AMENDED
AUG 20 2018

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, James F. Kemp
Name of the Holding Company Director and Official

Director & President
Title of the Holding Company Director and Official

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

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

James F Kemp
Signature of Holding Company Director and Official

03/22/2018
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID 1107308
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2017
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Security Holding Company
Legal Title of Holding Company

P. O. Box 471
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Fredericksburg	TX	78624

201 West Main
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Brenda Burrier	VP/Accounting

830-997-7575
Area Code / Phone Number / Extension

830-990-8933
Area Code / FAX Number

bburrier@ssbtexas.com
E-mail Address

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

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

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

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

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

REPORT ITEM 1: SECURITY HOLDING COMPANY IS NOT REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION

REPORT ITEM 2 A: ORGANIZATION CHART

Report Item 2: Attached

SECURITY HOLDING COMPANY
FREDERICKSBURG, TEXAS
ORGANIZATION CHART

The Registrant does not engage in any other activities other than the ownership of 100.00% of the stock of Security State Bank & Trust, Fredericksburg, Texas.

No LEI is avalable

REPORT ITEM 3: SHAREHOLDERS-SECURITY HOLDING COMPANY

Report Item 3: Attached

Form FR Y-6

Security Holding Company
Fredericksburg, Texas 78624
Fiscal Year Ending December 31, 2017

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2017			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2017		
(1)(a) **Name & Address (City, State, Country)**	**(1)(b)** **Country of Citizenship or Incorporation**	**(1)(c)** **Number and Percentage of Each Class of Voting Securities**	**(2)(a)** **Name & Address (City, State, Country)**	**(2)(b)** **Country of Citizenship or Incorporation**	**(2)(c)** **Number and Percentage of Each Class of Voting Securities**
Kay Durst Family 2016 Trust Kimberly Durst Bonnen, CO-Trustee Kristy Durst LeJeune ,CO-Trustee Rex Boyland,SSB&T- CO Trustee Kerrville, TX, USA	USA	283.40 - 3.142006% Common Stock	N/A		
Kimberly Durst Bonnen Friendswood, TX, USA	USA	260.00 - 2.882574	N/A		
Kristy Durst LeJeune ,CO-Trustee College Station, TX,USA	USA	260.00 - 2.882574	N/A		
Total Durst Shares		**803.40 - 8.907154%**			
Kathleen Keller 2016 Trust Jodie Lapp,CO-Trustee Rex Boyland,SSB&T- CO Trustee Kerrville, TX, USA	USA	500.00 - 5.543412% Common Stock	N/A		
Kathleen Keller Hye, Tx,USA	USA	303.40 - 3.363742% Common Stock	N/A		
Total Keller Shares		**803.40 - 8.907154%**			

Keller Family 2016 Trust Stacy Keller Loth, CO-Trustee Stephanie Keller Igler ,CO-Trustee Kory Keller, CO-Trustee Fredericksburg, Tx,USA	USA	631.33 - 6.999444% Common Stock	N/A
Stacy Keller Loth Fredericksburg, Tx,USA	USA	480.18 - 5.323671% Common Stock	N/A
Stephaine Keller Igler San Angelo,Tx,USA	USA	480.18 - 5.323671% Common Stock	N/A
Kory Keller Fredericksburg, Tx,USA	USA	480.18 - 5.323671% Common Stock	N/A
Total Keller Shares		**2071.87- 22.970457%**	
Kemp Family 2016 Trust Cynthia Kemp, Co-Trustee Brian Kemp, Co-Trustee Daniel Kemp, Co-Trustee Fredericksburg, Tx,USA	USA	1065.00- 11.807467% Common Stock	N/A
Cynthia Kemp,CO- Trustee Fredericksburg, Tx,USA	USA	338.61- 3.754109% Common Stock	N/A
Brian Kemp, CO-Trustee Fredericksburg, Tx,USA	USA	338.61- 3.754109% Common Stock	N/A
Daniel Kemp,CO- Trustee Fredericksburg, Tx,USA	USA	338.61- 3.754109% Common Stock	N/A
Total Kemp Shares		**2080.83 - 23.069794%**	

REPORT ITEM 4: DIRECTORS AND OFFICERS-SECURITY HOLDING COMPANY

Report Item 4: Attached

Form FR Y-6

SECURITY HOLDING COMPANY
FREDERICKSBURG, TEXAS
Fiscal Year Ending December 31, 2017
" Keller Family & James & Roxana Hayne as part of Voting Group"

