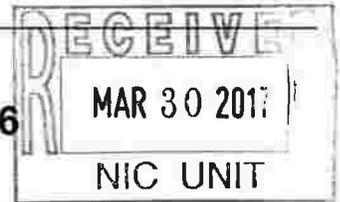


Board of Governors of the Federal Reserve System



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)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. 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 and top-tier savings and loan 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.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2016

Month / Day / Year

N/A

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

I. John Snider

Name of the Holding Company Director and Official

Vice 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.

Reporter's Name, Street, and Mailing Address

Shelby Bancshares, Inc.

Legal Title of Holding Company

P. O. Box 1806

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

Center	TX	75935
City	State	Zip Code

111 Selma Street

Physical Location (if different from mailing address)

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.

Person to whom questions about this report should be directed:

Dave Stewart CPA

Name Title

936-634-6621

Area Code / Phone Number / Extension

936-634-8183

Area Code / FAX Number

dstewart@axleyrode.com

E-mail Address

www.shelbysavingsbank.com

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

Signature of Holding Company Director and Official

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 2960630
 C.I. _____

Does the reporter request confidential treatment for any portion of this submission?

Yes Please identify the report items to which this request applies:

- In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
- The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

No

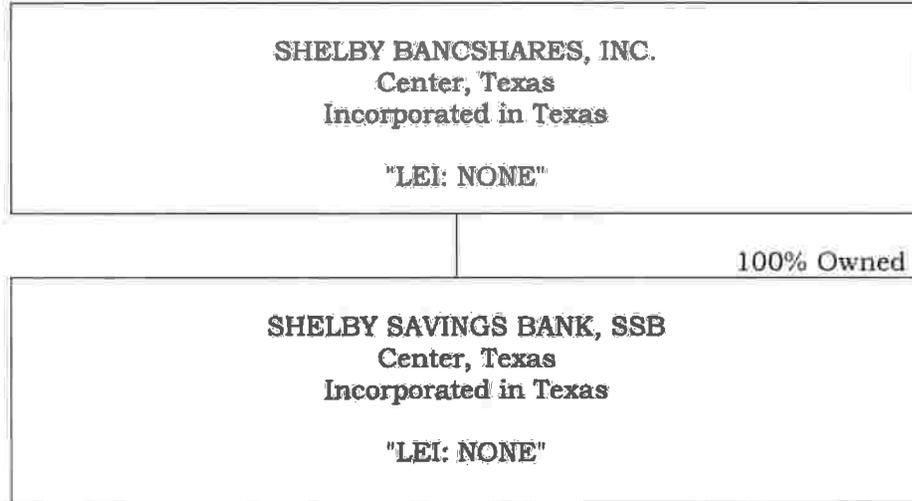
SHELBY BANCSHARES, INC.
CENTER, TEXAS
DOMESTIC HOLDING COMPANY
ANNUAL REPORT F.R.Y-6

Item 1: Annual Report to Shareholders

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

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

Item 2a - Organization Chart



Results: A list of branches for your holding company: SHELBY BANCSHARES, INC. (2960630) of CENTER, TX. The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017

Reconciliation and Verification Steps

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

Actions

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

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

Submission Procedure

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

Note:

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

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

Data Action	Effective Date	Branch Service Type	Branch ID, RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID, RSSD*	Comments
OK		Full Service (Head Office)	552974	SHELBY SAVINGS BANK, SSB	111 SELMA ST	CENTER	TX	75935	SHELBY	UNITED STATES	44969	0	SHELBY SAVINGS BANK, SSB	552974	
OK		Limited Service	3929317	CENTER NORTH BRANCH	1110 HURST STREET	CENTER	TX	75935	SHELBY	UNITED STATES	4693144	103	SHELBY SAVINGS BANK, SSB	552974	
OK		Full Service	1403596	HEMPHILL BANKING CENTER	103 WORTH STREET	HEMPHILL	TX	75948	SABINE	UNITED STATES	281690	102	SHELBY SAVINGS BANK, SSB	552974	
OK		Full Service	1403587	SAN AUGUSTINE BANKING CENTER	710 WEST COLUMBIA	SAN AUGUSTINE	TX	75972	SAN AUGUSTINE	UNITED STATES	281689	101	SHELBY SAVINGS BANK, SSB	552974	

SHELBY BANCSHARES, INC.
 CENTER, TEXAS
 DOMESTIC HOLDING COMPANY
 ANNUAL REPORT F.R.Y-6
 FISCAL YEAR ENDING DECEMBER 31, 2016
 REPORT ITEM 3: SECURITIES HOLDERS
 (1)a, b, c

NAME, CITY AND STATE	COUNTRY OF CITIZENSHIP	NUMBER & PERCENTAGE OF EACH CLASS OF VOTING SECURITIES
Janie Biddle Center, Texas	USA	6,218 - 6.780%* **
Weldon Boles Center, Texas	USA	6,660 - 7.262%
Rick Campbell Center, Texas	USA	8,503 - 9.272%
Sammy or Barbara Dance Center, Texas	USA	6,904 - 7.528%
Angela Lee Koonce Center, Texas	USA	6,003 - 6.546%
Lisa McAdams Center, Texas	USA	5,100 - 5.561%
C. Donald Monroe Center, Texas	USA	5,110 - 5.572%

* Janie Biddle owns 3,359 (3.66%) shares of stock. She is also Trustee for the Patrick E. Biddle Marital Trust and therefore has the power to vote the Trust's 2,859 (3.12%) shares of stock. Upon Mrs. Biddle's death, the stock in the trust will go to Patrick E. Biddle's children from a prior marriage and Mrs. Biddle's stock will go to her children from a prior marriage.

** Janie Biddle and G. E. Cuculic were married November 6, 2004. By a premarital agreement all of their assets including their Shelby Bancshares, Inc. stock will be maintained as separate property. The only community property will be a joint account maintained for household purposes. The ramifications of this marriage were reviewed in detail with representatives of the Federal Reserve (Robert Amsler), FDIC (Bruce Staley), and the Texas Saving & Loan Department (Danny Payne). We were advised by Mr. Amsler that the only action required by the Federal Reserve was to provide an explanation of the relationship each year on the F.R.Y-6 Report, Item #3 pertaining to stockholders who own or control over 5% of the holding company stock. Mr. Staley advised that the FDIC did not require any action. Mr. Payne determined that the Texas Savings & Loan Department required a letter rebutting control of Shelby Bancshares, Inc. This letter was provided and accepted by the Department. Mr. G. E. Cuculic passed away on January 12, 2015 and his shares were dispersed to his children during 2016. See Report Item 3: Securities Holders (2)a,b,c

SHELBY BANCSHARES, INC.
CENTER, TEXAS
DOMESTIC HOLDING COMPANY
ANNUAL REPORT F.R.Y-6
FISCAL YEAR ENDING DECEMBER 31, 2016
REPORT ITEM 3: SECURITIES HOLDERS

(2)a, b, c - Security Holders not listed in 3(1)a,b,c that had ownership control or holdings of 5% or more with power to vote during the fiscal year ended December 31, 2016.

NAME, CITY AND STATE	COUNTRY OF CITIZENSHIP	NUMBER & PERCENTAGE OF EACH CLASS OF VOTING SECURITIES
Estate of G. E. Cuculic Center, Texas	USA	5,000 - 5.458%

FRY-6
 SHELBY BANCSHARES, INC.
 Fiscal Year Ending December 31, 2016
 Report Item 4: Insiders
 (1), (2), (3), a, b, c and (4) a, b, c



