

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, Byron K Bexley
 Name of the Holding Company Director and Official
Chairman & CEO
 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]
 Signature of Holding Company Director and Official
03/18/2018
 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

NA
 Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

TexStar Bancshares, Inc.
 Reporter's Name, Street, and Mailing Address

600 Pat Booker
 Legal Title of Holding Company

Universal City TX 78148
 (Mailing Address of the Holding Company) Street / P.O. Box
 City State Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:
Byron K Bexley Chairman & CEO
 Name Title

210-659-4000
 Area Code / Phone Number / Extension

210-659-4936
 Area Code / FAX Number

bbexley@texstar-bank.com
 E-mail Address

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

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

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

1. a letter justifying this request is being provided along with the report

2. a letter justifying this request has been provided separately ...

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

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.

<hr/> Legal Title of Subsidiary Holding Company <hr/> <hr/> (Mailing Address of the Subsidiary Holding Company) Street / P.O. Box <hr/> <hr/> City State Zip Code <hr/> <hr/> Physical Location (if different from mailing address) <hr/> <hr/>	<hr/> Legal Title of Subsidiary Holding Company <hr/> <hr/> (Mailing Address of the Subsidiary Holding Company) Street / P.O. Box <hr/> <hr/> City State Zip Code <hr/> <hr/> Physical Location (if different from mailing address) <hr/> <hr/>
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Form FR Y-6

**Texstar Bancshares, Inc.
Universal City, Texas**

Fiscal Year Ending December 31, 2018

Report Item: Annual report to Shareholders

Pending

TexStar Bancshares, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

December 31, 2018 and 2017

TexStar Bancshares, Inc.
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
TexStar Bancshares, Inc.
San Antonio, Texas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

BKD, LLP

San Antonio, Texas
May 6, 2019

TexStar Bancshares, Inc.
Consolidated Balance Sheets
December 31, 2018 and 2017

Assets	2018	2017
Cash and cash equivalents	\$ 26,299,216	\$ 30,439,766
Available-for-sale securities	21,580,151	22,026,890
Loans, net of allowance for loan losses of \$4,110,155 and \$3,836,242 at December 31, 2018 and 2017, respectively	201,772,815	194,790,188
Premises and equipment, net	7,188,575	6,161,032
Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) stock	1,418,450	1,202,100
Interest receivable	606,092	547,619
Goodwill	1,233,025	1,243,025
Intangible assets	1,120,408	710,206
Other	336,560	569,659
	<u>\$ 261,555,292</u>	<u>\$ 257,690,485</u>
 Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 60,463,323	\$ 64,393,972
Savings, NOW and money market	85,928,100	82,895,000
Time	66,909,955	66,773,559
	<u>213,301,378</u>	<u>214,062,531</u>
Total deposits	213,301,378	214,062,531
Borrowings	17,085,452	15,565,827
Interest payable and other liabilities	1,196,466	634,726
	<u>18,281,918</u>	<u>16,200,553</u>
Total liabilities	<u>231,583,296</u>	<u>230,263,084</u>
 Stockholders' Equity		
Common stock, \$1 par value; authorized 3,000,000 shares; issued and outstanding 2018 - 1,436,541 shares, 2017 - 1,426,541 shares	1,436,541	1,426,541
Additional paid-in capital	13,367,169	13,028,319
Retained earnings	15,637,013	13,355,312
Accumulated other comprehensive loss	(468,727)	(382,771)
	<u>29,971,996</u>	<u>27,427,401</u>
Total stockholders' equity	<u>29,971,996</u>	<u>27,427,401</u>
	<u>\$ 261,555,292</u>	<u>\$ 257,690,485</u>

TexStar Bancshares, Inc.
Consolidated Statements of Income
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Interest Income		
Loans	\$ 10,779,645	\$ 10,093,336
Securities	820,406	597,915
Total interest income	<u>11,600,051</u>	<u>10,691,251</u>
Interest Expense		
Deposits	1,013,826	752,584
Borrowings	430,404	256,228
Total interest expense	<u>1,444,230</u>	<u>1,008,812</u>
Net Interest Income	10,155,821	9,682,439
Provision for Loan Losses	<u>265,000</u>	<u>180,000</u>
Net Interest Income After Provision for Loan Losses	<u>9,890,821</u>	<u>9,502,439</u>
Noninterest Income		
Customer service fees	220,629	235,076
Other service charges and fees	309,778	253,129
Net loss on sale of investments	(13,823)	-
Insurance commission income	938,941	541,639
Other	282,490	110,188
Total noninterest income	<u>1,738,015</u>	<u>1,140,032</u>
Noninterest Expense		
Salaries and employee benefits	5,304,979	4,619,323
Net occupancy and equipment expense	1,258,249	1,286,521
Data processing	453,667	525,948
Printing, postage and office supplies	122,670	105,816
Legal and professional services	327,057	295,969
Deposit insurance premium	129,480	84,000
Other	852,652	914,763
Total noninterest expense	<u>8,448,754</u>	<u>7,832,340</u>
Income Before Income Taxes	3,180,082	2,810,131
Provision for Income Taxes	<u>14,909</u>	<u>18,517</u>
Net Income	<u>\$ 3,165,173</u>	<u>\$ 2,791,614</u>

TexStar Bancshares, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018 and 2017

	2018	2017
Net Income	\$ 3,165,173	\$ 2,791,614
Other Comprehensive Loss		
Unrealized depreciation on available-for-sale securities	(99,779)	(22,447)
Reclassification adjustment for realized losses included in net income	13,823	-
	(85,956)	(22,447)
Comprehensive Income	\$ 3,079,217	\$ 2,769,167

