continued)

	Actual		Minimum Required Basel III Current Phase-In		Minimum Required Basel III Full Phase-In		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)								
December 31, 2017								
Common Equity Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	\$184,583	13.4%	\$79,029	5.8%	\$96,209	7.0%	N/A	N/A
WestStar Bank	\$184,373	13.4%	\$79,029	5.8%	\$96,209	7.0%	\$89,337	6.5%
Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	\$184,583	13.4%	\$99,645	7.3%	\$116,825	8.5%	N/A	N/A
WestStar Bank	\$184,373	13.4%	\$99,645	7.3%	\$116,825	8.5%	\$109,953	8.0%
Total Capital to Risk-Weighted Assets:								
Consolidated	\$194,777	14.2%	\$127,133	9.3%	\$144,314	10.5%	N/A	N/A
WestStar Bank	\$194,567	14.2%	\$127,133	9.3%	\$144,314	10.5%	\$137,442	10.0%
Tier 1 Capital to Average Assets:								
Consolidated	\$184,583	11.3%	\$65,078	4.0%	\$65,078	4.0%	N/A	N/A
WestStar Bank	\$184,373	11.3%	\$65,078	4.0%	\$65,078	4.0%	\$81,347	5.0%

WESTSTAR BANK HOLDING COMPANY, INC.
BOARD OF DIRECTORS

L. Frederick Francis

Chairman of the Board and Chief Executive Officer
Chairman and Chief Executive Officer, WestStar Bank

Edward Escudero

Vice Chairman of the Board
President and Chief Executive Officer, High Desert
Capital, LLC

J. Robert Brown

Director
President, Brownco Capital, LLC, and
Chairman and Chief Executive Officer, RB Toyota

Richard A. Castro

Director
Owner and President, Castro Enterprises, Inc.

Miguel Fernandez S.

Director
Chief Executive Officer, Transtelco

Paul L. Foster

Director
President, Franklin Mountain Management, LLC, and
Chairman, Franklin Mountain Energy, LLC

Woody L. Hunt

Advisory Director
Executive Chairman, Hunt Companies

Carol M. Johnson

Director
Community Volunteer

Meyer Marcus

Director
Chairman, MIMCO, Inc.

A. R. Miller, III

Director
General Partner/Manager, A.R.M. Farms, Ltd.

Jonathan W. Rogers, Jr.

Director
President and Chief Executive Officer, St. Regis
Airport Properties

Emma W. Schwartz

Director
President, Medical Center of the Americas

William D. Skov

Advisory Director
Partner, Skov Farms

Maria F. Teran

Director
President and Chief Executive Officer, Sierra
Machinery, Inc.