(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
NAME, CITY AND STATE	PRINCIPAL OCCUPATION IF OTHER THAN HOLDING COMPANY	TITLE & POSITION WITH HOLDING COMPANY	TITLE AND POSITION WITH SUBSIDIARIES	TITLE AND POSITION WITH OTHER BUSINESSES	VOTING SHARES IN BANK HOLDING COMPANY	% OF VOTING SHARES IN SUBSIDIARIES	LIST NAMES OF OTHER COMPANIES (INCLUDING PARTNERSHIPS) IF 25% OR MORE OF VOTING SECURITIES ARE HELD
James Campbell Center, Texas USA	Businessman	Chairman Emeritus/ Director	Shelby Savings Bank Chairman Emeritus/ Director	General Shelters of Texas Ltd - Owner J D Port A Cool - Partner Campbell Portable Buildings, Ltd - Owner .JEC Rent Property - Owner	3.2167%	None	General Shelters of Texas, Ltd - 65% J D Port A Cool - 50% Campbell Portable Buildings Ltd - 100% .JEC Rent Properties - 100%
Rick Campbell Center, Texas	Businessman	Chairman/Director	Shelby Savings Bank Chairman/Director	General Shelters of Texas, Ltd - Partner B.B.O.P. Racing - Owner Bonehall Foundation - Chairman	9.2719%	None	N/A B.B.G.P. Racing - 33% N/A
Sammy Dance Center, Texas	Businessman	Secretary/Director	Shelby Savings Bank Secretary/Director	S.D. & B.W. Dance Living Trust - Trustee Sammy Dance Timber Production - Owner	(1) 7.5283%	None	S.D. & B.W. Dance Living Trust - 50% Sammy Dance Timber Production - 100%
Dixon Golden Center, Texas	Optometrist	Director	Shelby Savings Bank Director	David Dixon Golden, O.D., P.A. - Owner Pinewoods Eye Associates, P.A. - Owner Golden Irrevocable Insurance Trust - Owner Golden-Lehman Properties - Owner Golden-McCall Properties - Owner	3.2713%	None	David Dixon Golden, O.D., P.A. - 100% Pinewoods Eye Associates, P.A. - 50% Golden Irrevocable Insurance Trust - 100% Golden-Lehman Properties - 50% Golden-McCall Properties - 33.3%
Howell Howard Center, Texas	Businessman	Director	Shelby Savings Bank Director	Triple H Farms, LLC dba Best Texas Poultry Supply - Owner	3.2713%	None	Triple H Farms, LLC dba East Texas Poultry Supply - 100%
Lisa McAdams Center, Texas	Businesswoman	Director	Shelby Savings Bank Director	JLB-McAdams Enterprises Inc dba McAdams Propane - Owner Boles Enterprises, Inc. - Owner Boles Family Insurance Trust - Trustee Midstream Transportation - Partner	5.5612%	None	JLB-McAdams Enterprises Inc dba McAdams Propane Co - 51% Boles Enterprises, Inc. - 25% Boles Family Insurance Trust - 100% Midstream Transportation - 33.3%
Donald Monroe Center, Texas	Businessman	Director	Shelby Savings Bank Director	Monco Motor Company - President CD Trading, LLC - Owner	5.5721%	None	Monco Motor Company - 100% CD Trading, LLC - 100%
William Lucas Center, Texas	Banker	President/CFO/ Director	Shelby Savings Bank President/CFO/Director	A & W Farming and Leasing, LLC - Owner Double K Glass, LLC - Owner Solomon Zane Allen Trust - Secretary Will Lucas Farming - Owner	1.3401%	None	A & W Farming and Leasing, LLC - 50% Double K Glass, LLC - 50% N/A Will Lucas Farming - 100%
John Snider Center, Texas	Banker	Vice Chairman/ CEO/Director	Shelby Savings Bank Vice Chairman/Director	Snider Grandchildren Trust - Trustee	3.2887%	None	N/A
Lance Bounds Joaquin, Texas	Banker	Sr Vice President/ Treasurer/Asst Sec	Shelby Savings Bank Sr Vice President/ Treasurer/Assistant Secretary	None	0.0872%	None	None

(1) Shares owned jointly with Barbara Dance.

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

Item 2b - Branch Locations

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

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

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

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

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

SHELBY BANCSHARES, INC. AND SUBSIDIARY
Center, Texas

December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Shelby Bancshares, Inc. and Subsidiary (an S corporation), which comprise the consolidated statements of financial condition as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shelby Bancshares, Inc. and Subsidiary as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lufkin, Texas
March 13, 2017


CERTIFIED PUBLIC ACCOUNTANTS

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash on hand	\$ 5 619 179	\$ 4 378 878
Interest-bearing demand deposits in other banks	17 282 028	13 210 924
TOTAL CASH AND CASH EQUIVALENTS	22 901 207	17 589 802
Investment securities available for sale	42 234 822	39 936 969
Loans receivable	221 015 041	196 233 493
Loans held for sale	2 690 000	-
Real estate and other assets acquired in settlement of loans	143 652	60 500
Property and equipment	6 782 173	6 193 695
Federal Home Loan Bank stock	1 513 800	1 269 300
Accrued interest receivable	1 559 434	1 269 977
Cash value life insurance	3 334 190	3 247 505
Other assets	361 057	429 082
TOTAL ASSETS	\$ 302 535 376	\$ 266 230 323
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits	\$ 120 821 634	\$ 117 229 019
Savings	22 751 857	21 116 428
Certificates of deposit	95 206 980	64 869 253
TOTAL DEPOSITS	238 780 471	203 214 700
Advances from borrowers for taxes and insurance	396 608	449 746
Accrued interest payable	97 986	92 264
Distributions payable	550 242	549 672
Federal Home Loan Bank advances	28 308 529	28 375 598
Other liabilities	393 907	558 075
TOTAL LIABILITIES	268 527 743	233 240 055
Stockholders' Equity:		
Capital Stock: \$1 par value, 500,000 shares authorized, 91,707 and 91,612 shares issued and outstanding, respectively	91 707	91 612
Additional paid-in capital	9 431 809	9 397 028
Retained earnings	24 870 029	23 192 689
Accumulated other comprehensive income	(385 912)	308 939
TOTAL STOCKHOLDERS' EQUITY	34 007 633	32 990 268
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 302 535 376	\$ 266 230 323

The accompanying notes are an integral part of these statements.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2016 and 2015

	2016	2015
Interest Income:		
Loans Receivable:		
First mortgage loans	\$ 7 635 227	\$ 6 708 065
Consumer and other loans	3 389 434	3 483 926
Mortgage-backed and related securities	28 622	137 449
U. S. Government agencies	404 753	312 628
Municipal bonds	144 065	114 801
Other interest-earning assets	63 658	26 310
TOTAL INTEREST INCOME	11 665 759	10 783 179
Interest Expense:		
Deposits	924 115	779 197
Federal Home Loan Bank advances	775 280	808 263
TOTAL INTEREST EXPENSE	1 699 395	1 587 460
NET INTEREST INCOME	9 966 364	9 195 719
Provision for losses on loans	613 126	179 857
NET INTEREST INCOME AFTER PROVISION FOR LOSSES ON LOANS	9 353 238	9 015 862
Noninterest Income:		
Service charges and overdraft fees on deposit accounts	1 034 348	1 141 604
Loan late charges	116 178	126 792
Increase in cash value of life insurance	86 685	96 845
Gain on sale of loans held for sale	181 246	119 702
Realized gain (loss) on sale of available for sale securities	(21 952)	73 533
Other	791 338	771 984
TOTAL NONINTEREST INCOME	2 187 843	2 330 460
Noninterest Expense:		
General and Administrative:		
Compensation and benefits	4 222 032	4 073 134
Occupancy and equipment	1 159 979	1 115 671
Advertising	276 517	248 846
Computer service	693 810	754 607
Director's fees	234 800	234 200
Office supplies	200 879	297 273
(Gain)/loss on sale of real estate and other assets acquired in settlement of loans	141 217	2 268
Other	1 352 918	1 191 949
NONINTEREST EXPENSE	8 282 152	7 917 948
Income before Federal income taxes	3 258 929	3 428 374
Federal income taxes	-	-
NET INCOME	\$ 3 258 929	\$ 3 428 374

The accompanying notes are an integral part of these statements.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
NET INCOME	\$ <u>3 258 929</u>	\$ <u>3 428 374</u>
Other Comprehensive Income, Net of Tax:		
Unrealized Gains (Losses) on Securities:		
Unrealized holding gains (losses) arising during the period	(683 223)	130 197
Less reclassification adjustment for gains (losses) realized on sale of available for sale securities	<u>(11 628)</u>	<u>(112 420)</u>
Other Comprehensive Income (Loss)	<u>(694 851)</u>	<u>17 777</u>
COMPREHENSIVE INCOME	\$ <u><u>2 564 078</u></u>	\$ <u><u>3 446 151</u></u>

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

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015

	SHARES	CAPITAL STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS' EQUITY
Balance December 31, 2014	91 462	\$ 91 462	\$ 9 346 330	\$ 21 275 388	\$ 291 162	\$ 31 004 342
Net income	-	-	-	3 428 374	-	3 428 374
Other comprehensive income	-	-	-	-	17 777	17 777
Repurchase of capital stock	-	-	-	-	-	-
Sale of capital stock	150	150	50 698	-	-	50 848
Distributions	-	-	-	(1 511 073)	-	(1 511 073)
Balance December 31, 2015	91 612	91 612	9 397 028	23 192 689	308 939	32 990 268
Net income	-	-	-	3 258 929	-	3 258 929
Other comprehensive loss	-	-	-	-	(694 851)	(694 851)
Repurchase of capital stock	(50)	(50)	(18 305)	-	-	(18 355)
Sale of capital stock	145	145	53 086	-	-	53 231
Distributions	-	-	-	(1 581 589)	-	(1 581 589)
Balance December 31, 2016	91 707	\$ 91 707	\$ 9 431 809	\$ 24 870 029	\$ (385 912)	\$ 34 007 633