TexStar Bancshares, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2018 and 2017

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance, January 1, 2017	1,423,041	\$ 1,423,041	\$ 12,751,239	\$ 11,218,987	\$ (360,324)	\$ 25,032,943
Net income	-	-	-	2,791,614	-	2,791,614
Other comprehensive loss	-	-	-	-	(22,447)	(22,447)
Dividends on common stock, \$0.34 per share	-	-	-	(655,289)	-	(655,289)
Restricted stock expense	-	-	243,750	-	-	243,750
Exercise of stock options	3,500	3,500	33,330	-	-	36,830
Balance, December 31, 2017	1,426,541	1,426,541	13,028,319	13,355,312	(382,771)	27,427,401
Net income	-	-	-	3,165,173	-	3,165,173
Other comprehensive loss	-	-	-	-	(85,956)	(85,956)
Dividends on common stock, \$0.46 per share	-	-	-	(883,472)	-	(883,472)
Restricted stock expense	-	-	243,750	-	-	243,750
Exercise of stock options	10,000	10,000	95,100	-	-	105,100
Balance, December 31, 2018	<u>1,436,541</u>	<u>\$ 1,436,541</u>	<u>\$ 13,367,169</u>	<u>\$ 15,637,013</u>	<u>\$ (468,727)</u>	<u>\$ 29,971,996</u>

See Notes to Consolidated Financial Statements

TexStar Bancshares, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Net income	\$ 3,165,173	\$ 2,791,614
Items not requiring (providing) cash		
Depreciation	449,833	525,822
Provision for loan losses	265,000	180,000
Net amortization of premiums on investment securities	54,561	104,850
Amortization of intangible assets	89,798	41,319
Loss on sale of premises and equipment	-	56,986
Share-based compensation expense	243,750	243,750
Loss on sale of available-for-sale securities	13,823	-
Changes in		
Interest receivable	(58,473)	(16,594)
Other assets	233,100	(33,748)
Interest payable and other liabilities	228,407	80,341
	<u>4,684,972</u>	<u>3,974,340</u>
Investing Activities		
Purchases of available-for-sale securities	(20,938,624)	(14,999,690)
Proceeds from maturities of available-for-sale securities	15,741,721	16,764,785
Proceeds from sale of available-for-sale securities	5,489,301	-
Net change in loans	(7,247,627)	(17,686,024)
Purchase of premises and equipment	(1,467,376)	(267,581)
Proceeds from sales of premises and equipment	-	553,589
Payments for purchase of insurance agency	(166,667)	-
Purchase of FRB and FHLB stock	(216,350)	(258,300)
	<u>(8,805,622)</u>	<u>(15,893,221)</u>

TexStar Bancshares, Inc.
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Financing Activities		
Net increase (decrease) in deposits	\$ (761,153)	\$ 7,190,056
Repayments of borrowings	(3,480,375)	(2,348,947)
Proceeds from borrowings	5,000,000	7,500,000
Dividends paid	(883,472)	(655,289)
Proceeds from exercise of stock options	105,100	36,830
	(19,900)	11,722,650
Decrease in Cash and Cash Equivalents	(4,140,550)	(196,231)
Cash and Cash Equivalents, Beginning of Year	30,439,766	30,635,997
Cash and Cash Equivalents, End of Year	\$ 26,299,216	\$ 30,439,766
Supplemental Cash Flows Information		
Interest paid	\$ 1,360,745	\$ 984,093
Liability for remaining payments for purchase of insurance agency	\$ (333,333)	\$ -

TexStar Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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

Nature of Operations

TexStar Bancshares, Inc. (Company), is a bank-holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, TexStar National Bank (Bank) and TrustStar Insurance Services, Inc. (TrustStar). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in the greater San Antonio, Texas, area. TrustStar is a full service insurance agency offering property, casualty, life and health insurance and commenced operations in 2015. The Company acquired the assets of E. Felix & Associates, Inc., in July 2016 and Grothaus & Polk, Inc., in December 2017, and merged operations into TrustStar. The Company, Bank and TrustStar are subject to competition from other financial institutions and insurance agencies. The Company, Bank and TrustStar are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of cash and due from banks.

At December 31, 2018, the Company's interest-bearing cash accounts exceeded federally insured limits by approximately \$22.4 million. Approximately, \$11.3 million of this amount is held at the Federal Reserve Bank of Dallas.

TexStar Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are 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 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.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security and, it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Loans

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

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

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

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

Allowance for Loan Losses

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

TexStar Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

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

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

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Depreciation expense for the years ended December 31, 2018 and 2017, was \$449,833 and \$525,822, respectively.

TexStar Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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

Buildings and improvements	35-40 years
Leasehold improvements	5-10 years
Equipment	3-5 years

Long-lived Asset Impairment

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

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

Federal Reserve and Federal Home Loan Bank Stock

Federal Reserve and Federal Home Loan Bank (FHLB) stock are required investments for institutions that are members of the Federal Reserve Bank (FRB) and FHLB systems. The required investment in the common stock is based on a predetermined formula.

Foreclosed Assets Held-For-Sale

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

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

TexStar Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over 10 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Transfers of Financial Assets

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

Income Taxes

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

Share Based Compensation

The Company recognizes the fair value of stock-based awards to employees as compensation cost over the requisite service period. The share-based employee compensation plans are discussed more fully in Note 14.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities.