WESTSTAR BANK
OFFICERS

L. Frederick Francis

Chairman and CEO

David W. Osborn

President and COO

Burt Blacksher

Senior Executive Vice President and CLO

Lisa Saenz

Executive Vice President and CFO

Yolanda Garcia

Executive Vice President and CCEO

Liliana Miranda

Senior Vice President and CRO

Lee Rodriguez

Senior Vice President and CHRO

Jerry Harris

Senior Vice President and CCO

Orlando Hernandez

Senior Vice President and CIO

Jack Chapman

General Counsel

Armando Avila

Senior Vice President

Magdalena Baca

Senior Vice President

Arlene Carroll

Senior Vice President

Daniel Cueto

Senior Vice President

Yvonne Dorado

Senior Vice President

Roberto Guerra

Senior Vice President

Patricia Martinez

Senior Vice President

Isabel Medrano

Claudia Rodriguez

Senior Vice President

Socorro Rodriguez

Senior Vice President

Janice Schauer

Senior Vice President

Elizabeth Smith

Senior Vice President

Henry Tinajero

Senior Vice President

Rosa Butcher

Vice President

Monica Donas

Vice President

Laura Fernandez

Vice President

Lianee Fernandez

Vice President

Patricia Fierro

Vice President

Elizabeth Fowlkes

Vice President

Isela Kirk

Vice President

Jessica Margherio-Alvarez

Vice President

Kevin Merhege

Vice President

Michael Morales

Vice President

Mara Portillo

Vice President

Jacqueline Salais

Vice President

Adrian Santiago

WESTSTAR BANK
OFFICERS

Senior Vice President

Homer Renteria

Senior Vice President

Richard Silva

Vice President

Todd Smith

Vice President

Joanne Terrazas

Vice President

Blanca Varela

Vice President

Javier Varela

Vice President

Veronica Watts

Vice President

Courtney Yeatman

Vice President

Michelle York

Vice President

David Acuna

Assistant Vice President

Carlos Amaya

Assistant Vice President

LaNell Amparan

Assistant Vice President

Annette Barela

Assistant Vice President

Vice President

Patrick Sarabia

Vice President

Omar Bernal

Assistant Vice President

Tina Crosby

Assistant Vice President

Jonathan Duran

Assistant Vice President

Melissa Garcia

Assistant Vice President

Ruth Gifford

Assistant Vice President

Yvette Herrera

Assistant Vice President

Priscilla Monarez

Assistant Vice President

Xavier Parra

Assistant Vice President

Sandra Payan

Assistant Vice President

Rhea Tarin

Assistant Vice President

Ruby Vigil

Assistant Vice President

Cindy Willis

Assistant Vice President

WESTSTAR TREASURY MANAGEMENT DIVISION

OFFICERS

Roxanna Medina

Vice President

WESTSTAR WEALTH MANAGEMENT DIVISION

OFFICERS

Joseph Sayklay

President Wealth Management

William Brady

Senior Vice President

Tamara Gladkowski

Senior Vice President

Colleen Marusich

Senior Vice President

Rosario Gonzalez

Vice President

Vince Scarpinato

Vice President

WESTSTAR INSURANCE

OFFICERS

Wesley Wolff

President Insurance

Ida Gallardo

Vice President

WESTSTAR TITLE

OFFICERS

Lenny Robles

President Title

Gilberto Carreon

Vice President

Travis Smith

Vice President

Rodolfo Telles

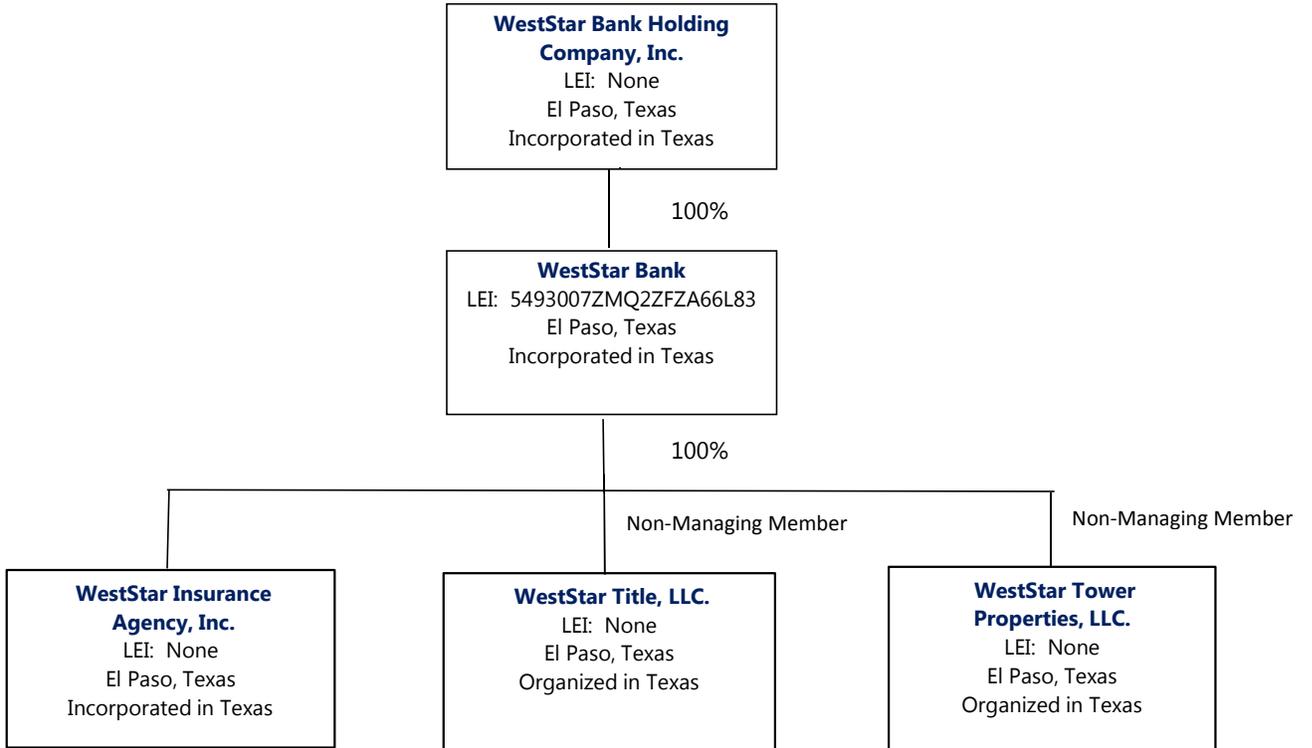
Vice President

Rachel Valles

Vice President

FORM FR Y-6

WESTSTAR BANK HOLDING COMPANY, INC.
EL PASO, TEXAS
FISCAL YEAR ENDING DECEMBER 31, 2018
REPORT ITEM 2a: ORGANIZATIONAL CHART