The accompanying notes are an integral part of these statements.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Net income	\$ 3 258 929	\$ 3 428 374
Noncash Charges (Credits) to Net Income:		
Depreciation of property and equipment	580 180	508 321
Amortization of deferred loan fees and costs (net)	178 316	185 386
Amortization of discounts on loans purchased	(230)	(1 811)
Gain on sale of loans	(181 246)	(119 702)
(Gain) loss on sale of real estate and other assets acquired in settlement of loans	141 217	2 268
Realized (gain) loss on the sale of available-for-sale securities	21 952	(73 533)
Amortization of premiums on investment securities	151 280	219 309
Accretion of discount on investment securities	(27 412)	(25 756)
Increase in cash value life insurance	(86 685)	(96 845)
Provision for losses on loans	613 126	179 857
Stock dividends received (Federal Home Loan Bank stock)	(16 400)	(3 800)
Proceeds from sale of single family residential loans held for sale	5 283 790	3 234 241
Origination of single family residential loans held for sale	(5 102 544)	(3 114 539)
Change in Operating Assets and Liabilities:		
Decrease (increase) in accrued interest receivable	(289 457)	(146 329)
Decrease (increase) in other assets	68 025	33 035
Increase (decrease) in accrued interest payable	5 722	(12 483)
Increase (decrease) in other liabilities	(164 168)	84 478
NET CASH PROVIDED BY OPERATING ACTIVITIES	4 434 395	4 280 471
Cash Flows from Investing Activities:		
Purchase of securities available for sale	(17 021 811)	(23 607 174)
Net increase in loans receivable funded	(26 356 411)	(15 458 798)
Increase in loans held for sale - Non single family residence	(2 690 000)	-
Purchases of property and equipment	(1 168 658)	(435 513)
Proceeds from calls/maturities of investments available for sale	13 215 337	20 345 421
Principal received on mortgage-backed securities available for sale	667 950	2 798 717
Proceeds from sale of real estate and other assets acquired in settlement of loans	559 282	116 273
Purchase of Federal Home Loan Bank Stock	(228 100)	(664 800)
Federal Home Loan Bank Stock redeemed	-	431 200
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(33 022 411)	(16 474 674)
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	35 565 771	(4 303 836)
Payments on Federal Home Loan Bank advances	(5 067 069)	(2 798 321)
Federal Home Loan Bank advances	7 000 000	9 000 000
Net decrease in short term (three months or less) non amortizing advances	(2 000 000)	5 000 000
Repurchase and retirement of holding company stock	(18 355)	-
Proceeds from sale of holding company stock	53 231	50 848
Cash distributions paid	(1 581 019)	(1 510 173)
Net increase (decrease) in advances from borrowers for taxes and insurance	(53 138)	154 423
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	33 899 421	592 941
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	5 311 405	(11 601 262)
Cash and cash equivalents at beginning of year	17 589 802	29 191 064
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 22 901 207	\$ 17 589 802

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Supplementary Information:		
Cash Paid During the Year for:		
Interest	\$ <u>1 693 673</u>	\$ <u>1 599 943</u>
Supplementary Schedule of Noncash Investing and Financing Activities:		
Distributions payable	\$ <u>550 242</u>	\$ <u>549 672</u>
Increase (decrease) in unrealized gain on securities available for sale	\$ <u>(694 851)</u>	\$ <u>17 777</u>
Loans transferred to real estate and other assets acquired in settlement of loans (net)	\$ <u>783 651</u>	\$ <u>171 741</u>

The accompanying notes are an integral part of these statements.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Shelby Bancshares, Inc. (the "Company") was created in 2000 as a bank holding company. The Company owns 100% of Shelby Savings Bank, SSB (the "Savings Bank"). At December 31, 2016 and 2015, the financial statements of Shelby Bancshares, Inc. and Subsidiary include the financial statements of the Company and the Savings Bank on a consolidated basis.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

Nature of Operations: The Savings Bank provides a variety of financial services to individuals and corporate customers through its four full service locations in Center (2), San Augustine and Hemphill, Texas, and its one loan production office in Palestine, Texas, which are primarily poultry and timber producing areas. The Savings Bank has been approved for a full service branch in Palestine expected to open in 2017. The Savings Bank's primary deposit products are interest-bearing checking accounts and certificates of deposit. Its primary lending products are commercial, consumer, single family residential and poultry farm loans. The Company's only operation is 100% ownership of Shelby Savings Bank, SSB.

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

Material estimates that are particularly susceptible to significant change relate to the determination of the fair value of securities available for sale, the allowance for losses on loans and the valuation of real estate and other assets acquired in settlement of loans. In connection with the determination of the allowances for losses on loans and valuation of real estate and other assets acquired in settlement of loans, management may obtain independent appraisals.

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

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

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

Cash and Cash Equivalents: Cash and cash equivalents of \$22,901,207 and \$17,589,802 at December 31, 2016 and 2015, respectively, consist of cash on hand and demand accounts due from banks. For purposes of the statements of cash flows, the Savings Bank also, generally, considers all highly liquid debt instruments with original maturities when purchased of three months or less to be cash equivalents.

The Savings Bank has an agreement with its correspondent bank to sell Federal funds overnight if excess funds exist.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment Securities to be Held to Maturity: Debt and equity securities for which the Savings Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts.

Investment Securities Available for Sale: Debt and equity securities not classified as trading securities or as securities to be held to maturity. These securities are recorded at fair value with unrealized holding gains and losses, reported as a separate component of stockholders' equity (accumulated other comprehensive income) until realized.

The Savings Bank held no securities classified as trading or held to maturity for the periods presented herein.

Declines in the fair value of individual securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. The related write-downs are to be included in earnings as realized losses. No "other-than-temporary" impairments occurred during the periods presented.

Premiums and discounts are amortized to income using a method that approximates the level yield method over the period to maturity (or call date; if applicable) on all securities.

Gains and losses on the sale of all securities are determined using the specific identification method.

Purchases and sales of investment securities are accounted for on a trade date basis.

Federal Home Loan Bank Stock: Federal Home Loan Bank stock is required to be purchased by the Savings Bank, based on its total assets, in order to be part of the Federal Home Loan Bank system. This stock is valued at cost and no ready market exists for this stock.

Loans Receivable: Loans receivable are stated at unpaid principal balances, less the allowance for loan losses, net deferred loan origination fees, unearned discounts on loans purchased, deferred gains and market rate discounts on sales of real estate owned acquired in settlement of loans and the undisbursed portion of construction loans.

The Savings Bank maintains certain recently originated loans in a separate category until all documents are procured or other outstanding items are cleared up. These loans are then recorded in the appropriate collateral loan category with interest being accrued from the loan origination date. At December 31, 2016 and 2015, the Savings Bank had approximately \$148,000 and \$412,000 of these loans and they are included with Other Loans in Note 3.

Discounts on first mortgage loans purchased are amortized to income using a method that approximates the interest method over the remaining period to contractual maturity. Amortization is done on a loan-by-loan basis with discounts to be adjusted as unanticipated prepayments occur.

Interest on simple interest loans is accrued and credited to income based on the principal amount outstanding.

Allowance for Loan Losses and Uncollectible Interest: The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Managements periodic evaluation of the allowance for loan losses consists of a general and specific allowance. The general allowance is based on the Savings Bank's past loan loss experience, known and inherent risks in the portfolio (including concentrations, loan segment growth rates and the degree that a particular segment is monitored/classified), adverse situations that may affect the borrower's ability to repay, loan location, the estimated value of any underlying collateral, and current economic conditions. Management's general allowance evaluation using these factors is performed by portfolio segment for all loans exclusive of loans identified as impaired. Risk factors of concentration is most evident in the Poultry Related loan segments. Specific allowances for impaired loans are separately estimated and generally determined based on collateral values or the present value of estimated cash flows.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A loan is considered impaired (for all loan portfolio segments) when, based on current information and events, it is probable that the Savings Bank 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. The amount of any specific reserve related to impaired loans is measured on a loan by loan basis by comparing the recorded value of the loan to either the present value of expected future cash flows discounted at the loans effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Allowances for losses on impaired loans are included in the allowance for loan losses in the accompanying financial statements. Accrual of interest on impaired loans is discontinued and all accrued interest is reversed if the loan is determined to be impaired prior to becoming ninety days past due. Otherwise, all interest recognition on impaired loans is treated the same as loans past due ninety days or more.

An allowance is established for uncollectible interest at the time a loan is ninety days past due. Past due status is determined based on contractual terms. The allowance is established by a charge to interest income equal to all interest previously accrued and uncollected, and income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status. The balances in this allowance at the year-ends presented were \$11,061 and \$11,511, respectively, and are shown on the consolidated statements of financial condition netted against accrued interest receivable.

Restructured Loans: One significant loan was restructured as a result of being a troubled debt during 2016. The loan payments were reduced for a period of time due to a slowdown in the oil and gas industry. The balance of this loan at December 31, 2016 was approximately \$696,000 and has been fully reserved due to its unsecured status. Although payments are being made in accordance with the restructure, this loan is reflected as a part of the unsecured loans in the impaired loan section of Note 4.

The balance at December 31, 2016 of debt restructures reported from previous years was not considered significant by the Savings Bank. The Savings Bank does not expect any losses on these restructured loans from previous years based on payment expectations and no specific reserves were placed on these loans.

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

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

Loan Servicing: The cost of mortgage servicing rights is amortized to other noninterest income using the interest method over the loan life. Cost and estimated fair value were considered to be the same for the years presented. Any decrease in the fair value of loan servicing below its cost will result in impairment of the asset and a related write down to fair value.

Real Estate and Other Assets Acquired in Settlement of Loans: Real estate and other assets acquired in settlement of loans are recorded at the balance of the loan or at estimated fair value, whichever is less, at the date acquired, plus capital improvements made thereafter to facilitate sale. Adjustments are made to reflect declines, if any, in fair values below the recorded amounts at the date of foreclosure and charged to the allowance for losses on loans. Declines in value subsequent to repossession are charged to a loss provision which is included in other noninterest expense on the statements of income. Costs of holding real estate and other assets acquired in settlement of loans are reflected in income currently. Gains on sales of such assets are taken into income based on the buyer's initial and continuing investment in the property and reflected as part of other income on the consolidated statements of income. Any income deferred from these sales is recognized on the installment method. Other assets acquired in settlement of loans consist primarily of reacquired personal property. The Savings Bank expects to dispose of assets required in settlement of loans in the next year. Approximately \$107,600 and \$-0- residential real estate is included in real estate and other assets acquired in settlement of loans at December 31, 2016 and 2015, respectively. There were no significant loans secured by residential real estate where formal foreclosure procedures were in process as of December 31, 2016 and 2015.