Transfers Between Fair Value Hierarchy Levels

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

TexStar Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Insurance Commissions and Fees Recognition

Commission revenue is recognized as of the effective date of the insurance policy. The Company also receives contingent commissions from insurance companies as additional incentive for achieving specified premium goals and/or based upon the loss experience of the insurance placed by the Company. Contingent commissions from insurance companies are recognized when determinable, which is generally when such commissions are received or when the Company receives data from the insurance companies that allows the reasonable estimation of these amounts. Commission expense is recognized as of the effective date of the insurance policy. When policies are cancelled prior to the policy expiration date, unearned commission is refunded to the customer in accordance with the terms of the policy and is offset against earned commission.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statement presentation. These reclassifications had no effect on net income.

Note 2: Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the FRB. The reserve required at December 31, 2018 and 2017, was \$1,958,000 and \$2,046,000, respectively.

TexStar Bancshares, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 3: Securities

The amortized cost and approximate fair values of available-for-sale securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
December 31, 2018				
U.S. government agencies	\$ 20,880,013	\$ -	\$ 428,651	\$ 20,451,362
Government-sponsored enterprise (GSE) residential mortgage- backed securities	1,168,865	-	40,076	1,128,789
Total	<u>\$ 22,048,878</u>	<u>\$ -</u>	<u>\$ 468,727</u>	<u>\$ 21,580,151</u>
December 31, 2017				
U.S. government agencies	\$ 20,990,075	\$ 69	\$ 347,546	\$ 20,642,598
Government-sponsored enterprise (GSE) residential mortgage- backed securities	1,419,585	-	35,293	1,384,292
Total	<u>\$ 22,409,660</u>	<u>\$ 69</u>	<u>\$ 382,839</u>	<u>\$ 22,026,890</u>

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

	Amortized Cost	Fair Value
Within one year	\$ 3,572,782	\$ 3,547,600
One to five years	16,805,346	16,420,021
Five to ten years	501,885	483,741
Mortgage-backed securities	1,168,865	1,128,789
Total	<u>\$ 22,048,878</u>	<u>\$ 21,580,151</u>

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The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$8,824,260 and \$7,716,694 at December 31, 2018 and 2017, respectively.

Gross losses of \$13,823 and no gross gains resulting from sales of available-for-sale securities were realized for 2018. There were no sales of securities during 2017.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2018 and 2017, was \$21,580,151 and \$21,525,435, respectively, which is approximately 100 percent and 98 percent, respectively, of the Company's investment portfolio. The unrealized losses are largely due to increases in market interest rates over the yield available at the time the underlying securities were purchased.

Except as discussed below, management believes the declines in fair value for these securities are temporary.

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

Description of Securities	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 4,527,201	\$ 46,577	\$ 15,924,161	\$ 382,074	\$ 20,451,362	\$ 428,651
GSE residential mortgage-backed securities	-	-	1,128,789	40,076	1,128,789	40,076
Total	<u>\$ 4,527,201</u>	<u>\$ 46,577</u>	<u>\$ 17,052,950</u>	<u>\$ 422,150</u>	<u>\$ 21,580,151</u>	<u>\$ 468,727</u>
Description of Securities	December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 7,623,529	\$ 45,967	\$ 12,517,614	\$ 301,579	\$ 20,141,143	\$ 347,546
GSE residential mortgage-backed securities	477,629	7,753	906,663	27,540	1,384,292	35,293
Total	<u>\$ 8,101,158</u>	<u>\$ 53,720</u>	<u>\$ 13,424,277</u>	<u>\$ 329,119</u>	<u>\$ 21,525,435</u>	<u>\$ 382,839</u>

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U.S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2018.

Government-Sponsored Enterprise (GSE) Residential Mortgage-backed Securities

The unrealized losses on the Company's investment in residential mortgage-backed securities issued by GSE securities were caused by interest rate increases. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2018.

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, 2018 and 2017, include:

	<u>2018</u>	<u>2017</u>
Commercial and industrial	\$ 29,719,376	\$ 25,369,024
Real estate		
Commercial real estate	126,590,645	133,672,906
Residential real estate	26,385,734	23,918,232
Construction	21,704,493	13,612,507
Consumer and other	<u>1,482,722</u>	<u>2,053,761</u>
	205,882,970	198,626,430
Less allowance for loan losses	<u>(4,110,155)</u>	<u>(3,836,242)</u>
Net loans	<u>\$ 201,772,815</u>	<u>\$ 194,790,188</u>

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The risk characteristics of the Bank's material portfolio segments are as follows:

Real Estate Loans – The real estate loan portfolio consists of residential loans for single-family and multi-family properties, construction and land development loans, loans secured by farmland and other commercial real estate loans.

Residential loans are generally secured by owner occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers and can be impacted by economic conditions within their market area. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Construction and land development loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing.

Commercial real estate loans typically involve larger principal amounts and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and, secondarily, as loans secured by real estate. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria.