Results: A list of branches for your holding company: WESTSTAR BANK HOLDING COMPANY, INC. (3122051) of EL PASO, 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)	1447639	WESTSTAR BANK	500 NORTH MESA STREET	EL PASO	TX	79901	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	4593649	LAS CRUCES BRANCH	555 SOUTH TELSHOR BLVD., SUITE 101A	LAS CRUCES	NM	88011	DONA ANA	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	1362086	CLINT BRANCH	105 SAN ELIZARIO	CLINT	TX	79836	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	2004507	EASTSIDE BRANCH	8340 GATEWAY BLVD. EAST	EL PASO	TX	79907	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	3637667	HONDO PASS BRANCH	4721 HONDO PASS DRIVE	EL PASO	TX	79904	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	4362023	PAISANO BRANCH	5604 EAST PAISANO DRIVE	EL PASO	TX	79925-3334	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	3958250	REDD ROAD BRANCH	425 EAST REDD ROAD	EL PASO	TX	79912	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	3036550	VISCOUNT BRANCH	8865 VISCOUNT BLVD.	EL PASO	TX	79925	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	2494676	VISTA HILLS BRANCH	1790 NORTH LEE TREVINO DRIVE, SUITE 100	EL PASO	TX	79936	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	1990395	WESTSIDE BRANCH	6700 NORTH MESA STREET	EL PASO	TX	79912	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	921851	YSLETA BRANCH	9343 ALAMEDA AVE	EL PASO	TX	79907	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	2798619	ZARAGOSA BRANCH	12101 MONTWOOD DRIVE	EL PASO	TX	79936	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	378651	FABENS BRANCH	1500 NORTH FABENS ROAD	FABENS	TX	79838	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	
OK		Full Service	3022834	HORIZON BRANCH	120 NORTH KENAZO	HORIZON CITY	TX	79928	EL PASO	UNITED STATES	Not Required	Not Required	WESTSTAR BANK	1447639	

FORM FR Y-6

WESTSTAR BANK HOLDING COMPANY, INC.
EL PASO, TEXASFISCAL YEAR ENDING DECEMBER 31, 2018
REPORT ITEM 3: SECURITIES HOLDERS**CURRENT SHAREHOLDERS WITH OWNERSHIP, CONTROL OR HOLDINGS OF 5% OR MORE WITH POWER TO VOTE AS OF FISCAL YEAR ENDING 12/31/18:**

(1)(a) NAME CITY, STATE, COUNTRY	(1)(b) COUNTRY OF CITIZENSHIP OR INCORPORATION	(1)(c) NUMBER AND PERCENTAGE OF EACH CLASS OF VOTING SECURITIES
Rogers Family		238,201 shares or 12.33%
Dede Rogers El Paso, Texas, USA	USA	82,259 shares or 4.26%
Patricia Rogers El Paso, Texas, USA	USA	78,753 shares or 4.08%
Jonathan W. Rogers, Jr. El Paso, Texas, USA	USA	31,000 shares or 1.60%
Jonathan W. Rogers, III El Paso, Texas, USA	USA	15,058 shares or 0.78%
Garland A. Rogers El Paso, Texas, USA	USA	15,000 shares or 0.78%
Tony Lee Rogers El Paso, Texas, USA	USA	5,377 shares or 0.28%
Jacques Henry Babel El Paso, Texas, USA	USA	5,377 shares or 0.28%
Anne Elise Babel El Paso, Texas, USA	USA	5,377 shares or 0.28%
MacGuire Family		226,842 shares or 11.74%
Betty Lee Moor MacGuire (1) El Paso, Texas, USA	USA	150,000 shares or 7.77%
Lee MacGuire Carnes Austin, Texas, USA	USA	40,000 shares or 2.07%
Jennifer Leavell Denver, Colorado, USA	USA	35,000 shares or 1.81%
Carol M. Johnson El Paso, Texas, USA	USA	1,842 shares or 0.10%