Property and Equipment: The Savings Bank records property and equipment at cost and computes depreciation and amortization generally on the straight-line method for financial reporting purposes and accelerated methods for Federal income tax purposes. The estimated useful lives used to compute depreciation and amortization are -- furniture, fixtures, equipment and automobiles, three to five years; and buildings, thirty to thirty-five years. Maintenance and repairs which do not extend the life of property and equipment are charged to expense.

Cash Value of Life Insurance: The Savings Bank owns life insurance policies on certain current and former officers of the Savings Bank. Appreciation in value of these insurance policies is classified as noninterest income.

Off-Balance Sheet Financial Instruments: In the ordinary course of business the Savings Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit and lines of credit. Such financial instruments are recorded in the financial statements when they are funded.

Advertising: Advertising costs are expensed when incurred.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Additionally, the Company is required to pay its tax to the State of Texas based on gross margin (as defined). This tax has been deemed an income tax by the Financial Accounting Standards Board and consequently requires accrual in the year the taxable gross margin is earned. For the years presented, the Statements of Income reflects approximately \$1,500 and \$15,000 as state income tax expense included in "Other Noninterest Expenses". The state income tax expense amounts were not considered significant to report separately as income tax expense on the consolidated statements of income.

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

Fair Values of Financial Instruments: Current financial accounting standards require disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. This standard excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. Accounting standards provide for three levels of fair value methodology based on inputs obtained in determining the value. These input levels are as follows:

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

Level 2: Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities) or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and Cash Equivalents: The carrying amounts reported in the statement of financial condition for cash and cash equivalents approximate those assets' fair values (Level 1).

Investment Securities Available for Sale: Fair values for investment securities available for sale are based on quoted market prices for identical securities, where available (Level 1). If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments (Level 2).

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loans Receivable: Loan fair values are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. These current rates are applied within each grouping based on the average note rate and average remaining term. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics (Level 2). The carrying amount of accrued interest receivable approximates its fair value.

Loans Held for Sale: The carrying amounts reported in the consolidated statements of financial condition for loans held for sale approximate those assets' fair values (Level 1).

Deposits: The fair values disclosed for demand deposit accounts, NOW and money market deposit accounts, and savings accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of such time deposits grouped by remaining terms and average rate (Level 2). The carrying amount of accrued interest payable approximates fair value.

Cash Value of Life Insurance: The carrying amount (cash value) reported in the statement of financial condition for cash value of life insurance approximates the assets' fair values (Level 2).

Federal Home Loan Bank Stock: No ready market exists for Federal Home Loan Bank Stock. It is a required investment to be a member of the Federal Home Loan Bank system. The stock can be redeemed at its cost should the requirement be reduced. Therefore, cost is used as fair value for this purpose. The ultimate value of Federal Home Loan Bank Stock is determined by its ultimate recoverability of par value (Level 1).

Federal Home Loan Bank Advances: The fair value is based upon a discounted cash flow calculation using interest rates currently being offered by the Federal Home Loan Bank for approximately identical debt (Level 2).

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are included in comprehensive income.

Uncertain Tax Positions: Generally accepted accounting principles require recognition, measurement and disclosure of uncertain tax positions. The Company currently accounts for uncertain tax positions based on the estimated likelihood of assessment and has not determined that any tax positions require an accrual based on current standards of accounting. The Company is generally no longer subject to Federal tax examinations for years before 2013.

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

Subsequent Events: Management has evaluated subsequent events through March 13, 2017, the date the financial statements were available to be issued.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

2. INVESTMENT SECURITIES

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

	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSSES	FAIR VALUES
December 31, 2016:				
U.S. Agency Securities	\$ 37 862 257	\$ 20 382	\$ (448 544)	\$ 37 434 095
State and Municipal	4 758 477	66 912	(24 662)	4 800 727
	<u>\$ 42 620 734</u>	<u>\$ 87 294</u>	<u>\$ (473 206)</u>	<u>\$ 42 234 822</u>
December 31, 2015:				
U.S. Agency Securities	\$ 29 911 500	\$ 102 077	\$ (29 899)	\$ 29 983 678
State and Municipal	4 785 388	243 233	(18 101)	5 010 520
Mortgage-Backed Securities:				
GNMA	4 019 659	19 348	(28 204)	4 010 803
FNMA	459 356	8 927	(2 723)	465 560
FHLMC	452 128	14 280	-	466 408
	<u>\$ 39 628 031</u>	<u>\$ 387 865</u>	<u>\$ (78 927)</u>	<u>\$ 39 936 969</u>

The maturities of investment securities at December 31, 2016 were as follows:

	SECURITIES AVAILABLE FOR SALE	
	AMORTIZED COST	FAIR VALUE
Due in one year or less	\$ 12 488 052	\$ 12 499 102
Due from one to five years	21 972 145	21 623 835
Due from six to ten years	4 923 689	4 847 885
Over ten years	3 236 848	3 264 000
	<u>\$ 42 620 734</u>	<u>\$ 42 234 822</u>

Securities with carrying amounts of approximately \$35,023,000 and \$35,300,000 were pledged to secure funds for public and private purposes at December 31, 2016 and 2015, respectively.

Proceeds from sales, maturities and calls of securities during the years ended December 31, 2016 and 2015 totaled \$13,215,337 and \$20,345,421 resulting in realized gains/(losses) on sales of available for securities of \$(21,952) and \$73,533. Realized gains/(losses) on sale of available for sale securities are included in the Noninterest Income on the Consolidated Statements of Income.

The December 31, 2016 and 2015 securities with gross unrealized losses by investment category and length of time that individual securities have been in a continuous loss position follows:

DESCRIPTION OF SECURITIES	LESS THAN 12 MONTHS		12 MONTHS OR GREATER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2016						
U.S. Agency securities	\$ 22 574 159	\$ 448 544	\$ -	\$ -	\$ 22 574 159	\$ 448 544
State and municipal	\$ 1 644 630	\$ 24 662	\$ -	\$ -	\$ 1 644 630	\$ 24 662
Mortgage-backed securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
December 31, 2015						
U.S. Agency securities	\$ 10 037 581	\$ 29 899	\$ -	\$ -	\$ 10 037 581	\$ 29 899
State and municipal	\$ 214 139	\$ 18 101	\$ -	\$ -	\$ 214 139	\$ 18 101
Mortgage-backed securities	\$ 917 067	\$ 9 497	\$ 1 451 932	\$ 21 430	\$ 2 368 999	\$ 30 927

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

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

2. INVESTMENT SECURITIES - CONTINUED

At December 31, 2016 and 2015, the debt and equity securities with unrealized losses have depreciated 1.92% and 0.62% from the Savings Bank's amortized cost basis. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are guaranteed by the federal government or its agencies, whether downgrades by rating agencies have occurred, and the results of reviews of the issuer's financial condition. Management has the ability to hold debt and equity securities until maturity, or for the foreseeable future if classified as available-for-sale and as a result no declines are deemed to be other-than-temporary.

3. LOANS RECEIVABLE

The following table presents an aged analysis of the Savings Bank's loans by major portfolio segment:

	2016				CURRENT	TOTAL
	0-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE		
Residential real estate	\$ 1 222 507	\$ 1 066 069	\$ 191 459	\$ 2 480 035	\$ 51 526 917	\$ 54 006 952
Poultry related	-	-	-	-	72 859 758	72 859 758
Commercial real estate	131 391	146 012	-	277 403	44 408 280	44 685 683
Automobiles and other vehicles	209 609	66 591	19 595	295 795	9 023 815	9 319 610
Equipment	622 876	21 430	2 959	647 265	13 258 035	13 905 300
Stocks and bonds	-	-	-	-	56 507	56 507
Bank deposit secured	7 208	-	-	7 208	3 547 972	3 555 180
Cattle and other livestock	141 903	3 522	-	145 425	4 868 320	5 013 745
Unsecured	102 218	10 577	53 341	166 136	13 212 655	13 378 791
Other	-	-	-	-	9 880 032	9 880 032
	<u>\$ 2 437 712</u>	<u>\$ 1 314 201</u>	<u>\$ 267 354</u>	<u>\$ 4 019 267</u>	<u>\$ 222 642 291</u>	<u>226 661 558</u>
Construction loans in process						(2 613 270)
						<u>224 048 288</u>
Net deferred loan fees, premiums and discounts						150 595
Allowance for loan losses						(3 183 842)
						<u>\$ 221 015 041</u>
	2015					
	0-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL
Residential real estate	\$ 2 310 737	\$ 427 198	\$ 330 329	\$ 3 068 264	\$ 51 221 710	\$ 54 289 974
Poultry related	127 250	-	-	127 250	63 855 371	63 982 621
Commercial real estate	-	122 157	-	122 157	40 616 570	40 738 727
Automobiles and other vehicles	60 721	67 121	10 689	138 531	10 023 124	10 161 655
Equipment	19 487	-	-	19 487	12 445 858	12 465 345
Stocks and bonds	-	-	-	-	64 833	64 833
Bank deposit secured	66 241	18 827	4 413	89 481	3 700 994	3 790 475
Cattle and other livestock	-	5 065	-	5 065	4 548 553	4 553 618
Unsecured	120 471	-	4 263	124 734	14 740 395	14 865 129
Other	279 466	66 908	330 366	676 740	6 836 834	7 513 574
	<u>\$ 2 984 373</u>	<u>\$ 707 276</u>	<u>\$ 680 060</u>	<u>\$ 4 371 709</u>	<u>\$ 208 054 242</u>	<u>212 425 951</u>
Construction loans in process						(13 453 209)
						<u>198 972 742</u>
Net deferred loan fees, premiums and discounts						225 020
Allowance for loan losses						(2 964 269)
						<u>\$ 196 233 493</u>

The Savings Bank monitors credit quality within its major portfolio segments. These loans are evaluated and internally classified by the Savings Bank as special mention, substandard, doubtful or loss.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

3. LOANS RECEIVABLE - CONTINUED

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

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

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

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

The remaining loans are classified as pass. The following table presents the Savings Bank's loan classification as of December 31, 2016 and 2015 by its major loan portfolio category.