Commercial and Industrial Loans – The commercial and industrial loan portfolio consists of loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchase or other expansion projects. Commercial loan underwriting standards are designed to promote relationship banking rather than transactional banking and are underwritten based on the borrower's expected ability to profitably operate its business. The cash flows of borrowers, however, may not be as expected and collateral securing these loans may fluctuate in value. Most commercial loans are secured by assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2018 and 2017:

	2018				
	Commercial and Industrial	Real Estate	Consumer and Other	Unallocated	Total
Allowance for Loan Losses					
Balance, beginning of year	\$ 291,013	\$ 2,734,020	\$ 43,260	\$ 767,949	\$ 3,836,242
Provision for loan losses	125,619	25,767	5,225	108,389	265,000
Losses charged-off	(83,914)	-	-	-	(83,914)
Recoveries	92,827	-	-	-	92,827
Balance, end of year	<u>\$ 425,545</u>	<u>\$ 2,759,787</u>	<u>\$ 48,485</u>	<u>\$ 876,338</u>	<u>\$ 4,110,155</u>
Allowance Balances					
Ending balance					
individually evaluated					
for impairment	\$ 114,632	\$ 694	\$ -	\$ -	\$ 115,326
Ending balance					
collectively evaluated					
for impairment	310,913	2,759,093	48,485	876,338	3,994,829
Ending balance	<u>\$ 425,545</u>	<u>\$ 2,759,787</u>	<u>\$ 48,485</u>	<u>\$ 876,338</u>	<u>\$ 4,110,155</u>
Loans					
Ending balance					
individually evaluated					
for impairment	\$ 446,397	\$ 69,415	\$ -	\$ -	\$ 515,812
Ending balance					
collectively evaluated					
for impairment	29,272,979	174,611,457	1,482,722	-	205,367,158
Ending balance	<u>\$ 29,719,376</u>	<u>\$ 174,680,872</u>	<u>\$ 1,482,722</u>	<u>\$ -</u>	<u>\$ 205,882,970</u>

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	2017				
	Commercial and Industrial	Real Estate	Consumer and Other	Unallocated	Total
Allowance for Loan Losses					
Balance, beginning of year	\$ 424,671	\$ 2,375,102	\$ 35,722	\$ 832,453	\$ 3,667,948
Provision for loan losses	(121,952)	358,918	7,538	(64,504)	180,000
Losses charged-off	(36,706)	-	-	-	(36,706)
Recoveries	25,000	-	-	-	25,000
	<u>291,013</u>	<u>2,734,020</u>	<u>43,260</u>	<u>767,949</u>	<u>3,836,242</u>
Balance, end of year	<u>\$ 291,013</u>	<u>\$ 2,734,020</u>	<u>\$ 43,260</u>	<u>\$ 767,949</u>	<u>\$ 3,836,242</u>
Allowance Balances					
Ending balance					
individually evaluated					
for impairment	\$ 8,279	\$ 8,045	\$ -	\$ -	\$ 16,324
Ending balance					
collectively evaluated					
for impairment	282,734	2,725,975	43,260	767,949	3,819,918
	<u>282,734</u>	<u>2,725,975</u>	<u>43,260</u>	<u>767,949</u>	<u>3,819,918</u>
Ending balance	<u>\$ 291,013</u>	<u>\$ 2,734,020</u>	<u>\$ 43,260</u>	<u>\$ 767,949</u>	<u>\$ 3,836,242</u>
Loans					
Ending balance					
individually evaluated					
for impairment	\$ 317,051	\$ 442,603	\$ -	\$ -	\$ 759,654
Ending balance					
collectively evaluated					
for impairment	25,051,973	170,761,042	2,053,761	-	197,866,776
	<u>25,051,973</u>	<u>170,761,042</u>	<u>2,053,761</u>	<u>-</u>	<u>197,866,776</u>
Ending balance	<u>\$ 25,369,024</u>	<u>\$ 171,203,645</u>	<u>\$ 2,053,761</u>	<u>\$ -</u>	<u>\$ 198,626,430</u>

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Internal Risk Categories

Loan grades are numbered 1 through 9. Grades 1 through 6 are considered satisfactory grades. The grade of 7 or Special Mention, represents loans of lower quality and is considered criticized. The grades of 8, or Substandard, and 9, or Doubtful, refer to assets that are classified. The use and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

Pass (1-6) – The Bank has six levels within this category to provide granularity between loans.

Special Mention (OAEM) (7) – These assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (8) – These loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful (9) – Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

The following tables present the credit risk profile of the Bank's loan portfolio based on internal rating category and payment activity as of December 31, 2018 and 2017:

	2018					Total
	Commercial and Industrial	Real Estate			Consumer & Other	
	Commercial Real Estate	Residential Real Estate	Construction			
Rating						
Pass	\$ 29,272,979	\$ 126,521,230	\$ 26,385,734	\$ 21,704,493	\$ 1,482,722	\$ 205,367,158
Special Mention	177,497	69,415	-	-	-	246,912
Substandard	268,900	-	-	-	-	268,900
Total	<u>\$ 29,719,376</u>	<u>\$ 126,590,645</u>	<u>\$ 26,385,734</u>	<u>\$ 21,704,493</u>	<u>\$ 1,482,722</u>	<u>\$ 205,882,970</u>

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	2017					Total
	Commercial and Industrial	Real Estate			Consumer & Other	
	Commercial Real Estate	Residential Real Estate	Construction			
Rating						
Pass	\$ 24,695,985	\$ 133,578,589	\$ 23,918,232	\$ 13,612,507	\$ 2,053,761	\$ 197,859,074
Special						
Mention	305,195	94,317	-	-	-	399,512
Substandard	367,844	-	-	-	-	367,844
Total	\$ 25,369,024	\$ 133,672,906	\$ 23,918,232	\$ 13,612,507	\$ 2,053,761	\$ 198,626,430

The following tables present the Bank's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2018 and 2017:

	2018					Total Loans Receivable
	30-89 Days Past Due	Total Loans> 90 Days and Accruing	Nonaccrual	Total Past Due	Current	
Commercial and industrial	\$ -	\$ -	\$ 267,215	\$ -	\$ 29,452,161	\$ 29,719,376
Real estate						
Commercial	-	-	-	-	126,590,645	126,590,645
Residential	-	-	-	-	26,385,734	26,385,734
Construction	-	-	-	-	21,704,493	21,704,493
Consumer and other	-	-	-	-	1,482,722	1,482,722
Total	\$ -	\$ -	\$ 267,215	\$ -	\$ 205,615,755	\$ 205,882,970

	2017					Total Loans Receivable
	30-89 Days Past Due	Total Loans> 90 Days and Accruing	Nonaccrual	Total Past Due	Current	
Commercial and industrial	\$ -	\$ -	\$ 119,795	\$ -	\$ 25,249,229	\$ 25,369,024
Real estate						
Commercial	-	-	-	-	133,672,906	133,672,906
Residential	-	-	-	-	23,918,232	23,918,232
Construction	-	-	-	-	13,612,507	13,612,507
Consumer and other	-	-	-	-	2,053,761	2,053,761
Total	\$ -	\$ -	\$ 119,795	\$ -	\$ 198,506,635	\$ 198,626,430

The Bank's impaired loans at December 31, 2018 and 2017, were insignificant.

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Note 5: Premises and Equipment

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

	<u>2018</u>	<u>2017</u>
Land	\$ 3,224,743	\$ 2,539,743
Buildings and improvements	5,851,026	5,809,847
Equipment	<u>3,724,048</u>	<u>2,972,851</u>
	12,799,817	11,322,441
Less accumulated depreciation	<u>(5,611,242)</u>	<u>(5,161,409)</u>
Net premises and equipment	<u>\$ 7,188,575</u>	<u>\$ 6,161,032</u>

Note 6: Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2018 and 2017, were:

	<u>2018</u>		<u>2017</u>	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	\$ 413,184	\$ 229,296	\$ 413,184	\$ 187,978
Customer list	985,000	48,480	485,000	-
	<u>\$ 1,398,184</u>	<u>\$ 277,776</u>	<u>\$ 898,184</u>	<u>\$ 187,978</u>

Amortization expense for the years ended December 31, 2018 and 2017, was \$89,798 and \$41,319, respectively. Estimated amortization expense for each of the following five years is:

2019	\$ 139,818
2020	139,818
2021	139,818
2022	139,818
2023	117,114
Thereafter	<u>444,022</u>
	<u>\$ 1,120,408</u>

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Note 7: Time Deposits

Time deposits in denominations of \$250,000 or more were \$37,577,349 and \$37,391,540 at December 31, 2018 and 2017, respectively.

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

2019	\$ 57,497,413
2020	7,758,915
2021	1,433,903
2022	160,000
2023	59,724
	<hr/>
	<u>\$ 66,909,955</u>

Note 8: Lines of Credit

FHLB Line of Credit

At December 31, 2018 and 2017, the Bank had a revolving line of credit with a maximum available limit of \$73,780,113 and \$74,144,535, respectively. Advances on this line are discussed in Note 9. The line is collateralized by all FHLB stock and a blanket lien on certain commercial and residential mortgage loans. The line of credit bears interest at a daily variable rate which is set by the FHLB.

Frost Bank Line of Credit

At December 31, 2018 and 2017, the Bank had available a \$1,500,000 revolving line of credit that expires in 2019. At December 31, 2018 and 2017, there were no funds borrowed against this line. The line is not collateralized at December 31, 2018. The line of credit bears interest at a daily variable rate which is set by Frost Bank.

The Independent Bankers' Bank (TIB) Line of Credit

At December 31, 2018 and 2017, the Bank had available a \$1,500,000 revolving line of credit with an open-ended term, which can be terminated by either party at any time. At December 31, 2018 and 2017, there were no funds borrowed against this line. The line is collateralized by securities as applicable. The line of credit bears interest at a daily variable rate which is set by TIB.

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Note 9: Borrowings

Borrowings consisted of the following components:

	<u>2018</u>	<u>2017</u>
FHLB advances	\$ 16,188,787	\$ 14,431,015
Note payable to Frost Bank	<u>896,665</u>	<u>1,134,812</u>
Balance as of December 31	<u>\$ 17,085,452</u>	<u>\$ 15,565,827</u>

FHLB advances are secured by a blanket lien on certain commercial and residential mortgage loans totaling \$89,968,900 at December 31, 2018. Advances, bearing interest rates from 1.179 to 2.580 percent, are subject to restrictions or penalties in the event of prepayment. At December 31, 2018, final maturities of FHLB advances ranged from July 2021 to November 2027.

On June 16, 2011, the Company entered into an agreement with Frost Bank to secure \$2,500,000 in borrowings to cover costs associated with the formation of the Company and to provide additional capital to the Bank for future growth. On June 28, 2016, the Company entered into a new agreement with Frost Bank to secure \$1,667,034 in borrowings to cover costs associated with the acquisition of the assets of E. Felux & Associates, Inc., and to pay off the \$683,006 remaining balance of the previous note to Frost Bank. This note is secured by collateral consisting of 1,225,500 shares of TexStar National Bank common stock. Principal and interest payments are due quarterly and the note accrues interest at Frost Bank Prime plus 1.00 percent, which was 6.25 percent at December 31, 2018. The note matures on June 28, 2023.