FORM FR Y-6

WESTSTAR BANK HOLDING COMPANY, INC.
EL PASO, TEXAS

FISCAL YEAR ENDING DECEMBER 31, 2018
REPORT ITEM 3: SECURITIES HOLDERS

CURRENT SHAREHOLDERS WITH OWNERSHIP, CONTROL OR HOLDINGS OF 5% OR MORE WITH POWER TO VOTE AS OF FISCAL YEAR ENDING 12/31/18: (CONTINUED)

(1)(a) NAME CITY, STATE, COUNTRY	(1)(b) COUNTRY OF CITIZENSHIP OR INCORPORATION	(1)(c) NUMBER AND PERCENTAGE OF EACH CLASS OF VOTING SECURITIES
Skov Family		
William D. Skov (2) El Paso, Texas, USA	USA	62,415 shares or 3.23%
Robert E. Skov (3) El Paso, Texas, USA	USA	57,165 shares or 2.96%
L. Frederick Francis El Paso, Texas, USA	USA	151,141 shares or 7.82%
Paul L. Foster El Paso, Texas, USA	USA	101,713 shares or 5.27%
J. Robert and Sherry W. Brown Dallas, Texas, USA	USA	100,240 shares or 5.19%

SHAREHOLDERS NOT LISTED IN (3)(1)(A) THROUGH 3(1)(C) THAT HAD OWNERSHIP, CONTROL, OR HOLDINGS OF 5% OR MORE WITH POWER TO VOTE DURING THE FISCAL YEAR ENDING 12/31/18:

(2)(a) NAME CITY, STATE, COUNTRY	(2)(b) COUNTRY OF CITIZENSHIP OR INCORPORATION	(2)(c) NUMBER AND PERCENTAGE OF EACH CLASS OF VOTING SECURITIES
N/A	N/A	N/A

1 Betty Lee Moor MacGuire is the trustee of 75,000 shares belonging to the Betty MacGuire Living Trust and 75,000 shares belonging to the John MacGuire Marital Deduction Trust.

2 William D. Skov is the trustee of 20,380 shares belonging to the William D. Skov Trust. In his name alone, he owns 42,035.

3 Robert E. Skov is the trustee of 18,891 shares belonging to the Robert E. Skov Trust. In his name alone, he owns 38,274.

FORM FR Y-6
WESTSTAR BANK HOLDING COMPANY, INC.
EL PASO, TEXAS
FISCAL YEAR ENDING DECEMBER 31, 2018
REPORT ITEM 4: INSIDERS

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
NAME, CITY, STATE, COUNTRY	PRINCIPAL OCCUPATION IF OTHER THAN WITH HOLDING COMPANY	TITLE & POSITION WITH HOLDING COMPANY	TITLE & POSITION WITH SUBSIDIARIES	TITLE & POSITION WITH OTHER BUSINESSES	PERCENTAGE OF VOTING SHARES IN HOLDING COMPANY	PERCENTAGE OF VOTING SHARES IN SUBSIDIARIES	LIST NAMES OF OTHER COMPANIES IF 25% OR MORE VOTING SECURITIES ARE HELD
1 J. Robert Brown Dallas, Texas, USA	Rancher, Investor	Director	Director of WestStar Bank	See information in confidential volume	5.19%	None	See information in confidential volume
Richard Castro El Paso, Texas, USA	Business Executive	Director	Director of WestStar Bank	See information in confidential volume	0.29%	None	See information in confidential volume
2 Edward Escudero El Paso, Texas, USA	Business Executive	Vice Chairman and Director	Vice Chairman and Director of WestStar Bank Manager of WestStar Tower Properties, LLC	See information in confidential volume	0.23%	None	See information in confidential volume
Miguel Fernandez El Paso, Texas, USA	Business Executive	Director	Director of WestStar Bank	See information in confidential volume	0.13%	None	See information in confidential volume
Paul L. Foster El Paso, Texas, USA	Real Estate Manager	Director	Director of WestStar Bank	See information in confidential volume	5.27%	None	See information in confidential volume
L. Frederick Francis El Paso, Texas, USA	N/A	Chairman, CEO and Director	Chairman, CEO and Director of WestStar Bank Chairman, CEO and Manager of WestStar Tower Properties, LLC	See information in confidential volume	7.82%	None	See information in confidential volume
Meyer D. Marcus El Paso, Texas, USA	Real Estate Investor	Director	Director of WestStar Bank	See information in confidential volume	0.03%	None	See information in confidential volume
A. R. Miller, III Fabens, Texas, USA	Farmer	Director	Director of WestStar Bank	See information in confidential volume	1.34%	None	See information in confidential volume
David W. Osborn El Paso, Texas, USA	N/A	President	President and COO of WestStar Bank President and Manager of WestStar Tower Properties, LLC	See information in confidential volume	0.08%	None	See information in confidential volume
Socorro E. Rodriguez El Paso, Texas, USA	N/A	Assistant Secretary	Senior Vice President, Treasurer and Assistant Secretary of WestStar Bank Assistant Secretary of WestStar Tower Properties, LLC	See information in confidential volume	0.00%	None	See information in confidential volume
Lisa J. Saenz El Paso, Texas, USA	N/A	Secretary and Treasurer	Executive Vice President, CFO and Secretary of WestStar Bank Secretary and Treasurer of WestStar Tower Properties, LLC	See information in confidential volume	0.00%	None	See information in confidential volume
3 Emma W. Schwartz El Paso, Texas, USA	Healthcare Development Manager	Director	Director of WestStar Bank	See information in confidential volume	1.18%	None	See information in confidential volume
Maria F. Teran El Paso, Texas, USA	Business Executive	Director	Director of WestStar Bank	See information in confidential volume	0.12%	None	See information in confidential volume