	2016					
	PASS	SPECIAL MENTION	SUB STANDARD	DOUBTFUL	LOSS	TOTAL
Residential real estate	\$ 50 901 941	\$ 1 796 983	\$ 1 305 984	\$ -	\$ 2 044	\$ 54 006 952
Poultry related loans	72 820 140	39 618	-	-	-	72 859 758
Commercial real estate	44 377 579	50 608	257 496	-	-	44 685 683
Automobiles and other vehicles	9 077 454	77 613	164 543	-	-	9 319 610
Equipment	13 250 178	125 106	530 016	-	-	13 905 300
Stocks and bonds	56 507	-	-	-	-	56 507
Bank deposit secured loans	3 555 180	-	-	-	-	3 555 180
Cattle and other livestock	4 985 682	24 541	3 522	-	-	5 013 745
Unsecured	12 592 151	13 017	73 760	-	699 863	13 378 791
Other	9 663 322	138 493	78 217	-	-	9 880 032
	<u>\$ 221 280 134</u>	<u>\$ 2 265 979</u>	<u>\$ 2 413 538</u>	<u>\$ -</u>	<u>\$ 701 907</u>	<u>\$ 226 661 558</u>

	2015					
	PASS	SPECIAL MENTION	SUB STANDARD	DOUBTFUL	LOSS	TOTAL
Residential real estate	\$ 51 866 096	\$ 601 973	\$ 1 819 861	\$ -	\$ 2 044	\$ 54 289 974
Poultry related loans	62 968 868	501 993	511 760	-	-	63 982 621
Commercial real estate	40 726 649	12 078	-	-	-	40 738 727
Automobiles and other vehicles	9 905 007	70 270	186 378	-	-	10 161 655
Equipment	11 804 840	23 957	636 548	-	-	12 465 345
Stocks and bonds	64 833	-	-	-	-	64 833
Bank deposit secured loans	3 790 475	-	-	-	-	3 790 475
Cattle and other livestock	4 553 618	-	-	-	-	4 553 618
Unsecured	14 104 925	17 316	742 888	-	-	14 865 129
Other	6 813 379	107 602	592 593	-	-	7 513 574
	<u>\$ 206 598 690</u>	<u>\$ 1 335 189</u>	<u>\$ 4 490 028</u>	<u>\$ -</u>	<u>\$ 2 044</u>	<u>\$ 212 425 951</u>

During 2016 and 2015, the Savings Bank purchased participating interests in loans totaling approximately \$2,138,000 (2016) and \$1,348,000 (2015). The balances of all participating interest in loans purchased at December 31, 2016 and 2015 totaled approximately \$5,800,000 and \$5,800,000, respectively. Of these participation interests purchased approximately \$2,400,000 (2016) and \$2,600,000 (2015) were guaranteed by the U.S. Small Business Administration. The Savings Bank has not acquired any loans that have deteriorated credit quality.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

3. LOANS RECEIVABLE - CONTINUED

Overdraft demand accounts included as loans, categorized as other loans in the schedule above totaled approximately \$102,000 and \$104,000 at December 31, 2016 and 2015.

4. ALLOWANCE FOR LOAN LOSSES

The tables below summarize the changes in the allowance for loan losses for 2016 and 2015 by major loan portfolio segment:

	2016				BALANCE DECEMBER 31, 2016
	BALANCE DECEMBER 31, 2015	LOANS CHARGED OFF (NET)	PROVISION FOR LOAN LOSSES	TRANSFERS	
Residential real estate	\$ 268 740	\$ (3 344)	\$ -	\$ (12 059)	\$ 253 337
Poultry related	1 313 286	-	85 438	-	1 398 724
Commercial real estate	231 528	(6 410)	121 044	-	346 162
Automobiles and other vehicles	164 126	(15 439)	-	(20 973)	127 714
Equipment	135 705	(211 518)	233 144	-	157 331
Stocks and bonds	551	-	-	(71)	480
Bank deposit secured	-	-	-	-	-
Cattle and other livestock	29 748	-	15 911	-	45 659
Unsecured	792 796	(30 803)	31 666	-	793 659
Other	51 696	(126 039)	125 923	9 196	60 776
Unallocated	(23 907)	-	-	23 907	-
	<u>\$ 2 964 269</u>	<u>\$ (393 553)</u>	<u>\$ 613 126</u>	<u>\$ -</u>	<u>\$ 3 183 842</u>

	2015				BALANCE DECEMBER 31, 2015
	BALANCE DECEMBER 31, 2014	LOANS CHARGED OFF (NET)	PROVISION FOR LOAN LOSSES	TRANSFERS	
Residential real estate	\$ 266 829	\$ -	\$ 1 911	\$ -	\$ 268 740
Poultry related	1 052 884	-	94 845	165 557	1 313 286
Commercial real estate	183 959	-	47 569	-	231 528
Automobiles and other vehicles	171 721	(18 582)	10 987	-	164 126
Equipment	241 080	(11 934)	-	(93 441)	135 705
Stocks and bonds	618	-	-	(67)	551
Bank deposit secured	-	-	-	-	-
Cattle and other livestock	26 465	-	3 283	-	29 748
Unsecured	823 472	(51 938)	21 262	-	792 796
Other	100 245	(26 528)	-	(22 021)	51 696
Unallocated	26 121	-	-	(50 028)	(23 907)
	<u>\$ 2 893 394</u>	<u>\$ (108 982)</u>	<u>\$ 179 857</u>	<u>\$ -</u>	<u>\$ 2 964 269</u>

At December 31, 2016 and 2015, nonaccrual loans totaled approximately \$964,000 and \$680,000, respectively. Nonaccrual loans mainly related to the unsecured \$(773,000) and residential real estate \$(191,000) segments at December 31, 2016 and residential real estate and other personal property at December 31, 2015. The difference between interest income that would have been recorded under the original terms of such loans and that which was recorded is not significant to these financial statements for the years presented and is therefore not reflected herein. The Savings Bank had no loans past due 90 days or more and still accruing interest at December 31, 2016 and 2015.

The total recorded investment in impaired loans, all of which had allowances determined in accordance with generally accepted accounting principles, amounted to approximately \$761,000 and \$64,000 at December 31, 2016 and 2015, respectively. The average recorded investment in impaired loans amounted to approximately \$816,000 and \$70,500 for the years ended December 31, 2016 and 2015, respectively. Interest income on impaired loans for the years ended December 31, 2015 was not significant to disclose. The allowance for loan losses related to impaired loans amounted to approximately \$2,000 at December 31, 2015. The Savings Bank is not committed to lend additional funds to debtors whose loans are on nonaccrual or impaired status.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

4. ALLOWANCE FOR LOAN LOSSES - CONTINUED

The following schedule reflects pertinent information related to impaired loans by portfolio segment during the year ended December 31, 2016.

DECEMBER 31, 2016				
PORTFOLIO SEGMENT	BALANCE	RELATED ALLOWANCE FOR LOAN LOSSES	AVERAGE RECORDED IMPAIRED LOANS	INTEREST INCOME RECOGNIZED WHILE IMPAIRED
Residential real estate	\$ 60 728	\$ 2 044	\$ 62 145	\$ 4 413
Unsecured	\$ 699 863	\$ 699 863	\$ 582 913	\$ 47 239
Equipment	\$ -	\$ -	\$ 171 245	\$ -

5. LOAN SERVICING

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

	2016	2015
Loans sold to Federal National Mortgage Association (FNMA)	\$ 27 677 425	\$ 26 394 416
Participating interests in loans sold to other institutions	\$ 6 397 692	\$ 2 651 517

Sales of these loans to FNMA resulted in income from the sale of loans for the years presented of \$181,246 and \$119,702, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing for FNMA and included in demand deposits were approximately \$137,000 and \$147,000 at December 31, 2016 and 2015, respectively.

The Savings Bank has mortgage servicing rights of approximately \$105,000 and \$112,000 at December 31, 2016 and 2015 as a result of loan sales to FNMA. Amortization of mortgage servicing rights were approximately \$26,800 and \$23,600 for the years presented and approximately \$19,800 and \$11,600 were added for these periods. Mortgage servicing rights are stated at cost. The Savings Bank has determined that no significant impairment existed for mortgage servicing rights at December 31, 2016 and 2015. Mortgage servicing rights are included in other assets on the consolidated statements of financial condition.