Aggregate annual maturities of borrowings at December 31, 2018, are:

2019	\$ 3,702,290
2020	3,769,933
2021	3,411,469
2022	2,712,841
2023	955,225
Thereafter	<u>2,533,694</u>
	<u>\$ 17,085,452</u>

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Note 10: Changes in Accumulated Other Comprehensive Income (AOCI) by Component

The following table shows amounts reclassified from AOCI during the year ended December 31, 2018. There were no amounts reclassified from AOCI during the year ended December 31, 2017.

AOCI Component	Amounts Reclassified from AOCI 2018	Affected Line Item in the Consolidated Statements of Income
Unrealized gains (losses) on available-for-sale securities	\$ 13,823	Net loss on sales of investments
	<u>\$ 13,823</u>	Net reclassified amount

Note 11: Regulatory Matters

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

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018 and 2017, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2018 and 2017, the most recent notification from the Office of the Comptroller of the Currency (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Total risk-based capital (to risk-weighted assets)	\$ 31,800,000	15.16%	\$ 20,710,344	9.875%	\$ 20,972,500	10.00%
Tier I capital (to risk-weighted assets)	\$ 29,161,000	13.90%	\$ 16,515,844	7.875%	\$ 16,778,000	8.00%
Common equity Tier 1 capital (to risk-weighted assets)	\$ 29,161,000	13.90%	\$ 13,369,969	6.375%	\$ 13,632,125	6.50%
Tier I capital (to average assets)	\$ 29,161,000	11.31%	\$ 10,313,000	4.000%	\$ 12,891,250	5.00%
As of December 31, 2017						
Total risk-based capital (to risk-weighted assets)	\$ 29,373,000	14.32%	\$ 18,969,160	9.250%	\$ 20,507,200	10.00%
Tier I capital (to risk-weighted assets)	\$ 26,794,000	13.07%	\$ 14,867,720	7.250%	\$ 16,405,760	8.00%
Common equity Tier 1 capital (to risk-weighted assets)	\$ 26,794,000	13.07%	\$ 11,791,640	5.750%	\$ 13,329,680	6.50%
Tier I capital (to average assets)	\$ 26,794,000	10.43%	\$ 10,271,200	4.000%	\$ 12,839,000	5.00%

The above minimum capital requirements include the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from zero percent for 2015 to 2.50 percent by 2019. The capital conservation buffer was 1.875 percent at December 31, 2018. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2018, approximately \$6,391,840 of retained earnings were available for dividend declaration without prior regulatory approval.

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Basel III Capital Rules

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee’s December 2010 framework known as “Basel III” for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions’ regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called “Common Equity Tier 1” (CET1), (ii) specify that Tier 1 capital consist of CET1 and “Additional Tier 1 Capital” instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Note 12: Related Party Transactions

At December 31, 2018 and 2017, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of \$1,650,743 and \$1,857,654, respectively.

Annual activity consisted of the following:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,857,654	\$ 1,665,422
New loans	15,500	408,700
Repayments	<u>(222,411)</u>	<u>(216,468)</u>
Ending balance	<u>\$ 1,650,743</u>	<u>\$ 1,857,654</u>

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

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Deposits from related parties held by the Company at December 31, 2018 and 2017, totaled \$5,169,729 and \$5,484,176 respectively.

The Company leases a facility under an operating lease with a related party for which approximately \$147,000 of rent was paid annually during 2018 and 2017. The lease expired in 2018.

Note 13: Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to 50 percent or 15 percent for certain higher paid employees, of their compensation. During 2018 and 2017, the Company matched 100 percent of the employee's contribution on the first 4 percent of the employee's compensation. Employer contributions charged to expense for 2018 and 2017, were \$100,395 and \$87,446, respectively.

Note 14: *Share-Based Compensation*

Stock Options

The Company has a fixed option plan under which the Company has granted options that vest over five years to the Company president and other officers of the Company for shares of common stock. The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant. The option awards generally vest based on five years of continuous service and have 10-year contractual terms. Certain options provide for accelerated vesting if there is a change of control (as defined in the Plan).

The fair value of each award is estimated on the date of grant using a Black-Scholes option valuation model. No awards were granted in 2018 and 2017. There was no unrecognized compensation expense related to outstanding stock options at December 31, 2018 and 2017.

TexStar Bancshares, Inc.
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A summary of the option activity under the Plan at December 31, 2018, and changes during the year then ended is presented below:

	2018		
	Shares	Weighted- average Exercise Price	Weighted- average Remaining Contractual Term
Outstanding, beginning of year	10,300	\$ 10.51	
Granted	-	\$ -	
Exercised	(10,000)	\$ 10.51	
Forfeited	(300)	\$ -	
Repurchased	-	\$ -	
	-	\$ -	
Outstanding, end of year	-	\$ -	0.0
Exercisable, end of year	-	\$ -	0.0

The Company received cash of \$105,100 and \$36,830 during the years ended December 31, 2018 and 2017, respectively, from exercising stock options. The intrinsic value of options exercised during the years ended December 31, 2018 and 2017, was \$114,900 and \$40,170, respectively.

Restricted Stock

In June 2015, the Company issued 75,000 shares of restricted stock to two executive officers. The shares are subject to forfeiture provisions in the event that the officers cease employment with the Company during the term of the agreement. The forfeiture provisions lapse on 20 percent of the shares each year on the anniversary date for the next five years. The restricted stock agreements include provisions that accelerate the vesting of the unvested restricted stock if a change of control occurs as defined by the agreements. The holders of the restricted stock are entitled to all rights of a shareholder with regard to the restricted stock including the right to receive dividends. Dividends on the unvested restricted stock will be charged to retained earnings when declared. There have been no dividends declared since the issuance of the restricted stock.