FORM FR Y-6
WESTSTAR BANK HOLDING COMPANY, INC.
EL PASO, TEXAS
FISCAL YEAR ENDING DECEMBER 31, 2018
REPORT ITEM 4: INSIDERS

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
NAME, CITY, STATE, COUNTRY	PRINCIPAL OCCUPATION IF OTHER THAN WITH HOLDING COMPANY	TITLE & POSITION WITH HOLDING COMPANY	TITLE & POSITION WITH SUBSIDIARIES	TITLE & POSITION WITH OTHER BUSINESSES	PERCENTAGE OF VOTING SHARES IN HOLDING COMPANY	PERCENTAGE OF VOTING SHARES IN SUBSIDIARIES	LIST NAMES OF OTHER COMPANIES IF 25% OR MORE VOTING SECURITIES ARE HELD
Rogers Family (Principal Securities Holder)					12.33%		
Dede Rogers EL Paso, Texas, USA	Retired Business Owner	N/A	N/A	See information in confidential volume	4.26%	None	See information in confidential volume
Patricia Rogers EL Paso, Texas, USA	Business Executive	N/A	N/A	See information in confidential volume	4.08%	None	See information in confidential volume
Jonathan W. Rogers, Jr. EL Paso, Texas, USA	Real Estate Investor	Director	Director of WestStar Bank	See information in confidential volume	1.60%	None	See information in confidential volume
Jonathan W. Rogers, III EL Paso, Texas, USA	Entrepreneur	N/A	N/A	See information in confidential volume	0.78%	None	See information in confidential volume
Garland Rogers EL Paso, Texas, USA	Student	N/A	N/A	See information in confidential volume	0.78%	None	See information in confidential volume
Tony Lee Rogers EL Paso, Texas, USA	Student	N/A	N/A	See information in confidential volume	0.28%	None	See information in confidential volume
Jacques Henry Babel EL Paso, Texas, USA	Student	N/A	N/A	See information in confidential volume	0.28%	None	See information in confidential volume
Anne Elise Babel EL Paso, Texas, USA	Student	N/A	N/A	See information in confidential volume	0.28%	None	See information in confidential volume
MacGuire Family (Principal Securities Holder)					11.74%		
⁴ Betty Lee Moor MacGuire EL Paso, Texas, USA	Retired Community Volunteer	N/A	N/A	See information in confidential volume	7.77%	None	See information in confidential volume
Lee MacGuire Carnes Austin, Texas, USA	Teacher	N/A	N/A	See information in confidential volume	2.07%	None	See information in confidential volume
Jennifer Leavell Denver, Colorado, USA	Ranch Manager	N/A	N/A	See information in confidential volume	1.81%	None	See information in confidential volume
Carol M. Johnson El Paso, Texas, USA	Retired Business Owner	Director	Director of WestStar Bank	See information in confidential volume	0.10%	None	See information in confidential volume

¹ Shares owned jointly by J. Robert Brown and Sherry W. Brown.

² Shares owned jointly by Edward Escudero and Margarita Escudero.

³ Emma W. Schwartz is the beneficial owner of 609 shares, or 0.03% belonging to Emma W. Schwartz and 22,153 shares, or 1.15% belonging to her husband Douglas A. Schwartz.

⁴ Betty Lee Moor MacGuire is the trustee of 75,000 shares belonging to the Betty MacGuire Living Trust and 75,000 shares belonging to the John MacGuire Marital Deduction Trust.