Additionally, the Savings Bank has sold participating interests in certain other loans to various financial institutions. The Savings Bank is the lead lender and is therefore servicing these loans. The unpaid balances of the participating interests sold in these loans at December 31, 2016 and 2015 were \$6,397,692 and \$2,651,517, respectively, and these amounts have been reduced from loans receivable in the accompanying Consolidated Statements of Financial Condition. No servicing rights have been recorded on these sold participating interests as the interest sale differential does not materially differ from a normal expected servicing fee.

6. PROPERTY AND EQUIPMENT

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

	DECEMBER 31,	
	2016	2015
Building and improvements	\$ 7 455 933	\$ 7 329 169
Furniture, fixtures and equipment	3 390 678	3 229 834
Automobiles	210 928	210 928
Land	1 495 117	688 866
Construction In Process	75 565	-
	12 628 221	11 458 797
Less accumulated depreciation	(5 846 048)	(5 265 102)
TOTAL	\$ 6 782 173	\$ 6 193 695

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

6. PROPERTY AND EQUIPMENT - CONTINUED

Depreciation expense was \$580,180 and \$508,321 for the periods ended December 31, 2016 and 2015, respectively.

The Savings Bank leases the facility in Palestine, Texas used for a loan production office. The lease expires May 31, 2017 and has a cost of \$1,700 per month (\$8,500 in 2017). Total rent expense for 2016 was \$20,400.

During the year ended December 31, 2016, the Savings Bank contracted for the construction of a new branch facility in Palestine, Texas and an ATM facility in Chireno, Texas. The estimated cost of these facilities is expected to be approximately \$1,450,000. As of December 31, 2016, approximately \$75,000 had been expended and capitalized on these projects.

7. DEPOSITS

The Savings Bank had certificates of deposit with a balance of \$100,000 and over of \$66,406,789 and \$38,039,650 at December 31, 2016 and 2015, respectively. Total time deposits in excess of Federal Insurance amount of \$250,000 totaled \$6,890,420 and \$5,405,775 at December 31, 2016 and 2015, respectively.

The scheduled maturities of certificates of deposits are as follows at December 31, 2016:

YEAR ENDING DECEMBER 31,	AMOUNTS
2017	\$ 64 217 353
2018	18 315 923
2019	7 808 843
2020	1 913 757
2021	2 951 104
	\$ 95 206 980

During the year ended December 31, 2016, the Savings Bank began participating in the Certificate of Deposit Account Registry Service (CDARS). The CDARS program allocates depositor's funds across participating member banks, in an effort to ensure that funds are eligible for full FDIC insurance coverage. As a participating member, the Savings bank is able to receive these funds, in the form of Certificates of Deposit, in exchange for paying interest. The total balance of CDARS funds held by the Savings bank was approximately \$11,768,000 as of year-end December 31, 2016. This is included in the "Certificates of Deposit" balance of \$95,206,980 on the consolidated statements of financial condition and mature as follows:

YEAR ENDING DECEMBER 31,	AMOUNTS
2017	\$ 6 007 794
2018	4 696 806
2019	1 063 194
2020	-
2021	-
	\$ 11 767 794

In addition, the Savings Bank began participating in QuickRate during the year ended December 31, 2016. This entity is a nationwide clearinghouse for certificates of deposit among financial institutions and similar investors and is used as a source of liquidity for the Savings Bank. At December 31, 2016, the Savings Bank had certificates of deposit of \$20,659,000 from QuickRate included as part of the overall certificate of deposit balance of \$95,206,980. These certificates mature as follows:

YEAR ENDING DECEMBER 31,	AMOUNTS
2017	\$ 6 883 000
2018	5 662 000
2019	4 882 000
2020	743 000
2021	2 489 000
	\$ 20 659 000

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

8. FEDERAL HOME LOAN BANK ADVANCES

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

ADVANCE NUMBER	INTEREST RATE	2016	2015
37400001	5.13%	\$ -	\$ 85 545
39002159	6.06%	339 461	403 161
39002375	6.12%	346 162	409 657
374000002	5.67%	16 405	111 655
2478000001	5.74%	24 664	119 837
2478000003	6.26%	407 565	467 772
2478000004	6.06%	403 248	463 217
2478000005	5.84%	403 517	462 923
2478000006	5.62%	403 750	462 614
2478000008	4.99%	404 557	461 924
3947000001	4.75%	105 724	191 807
3947000003	4.12%	143 908	225 634
3947000011	4.26%	200 316	280 263
3947000012	4.83%	241 192	321 268
3947000013	4.75%	245 982	325 214
3947000028	4.12%	138 939	252 836
3947000029	4.02%	138 346	251 887
3947000030	3.68%	136 459	248 858
3947000031	3.98%	295 500	521 567
3947000032	4.19%	1 552 405	1 708 562
3947000033	3.60%	356 364	460 721
3947000036	3.66%	695 076	755 170
3947000037	4.00%	799 164	839 039
3947000040	2.75%	1 483 845	1 604 118
3947000042	1.83%	572 483	670 542
3947000044	1.75%	1 159 494	1 355 506
3947000046	2.40%	1 483 765	1 605 477
3947000052	2.81%	2 654 988	2 823 115
3947000058	2.37%	1 775 087	1 955 548
*3947000060	0.44%	-	1 000 000
*3947000062	0.58%	-	1 000 000
3947000089	2.48%	1 974 139	-
*3947000101	1.00%	2 000 000	-
4216000001	4.91%	1 406 024	1 530 161
*4216000011	0.65%	3 000 000	-
*3947000102 (14 day advance)	.68%	3 000 000	-
*3947000069	0.31%	-	5 000 000
		\$ <u>28 308 529</u>	\$ <u>28 375 598</u>

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

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

YEAR ENDING DECEMBER 31	AMOUNTS
2017	\$ 8 993 571
2018	4 457 091
2019	2 257 358
2020	2 072 557
2021	3 338 523
Thereafter	7 189 429
	\$ <u>28 308 529</u>

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

9. REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Savings Bank to maintain minimum amounts and ratios (set forth in the table below) of Total, Common Equity and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016, that the Company and the Savings Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Savings Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Savings Bank must maintain minimum total risk-based, Common Equity Tier I risk based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Savings Bank's category. The Company's and the Savings Bank's actual capital amounts and ratios as of December 31, 2016 and 2015 are presented in the following table.

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 2016:						
Total Capital (to risk weighted assets)						
Savings Bank	\$ 37 188 000	15.52%	\$ 20 662 000	≥ 8.625%	\$ 23 956 000	≥ 10.00%
Consolidated	\$ 37 390 000	15.61%	\$ 20 680 000	≥ 8.625%	N/A	N/A
Tier I Capital (to risk weighted assets)						
Savings Bank	\$ 34 191 000	14.27%	\$ 15 871 000	≥ 6.625%	\$ 19 165 000	≥ 8.00%
Consolidated	\$ 34 393 000	14.36%	\$ 15 885 000	≥ 6.625%	N/A	N/A
Tier I Capital (to average assets)						
Savings Bank	\$ 34 191 000	11.55%	\$ 11 837 000	≥ 4.000%	\$ 14 796 000	≥ 5.00%
Consolidated	\$ 34 393 000	11.62%	\$ 11 845 000	≥ 4.000%	N/A	N/A
Common Equity Tier I Capital (to risk weighted assets)						
Savings Bank	\$ 34 191 000	14.27%	\$ 12 278 000	≥ 5.125%	\$ 15 572 000	≥ 6.50%
Consolidated	\$ 34 393 000	14.36%	\$ 12 288 000	≥ 5.125%	N/A	N/A
As of December 31, 2015:						
Total Capital (to risk weighted assets)						
Savings Bank	\$ 35 269 000	16.92%	\$ 16 676 000	≥ 8.000%	\$ 20 845 000	≥ 10.00%
Consolidated	\$ 35 292 000	16.93%	\$ 16 677 000	≥ 8.000%	N/A	N/A
Tier I Capital (to risk weighted assets)						
Savings Bank	\$ 32 659 000	15.67%	\$ 10 032 000	≥ 6.000%	\$ 13 338 000	≥ 8.00%
Consolidated	\$ 32 682 000	15.68%	\$ 10 033 000	≥ 6.000%	N/A	N/A
Tier I Capital (to average assets)						
Savings Bank	\$ 32 659 000	12.24%	\$ 10 672 000	≥ 4.000%	\$ 13 341 000	≥ 5.00%
Consolidated	\$ 32 682 000	12.25%	\$ 10 673 000	≥ 4.000%	N/A	N/A
Common Equity Tier I Capital (to risk weighted assets)						
Savings Bank	\$ 32 659 000	15.67%	\$ 9 378 000	≥ 4.500%	\$ 13 547 000	≥ 6.50%
Consolidated	\$ 32 682 000	15.68%	\$ 9 379 000	≥ 4.500%	N/A	N/A

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

9. REGULATORY MATTERS - CONTINUED

The above 2016 risk-weighted capital ratios for capital adequacy purposes include a .625% capital conservation buffer. The capital conservation buffer will be phased in over four years to 2.50%. Financial institutions with a buffer greater than .625% (2016) are not subject to limits on capital distributions or discretionary bonus payments beyond those currently included in regulations. As reflected above, the Savings Bank's capital was sufficient to exceed its minimum capital requirements including the required capital conservation buffer.