The restricted stock awards were valued at \$16.25 per share based on a valuation obtained by a third-party valuation firm. Therefore, the total compensation expense that will be recognized by the Company over the five year requisite service period is \$1,218,750. The Company assumed that there would be no forfeitures of the awards during the requisite service period. The amount of compensation expense related to the restricted stock awards recognized by the Company during the years ended December 31, 2018 and 2017, was \$243,750. The amount of unrecognized compensation expense that will be recognized over the remaining requisite service period at December 31, 2018, is \$365,625.

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A summary of the status of the Company's nonvested restricted stock shares as of December 31, 2018, and changes during the year then ended, is presented below:

	Shares	Weighted- average Grant-date Fair Value
Nonvested, beginning of year	45,000	\$ 16.25
Granted	-	-
Vested	(15,000)	16.25
Forfeited	-	-
Nonvested, end of year	30,000	\$ 16.25

Note 15: Leases

The Company had a noncancellable operating lease that expired in 2018 and was not renewed. The lease was for a facility for one of the Company's branches. Rental expense for the Company's operating leases was \$208,472 and \$191,438 for the years ended December 31, 2018 and 2017, respectively. The Company has no contractual agreements for future minimum lease payments at December 31, 2018.

Note 16: Asset Acquisition

During 2018, the Company acquired 100 percent of the assets of Grothaus & Polk, Inc., an insurance agency located in Windcrest. The purpose of this transaction was to increase market share and to increase the Company's base of insurance agency customers. The aggregate purchase price of \$500,000 will be disbursed to the seller through three annual payments beginning on January 3, 2018. The Company accounted for the transaction as an asset acquisition as substantially all of the fair value of the assets acquired was concentrated in the customer listing.

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Note 17: Commitments and Credit Risk

The Company grants commercial, consumer and residential loans to customers primarily located in the San Antonio and south Texas market area. Although the Company has a diversified loan portfolio, the Company has concentrations of credit risk in the real estate market and is dependent on general economic conditions in the Company's geographic market area.

Commitments to Originate Loans and Lines of Credit

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

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line of credit may expire without being drawn upon, the total unused lines of credit do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2018 and 2017, the Company had outstanding commitments to originate loans and unused lines of credit aggregating \$29,776,966 and \$24,788,186, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period. The majority of commitments are at a floating market rate of interest.

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Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit issued are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to \$715,224 and \$831,690, at December 31, 2018 and 2017, respectively, with terms ranging from 30 days to 15 months.

Note 18: Disclosures About Fair Value of Assets and Liabilities

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

- Level 1** Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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Recurring Measurements

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

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Available-for-sale securities				
U.S. government agencies	\$ 20,451,362	\$ -	\$ 20,451,362	\$ -
Government-sponsored enterprise (GSE) residential mortgage-backed securities	1,128,789	-	1,128,789	-
	<u>\$ 21,580,151</u>	<u>\$ -</u>	<u>\$ 21,580,151</u>	<u>\$ -</u>
December 31, 2017				
Available-for-sale securities				
U.S. government agencies	\$ 20,642,598	\$ -	\$ 20,642,598	\$ -
Government-sponsored enterprise (GSE) residential mortgage-backed securities	1,384,292	-	1,384,292	-
	<u>\$ 22,026,890</u>	<u>\$ -</u>	<u>\$ 22,026,890</u>	<u>\$ -</u>

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2018 and 2017.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agency debt and mortgage-backed securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Currently, all of the Company's securities are classified in Level 2 of the hierarchy.

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Third-party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Matrix pricing is utilized in the valuation of the U.S. government agency debt and GSE residential mortgage-backed securities.

Nonrecurring Measurements

Assets measured at fair value on a nonrecurring basis in the consolidated balance sheets at December 31, 2018 and 2017, were not material.

Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk. Estimates related to the value of the Company's stock used in share-based compensation plans are discussed in the footnote on share-based compensation.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Goodwill

As discussed in Note 1, the Bank annually tests its goodwill for impairment. At the most recent testing date, the fair value of the reporting unit exceeded its carrying value. Estimated fair value of the reporting unit was based principally on forecasts of future income. Due to the volatility of the current economic environment, coupled with the Company's recent loan loss experience, management's forecasts of future income are subject to significantly more uncertainty than during more stable environments. Management believes it has applied reasonable judgment in developing its estimates; however, unforeseen negative changes in the national, state or local economic environment may negatively impact those estimates in the near term.

TexStar Bancshares, Inc.
Notes to Consolidated Financial Statements
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Note 20: Subsequent Events

Subsequent events have been evaluated through May 6, 2019, which is the date the consolidated financial statements were available to be issued.

Note 21: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Company is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss model, the current expected credit loss model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL model utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized.

TexStar Bancshares, Inc.
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The CECL model represents a significant change from existing practice and may result in material changes to the Company's accounting for financial instruments. The Company is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of our portfolios at the date of adoption. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021.