10. RELATED PARTY TRANSACTIONS

The aggregate amount of loans to directors, principal officers and their related interests at December 31, 2016 and 2015 amounted to approximately \$2,806,000 and \$2,574,000, respectively. Activity during the years presented for these loans are approximately as follows:

		2016		2015
Balance, beginning of years	\$	2 574 000		2 912 000
Advances		1 430 000	\$	550 000
Repayments		(1 198 000)		(838 000)
Reductions - No longer employed		-		(50 000)
BALANCE END OF YEAR	\$	2 806 000	\$	2 574 000

The aggregate amount of deposits to such related parties at December 31, 2016 and 2015 amounted to approximately \$5,901,000 and \$3,441,000, respectively.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

	CONTRACTUAL OR NOTIONAL AMOUNT DECEMBER 31,	
	2016	2015
Financial Instruments Whose Contract Amounts Represent Off-Balance-Sheet Credit Risk:		
Mortgage commitments	\$ 7 689 550	\$ 17 443 960
Stand-by letters of credit	\$ 414 879	\$ 188 230
Lines of credit	\$ 32 363 404	\$ 46 832 139

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

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK - CONTINUED

Of the total unfunded lines of credit and mortgage commitments referred to above, approximately \$4,472,000 and \$23,622,000, respectively, are related to the poultry industry either as a major source of repayment, as collateral, or both.

Stand-by letters of credit are conditional commitments issued by the Savings Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. All guarantees existing at December 31, 2016 expire before December 31, 2017. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Unfunded lines of credit are commitments by the Savings Bank to customers to extend credit. These lines of credit have expiration dates and may be collateralized depending on the Savings Bank's evaluation of the particular credit involved. At December 31, 2016, approximately 50% were unsecured or secured by life insurance policies and the remaining were secured mainly by cattle, equipment, inventory and accounts receivable.

12. CONCENTRATION OF CREDIT RISK

The Savings Bank grants commercial, real estate and consumer loans to customers mainly in Center, San Augustine and Hemphill, Texas and surrounding areas. The Savings Bank also grants poultry and other types of loans to customers in the Bryan and College Station, Texas areas. During 2014, the Savings Bank began originating loans from a loan production office in Palestine, Texas. Although the Savings Bank has a diversified loan portfolio, a substantial portion of the debtors' ability to honor their contracts is dependent upon the economy in the above described areas. This economy is strongly dependent on the poultry industry which the Savings Bank supports through its loan portfolio (See Notes 3 and 11). Collateral for these poultry loans is generally poultry houses together with the related real estate and single family dwellings. The Savings Bank generally requires collateral for all loans and expects payment from cash flows of the borrowers.

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

13. DIVIDEND RESTRICTIONS

Financial institutions are subject to certain restrictions on the amount of dividends they may pay without prior regulatory approval. The Savings Bank normally restricts dividends to a lesser amount. At December 31, 2016, retained earnings of approximately \$4,874,000 was available to the Savings Bank for the payment of dividends without prior regulatory approval. This amount available is reduced subsequent to December 31, 2016 to approximately \$3,321,000 since it is based on the current year to date earnings retained plus the previous two years retained income. In addition, dividends may be limited without regulatory approval if certain capital requirements will not be met subsequent to the dividend.

14. RETIREMENT PLAN

The Savings Bank has a 401(k) Retirement Plan ("Plan"). The plan is in effect for substantially all full-time employees (if they elect to be covered) who have completed one year of service and attained 18 years of age. The Savings Bank, at its discretion, may match a portion of each employee's contribution. The Savings Bank, at its discretion, may make an additional contribution as of each December 31. Contributions to the plan amounted to \$70,136 and \$66,810 for 2016 and 2015, respectively and are included in compensation and benefits on the consolidated statements of income. Vesting in the Savings Bank's discretionary matching contributions is over a seven year period.

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of the Savings Bank's financial instruments are as follows:

	DECEMBER 31,			
	2016		2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial Assets:				
Cash and cash equivalents	\$ 22 901 207	\$ 22 901 207	\$ 17 589 802	\$ 17 589 802
Investment securities	\$ 42 234 822	\$ 42 234 822	\$ 39 936 969	\$ 39 936 969
Loans receivable, net of allowance for loan losses	\$ 221 015 041	\$ 220 474 501	\$ 196 233 493	\$ 197 486 096
Loans held for sale	\$ 2 690 000	\$ 2 690 000	\$ -	\$ -
Cash value of life insurance	\$ 3 334 190	\$ 3 334 190	\$ 3 247 505	\$ 3 247 505
Federal Home Loan Bank Stock	\$ 1 513 800	\$ 1 513 800	\$ 1 269 300	\$ 1 269 300
Accrued interest receivable	\$ 1 559 434	\$ 1 559 434	\$ 1 269 977	\$ 1 269 977
Financial Liabilities:				
Deposits	\$ 238 780 471	\$ 238 181 159	\$ 203 214 700	\$ 203 278 287
Federal Home Bank Advances	\$ 28 308 529	\$ 28 653 638	\$ 28 375 598	\$ 28 872 323
Accrued interest payable	\$ 97 986	\$ 97 986	\$ 92 264	\$ 92 264

The carrying amounts in the preceding table are included in the statements of financial condition under applicable captions.

There is no material difference between the notional amount and the estimated fair value of off-balance-sheet unfunded loan commitments which are generally priced at market at the time of funding. Letters of credit have an estimated fair value based on fees currently charged for similar agreements. Fees related to the unexpired term of the letters of credit are not significant. The Savings Bank has not incurred any losses on its commitments to extend credit or standby letters of credit during the years presented.

Fair values of assets and liabilities presented on the consolidated balance sheets measured on a recurring basis at December 31, 2016 and 2015 are as follows:

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2016:				
Available for sale securities	\$ 42 234 822	\$ -	\$ 42 234 822	\$ -
December 31, 2015:				
Available for sale securities	\$ 39 936 969	\$ -	\$ 39 936 969	\$ -

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

SHELBY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

15. FAIR VALUES OF FINANCIAL INSTRUMENTS - CONTINUED

Periodically, available for sale securities will be valued using Level 1 inputs. This valuation approach is derived from readily available pricing sources for market transactions involving identical securities.

Each major category of assets and liabilities presented on the consolidated statements of financial condition measured at fair value on a nonrecurring basis are presented as follows:

DESCRIPTION	DECEMBER 31, 2016	FAIR VALUE MEASUREMENTS USING		
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Real estate and other assets acquired in settlement of loans	\$ 143 652	\$ -	\$ 143 652	\$ -

DESCRIPTION	DECEMBER 31, 2015	FAIR VALUE MEASUREMENTS USING		
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Real estate and other assets acquired in settlement of loans	\$ 60 500	\$ -	\$ 60 500	\$ -

Fair market value of real estate and other assets acquired in settlement of loans are determined on a nonrecurring basis in order to determine if any impairment exists at December 31, 2016 and 2015. In order to estimate the fair values of these assets the Savings Bank uses observable inputs such as tax appraisal values and estimated selling prices for real estate and other assets acquired in settlement of loans.

16. RESTRICTION ON CASH AND DUE FROM BANKS

The Savings Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2016, was approximately \$2,384,000.

17. LINE OF CREDIT

The Savings Bank has a line of credit to purchase Federal funds in the amount of \$8,000,000 should those funds be needed for liquidity purposes. The Savings Bank had \$-0- and \$-0- of Federal funds purchased drawn at December 31, 2016 and 2015, respectively.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

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

We have audited the consolidated financial statements of Shelby Bancshares, Inc. and Subsidiary as of and for the years ended December 31, 2016 and 2015, and our report thereon dated March 13, 2017, which expressed an unmodified opinion on those financial statements appears on page 3. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
March 13, 2017

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL CONDITION
December 31, 2016

	SHELBY BANCSHARES, INC.
ASSETS	
Cash and cash equivalents	\$ 753 468
Interest-bearing demand deposits in other banks	-
TOTAL CASH AND CASH EQUIVALENTS	753 468
Investment securities available for sale	-
Investment in subsidiaries	33 805 178
Loans receivable	-
Loans held for sale	-
Real estate and other assets acquired in settlement of loans	-
Property and equipment	-
Federal Home Loan Bank stock	-
Accrued interest receivable	-
Cash value life insurance	-
Other assets	4
TOTAL ASSETS	\$ 34 558 650
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Demand deposits	\$ -
Savings	-
Certificates of deposit	-
TOTAL DEPOSITS	-
Advances from borrowers for taxes and insurance	-
Accrued interest payable	-
Distributions payable	550 242
Federal Home Loan Bank advances	-
Other liabilities	775
TOTAL LIABILITIES	551 017
Stockholders' Equity:	
Capital stock	91 707
Additional paid-in capital	9 431 809
Retained earnings	24 870 029
Accumulated other comprehensive income	(385 912)
TOTAL STOCKHOLDERS' EQUITY	34 007 633
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 34 558 650

See independent auditors' report on additional information.

SHELBY SAVINGS BANK SSB	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
\$ 5 619 179	\$ (753 468)	\$ 5 619 179
17 282 028	-	17 282 028
<u>22 901 207</u>	<u>(753 468)</u>	<u>22 901 207</u>
42 234 822	-	42 234 822
-	(33 805 178)	-
221 015 041	-	221 015 041
2 690 000	-	2 690 000
143 652	-	143 652
6 782 173	-	6 782 173
1 513 800	-	1 513 800
1 559 434	-	1 559 434
3 334 190	-	3 334 190
361 053	-	361 057
<u>\$ 302 535 372</u>	<u>\$ (34 558 646)</u>	<u>\$ 302 535 376</u>

\$ 121 575 102	\$ (753 468)	\$ 120 821 634
22 751 857	-	22 751 857
95 206 980	-	95 206 980
<u>239 533 939</u>	<u>(753 468)</u>	<u>238 780 471</u>
396 608	-	396 608
97 986	-	97 986
-	-	550 242
28 308 529	-	28 308 529
393 132	-	393 907
<u>268 730 194</u>	<u>(753 468)</u>	<u>268 527 743</u>
731 899	(731 899)	91 707
4 398 007	(4 398 007)	9 431 809
29 061 184	(29 061 184)	24 870 029
(385 912)	385 912	(385 912)
<u>33 805 178</u>	<u>(33 805 178)</u>	<u>34 007 633</u>
<u>\$ 302 535 372</u>	<u>\$ (34 558 646)</u>	<u>\$ 302 535 376</u>

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
For the Year Ending December 31, 2016

	SHELBY BANCSHARES, INC.
Interest Income:	
Loans Receivable:	
First mortgage loans	\$ -
Consumer and other loans	-
Mortgage-backed and related securities	-
US Government agencies	-
Municipal bonds	-
Other interest-earning assets	-
TOTAL INTEREST INCOME	-
Interest Expense:	
Deposits	-
Federal Home Loan Bank advances	-
TOTAL INTEREST EXPENSE	-
NET INTEREST INCOME	-
Provision for loan losses	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	-
Noninterest Income:	
Service charges and overdraft fees on deposit accounts	-
Loan late charges	-
Increase in cash value of life insurance	-
Gain on sale of loans	-
Equity in earnings of subsidiary	3 300 358
Realized gain/(loss) on sale of available for sale securities	-
Other	35
TOTAL OTHER INCOME	3 300 393
Noninterest Expense:	
General and Administrative:	
Compensation and benefits	-
Occupancy and equipment	-
Advertising	-
Computer service	-
Directors fees	-
Office supplies	-
(Gain)/loss on sale of repossessed property	-
Other	41 464
TOTAL NONINTEREST EXPENSE	41 464
Income before Federal income taxes	3 258 929
Federal income taxes	-
NET INCOME	\$ 3 258 929

See independent auditors' report on additional information.

<u>SHELBY SAVINGS BANK SSB</u>	<u>ELIMINATING ENTRIES</u>	<u>CONSOLIDATED TOTALS</u>
\$ 7 635 227	\$ -	\$ 7 635 227
3 389 434	-	3 389 434
28 622	-	28 622
404 753	-	404 753
144 065	-	144 065
63 658	-	63 658
<u>11 665 759</u>	<u>-</u>	<u>11 665 759</u>
924 115	-	924 115
775 280	-	775 280
<u>1 699 395</u>	<u>-</u>	<u>1 699 395</u>
9 966 364	-	9 966 364
613 126	-	613 126
<u>9 353 238</u>	<u>-</u>	<u>9 353 238</u>
1 034 348	-	1 034 348
116 178	-	116 178
86 685	-	86 685
181 246	-	181 246
-	(3 300 358)	-
(21 952)	-	(21 952)
791 303	-	791 338
<u>2 187 808</u>	<u>(3 300 358)</u>	<u>2 187 843</u>
4 222 032	-	4 222 032
1 159 979	-	1 159 979
276 517	-	276 517
693 810	-	693 810
234 800	-	234 800
200 879	-	200 879
141 217	-	141 217
1 311 454	-	1 352 918
<u>8 240 688</u>	<u>-</u>	<u>8 282 152</u>
3 300 358	(3 300 358)	3 258 929
-	-	-
<u>\$ 3 300 358</u>	<u>\$ (3 300 358)</u>	<u>\$ 3 258 929</u>

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL CONDITION
December 31, 2015

	SHELBY BANCSHARES, INC.
ASSETS	
Cash and cash equivalents	\$ 572 206
Interest-bearing demand deposits in other banks	-
TOTAL CASH AND CASH EQUIVALENTS	572 206
Investment securities available for sale	-
Investment in subsidiaries	32 967 730
Loans receivable	-
Real estate and other assets acquired in settlement of loans	-
Property and equipment	-
Federal Home Loan Bank stock	-
Accrued interest receivable	-
Cash value life insurance	-
Other assets	4
TOTAL ASSETS	\$ 33 539 940
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Demand deposits	\$ -
Savings	-
Certificates of deposit	-
TOTAL DEPOSITS	-
Advances from borrowers for taxes and insurance	-
Accrued interest payable	-
Distributions payable	549 672
Federal Home Loan Bank advances	-
Other liabilities	-
TOTAL LIABILITIES	549 672
Stockholders' Equity:	
Capital stock	91 612
Additional paid-in capital	9 397 028
Retained earnings	23 192 689
Accumulated other comprehensive income	308 939
TOTAL STOCKHOLDERS' EQUITY	32 990 268
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 33 539 940

See independent auditors' report on additional information.

SHELBY SAVINGS BANK SSB	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
\$ 4 378 878	\$ (572 206)	\$ 4 378 878
13 210 924	-	13 210 924
<u>17 589 802</u>	<u>(572 206)</u>	<u>17 589 802</u>
39 936 969	-	39 936 969
-	(32 967 730)	-
196 233 493	-	196 233 493
60 500	-	60 500
6 193 695	-	6 193 695
1 269 300	-	1 269 300
1 269 977	-	1 269 977
3 247 505	-	3 247 505
429 078	-	429 082
<u>\$ 266 230 319</u>	<u>\$ (33 539 936)</u>	<u>\$ 266 230 323</u>
\$ 117 801 225	\$ (572 206)	\$ 117 229 019
21 116 428	-	21 116 428
64 869 253	-	64 869 253
<u>203 786 906</u>	<u>(572 206)</u>	<u>203 214 700</u>
449 746	-	449 746
92 264	-	92 264
-	-	549 672
28 375 598	-	28 375 598
558 075	-	558 075
<u>233 262 589</u>	<u>(572 206)</u>	<u>233 240 055</u>
731 899	(731 899)	91 612
4 398 007	(4 398 007)	9 397 028
27 528 885	(27 528 885)	23 192 689
308 939	(308 939)	308 939
<u>32 967 730</u>	<u>(32 967 730)</u>	<u>32 990 268</u>
<u>\$ 266 230 319</u>	<u>\$ (33 539 936)</u>	<u>\$ 266 230 323</u>

SHELBY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
For the Year Ending December 31, 2015

	SHELBY BANCSHARES, INC.
Interest Income:	
Loans Receivable:	
First mortgage loans	\$ -
Consumer and other loans	-
Mortgage-backed and related securities	-
US Government agencies	-
Municipal bonds	-
Other interest-earning assets	-
TOTAL INTEREST INCOME	-
Interest Expense:	
Deposits	-
Federal Home Loan Bank advances	-
TOTAL INTEREST EXPENSE	-
NET INTEREST INCOME	-
Provision for loan losses	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	-
Noninterest Income:	
Service charges and overdraft fees on deposit accounts	-
Loan late charges	-
Increase in cash value of life insurance	-
Gain on sale of loans	-
Equity in earnings of subsidiary	3 437 482
Realized gain/(loss) on sale of available for sale securities	-
Other	72
TOTAL OTHER INCOME	3 437 554
Noninterest Expense:	
General and Administrative:	
Compensation and benefits	-
Occupancy and equipment	-
Advertising	-
Computer service	-
Directors fees	-
Office supplies	-
(Gain)/loss on sale of repossessed property	-
Other	9 180
TOTAL NONINTEREST EXPENSE	9 180
Income before Federal income taxes	3 428 374
Federal income taxes	-
NET INCOME	\$ 3 428 374

See independent auditors' report on additional information.

SHELBY SAVINGS BANK SSB	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
\$ 6 708 065	\$ -	\$ 6 708 065
3 483 926	-	3 483 926
137 449	-	137 449
312 628	-	312 628
114 801	-	114 801
26 310	-	26 310
<u>10 783 179</u>	<u>-</u>	<u>10 783 179</u>
779 197	-	779 197
808 263	-	808 263
<u>1 587 460</u>	<u>-</u>	<u>1 587 460</u>
9 195 719	-	9 195 719
179 857	-	179 857
<u>9 015 862</u>	<u>-</u>	<u>9 015 862</u>
1 141 604	-	1 141 604
126 792	-	126 792
96 845	-	96 845
119 702	-	119 702
-	(3 437 482)	-
73 533	-	73 533
771 912	-	771 984
<u>2 330 388</u>	<u>(3 437 482)</u>	<u>2 330 460</u>
4 073 134	-	4 073 134
1 115 671	-	1 115 671
248 846	-	248 846
754 607	-	754 607
234 200	-	234 200
297 273	-	297 273
2 268	-	2 268
1 182 769	-	1 191 949
<u>7 908 768</u>	<u>-</u>	<u>7 917 948</u>
3 437 482	(3 437 482)	3 428 374
-	-	-
<u>\$ 3 437 482</u>	<u>\$ (3 437 482)</u>	<u>\$ 3 428 374</u>