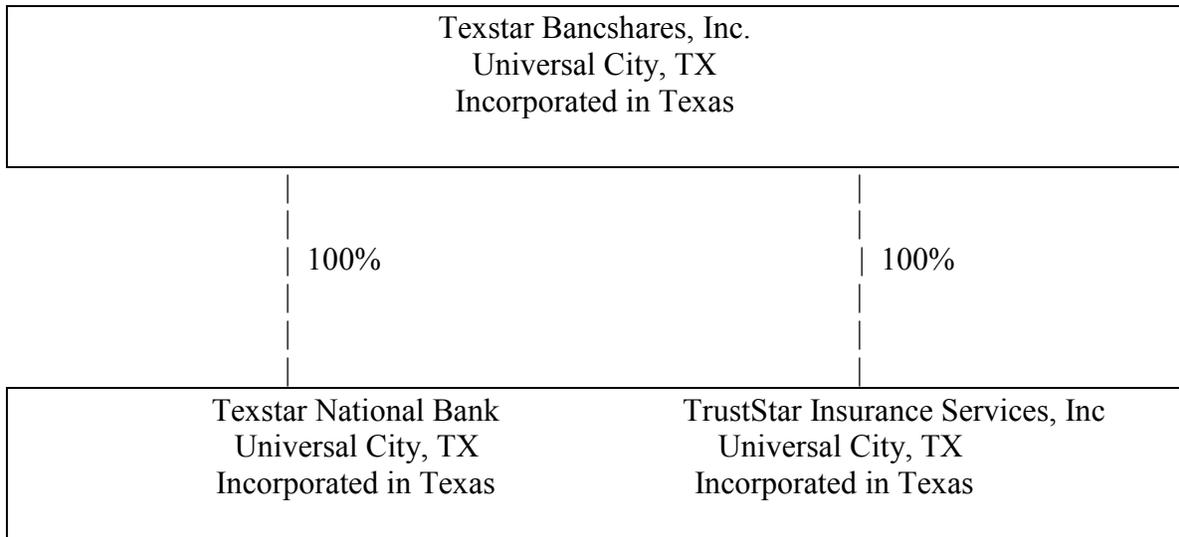
Form FR Y-6

**Texstar Bancshares, Inc.
Universal City, Texas**

Fiscal Year Ending December 31, 2018

Report Item:

1. The bank holding company prepares an annual report for its shareholder, but it is not available at the time of this mailing.
2. a. Organizational Chart:



Note: None of the entities in the organization have a LEI number.

2. b. Uploaded 03/25/2019

Results: A list of branches for your depository institution: **TEXSTAR NATIONAL BANK (ID_RSSD: 3211937)**.
 This depository institution is held by **TEXSTAR BANCSHARES, INC. (4091819)** of **UNIVERSAL CITY, 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)	3211937	TEXSTAR NATIONAL BANK	600 PAT BOOKER RD	UNIVERSAL CITY	TX	78148	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
OK		Full Service	1980136	CONVERSE BRANCH	9154 FM 78	CONVERSE	TX	78109	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
OK		Full Service	2988924	NEW BRAUNFELS BRANCH	555 I-35 SOUTH	NEW BRAUNFELS	TX	78130	COMAL	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
OK		Full Service	3818635	DOWNTOWN BRANCH	803 WEST COMMERCE	SAN ANTONIO	TX	78207	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
OK		Full Service	2798655	EAST CENTRAL BRANCH	7411 EAST HIGHWAY 87	SAN ANTONIO	TX	78263	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
OK		Full Service	2988933	SAN ANTONIO AIRPORT BRANCH	12800 SAN PEDRO AVENUE	SAN ANTONIO	TX	78216	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	

Form FR Y-6
Texstar Bancshares, Inc.
Universal City, TX
Fiscal Year Ending December 31, 2018

Report Item 4: Insiders
(1), (2), (3)(a,b,c) and (4)(a,b,c)

(1) Names City, State Country	(2) Principal Occupation if other than with Bank Holding Company	(3)a Title & Position with Bank Holding Company	(3)b Title & Position with Subsidiaries (include names of subsidiaries)	(3)c Title & Position with Other Businesses (include names of other businesses)	(4)a Percentage of Voting Shares in Bank Holding Company	(4)b Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)c List names of other companies (include partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Thomas A Akin San Antonio, TX	C.P.A.	Director	Director (Texstar National Bank)	Partner Akin, Doherty, Klein & Feuge, P.C.	2.13%	None	Akin, Doherty, Klein & Feuge, P.C. 28%
Byron K Bexley San Antonio, TX	Banking	Chairman/Director	Chairman/CEO/Director (Texstar National Bank)	N/A	6.44%	None	N/A
Ronald Hengst San Antonio, TX	Automotive Supplies	Director	Director (Texstar National Bank)	President Walton Distributing Company, Inc	1.04%	None	N/A
Manny E Ruiz San Antonio, TX	Banking	President/Director	President/Director (Texstar National Bank)	N/A	3.45%	None	N/A
W Marvin Rush Seguin, TX	Truck Sales & Service	Director	Director (Texstar National Bank)	Chairman Emeritus Rush Enterprises, Inc	55.52%	None	N/A
Thomas L Short San Antonio, TX	Contractor	Director	Director (Texstar National Bank)	CEO Safelane Traffic Supply	2.89%	None	Shortline Corp. 100% Safelane Traffic Supply 49%

Report Item 3

NAME (1) (a)	ADDRESS (1) (a)	Country (1) (b)	SHARES (1) (c)	% Owned (1)c	Class (1)c
W. Marvin Rush	Seguin, TX	USA	797,497	55.52	Common
Byron K. Bexley	San Antonio, TX	USA	92,500	6.44	Common

NAME (2) (a)	ADDRESS (2) (a)	Country (2) (b)	SHARES (2) (c)	% Owned (2)c	Class (2)c
N/A	N/A	N/A	N/A	N/A	N/A