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

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with holding company	(3)(a) Title & Position with holding company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Kay Durst Family 2016 Trust Bonnen, Kimberly Durst, CO-Trustee LeJeune, Kristy Durst, CO -Trustee	Housewife	Principal Securities Holder	N/A	Vice Pres /M Durst Company President/K-M Bar, Inc President/Keller Land & Cattle Co.	3.142006%	N/A	N/A
Bonnen, Kimberly Durst Friendswood, Texas United States of America	Housewife	Principal Securities Holder	N/A	Stockholder/M Durst Company Stockholder/K-M Bar, Inc Stockholder/Keller Land & Cattle Co. Owner/Texas Brain & Spine Center Owner/Chios Investments, LP Owner/Semtinel Neurology	2.882574%	N/A	M Durst Company/ 50% K-M Bar, Inc/ 50% Keller Land & Cattle Co. 50% Texas Brain & Spine Center 100% Chios Investments, LP/33% Semtinel Neurology/25%
LeJeune, Kristy Durst College Station, Texas United States of America	Substitute Teacher Contract Worker Marriage Prep Assistant	Principal Securities Holder	N/A	Stockholder/M Durst Company Stockholder/K-M Bar, Inc Stockholder/Keller Land & Cattle Co.	2.882574%	N/A	M Durst Company/ 50% K-M Bar, Inc/ 50% Keller Land & Cattle Co. 50%
Hayne, James L., Ranch Trust of 2001 James L. Hayne Jr. Trustee San Antonio, Texas United States of America	Retired Insurance Broker	Principal Securities Holder	N/A	N/A	2.758956%	N/A	N/A
Hayne, Roxana C. Ranch Trust of 2001 James L. Hayne Jr. Trustee San Antonio, Texas United States of America	Housewife	Principal Securities Holder	N/A	N/A	2.758956%	N/A	N/A

Kathleen Keller 2016 Trust Jodie Lapp,CO-Trustee Rex Boyland,SSB&T- CO Trustee	Homemaker	Principal Securities Holder	N/A	President/KL Land Inc.	5.543412%	N/A	KL Land, Inc 100%
Keller, Kathleen Hye, Texas United States of America	Homemaker	Principal Securities Holder	N/A	President/KL Land Inc.	3.363742%	N/A	KL Land, Inc 100%
Keller Family 2016 Trust Loth, Stacy Keller, CO-Trustee Igler, Stephanie Keller, CO-Trustee Keller, Kory, CO-Trustee	Retired Contractor	Director Vice President	Director Security State Bank & Trust	Keller Equipment Co. I LLC Owner	6.999444%	N/A	Keller Equipment Co. I LLC 49%
Keller, Keith Fredericksburg, Texas United States of America	Retired Contractor	Director Vice President	Director Security State Bank & Trust	Keller Equipment Co. I LLC Owner	N/A	N/A	Keller Equipment Co. I LLC 49%
Loth, Stacy Keller Harper, Texas United States of America	Housewife	Principal Securities Holder	N/A	N/A	5.323671%	N/A	N/A
Igler, Stephanie Keller San Angelo, Texas United States of America	Substitue Teacher	Principal Securities Holder	N/A	N/A	5.323671%	N/A	N/A
Keller, Kory Fredericksburg, Texas United States of America	Contractor	Director	Director Security State Bank & Trust	CEO/Manager Allen Keller Company I LLC Owner Keller Equipment Co. I, LLC Manager Spring Canyon Ranch Partner Hillside Beef LLC	5.323671%	N/A N/A N/A N/A	Allen Keller Company I LLC 100% Keller Equipment Co. I, LLC 50% Spring Canyon Ranch 100% Hillside Beef LLC/100% 100%
Kemp Family 2016 Trust Kemp, Cynthia, CO-Trustee Kemp, Brian, CO-Trustee Kemp, Dan, CO-Trustee	Banker	Director President	Director/Chairman Security State Bank & Trust	N/A	11.807467%	N/A	N/A
Kemp, James Fredericksburg, Texas United States of America	Banker	Director President	Director/Chairman Security State Bank & Trust	N/A	N/A	N/A	N/A
Kemp, Cynthia Fredericksburg, Texas United States of America	Interior Decorator	Principal Securities Holder	N/A	Owner Space Scapes Interiors	3.754109%	N/A	Space Scapes Interiors 100%

Kemp, Brian San Marcos, Texas United States of America	EMS Paramedic	Principal Securities Holder	N/A	N/A	3.754109%	N/A	N/A
Kemp, Dan Fredericksburg, Texas United States of America	Banker	Director	Director/SR VP Security State Bank & Trust	President SSB&T Mortgage	3.754109%	N/A	N/A
William H. Cowden Jr. Fredericksburg, Texas United States of America	Banker	Director	Director/President Security State Bank & Trust	N/A	N/A	N/A	N/A
Patrick M. (Mike) Dooley Fredericksburg, Texas United States of America	Attorney	Director	Director Security State Bank & Trust	Patrick M. (Mike) Dooley Attorney at Law/Ownership	N/A	N/A	Patrick M. (Mike) Dooley Attorney at Law/Ownership 100%
Ray Geistweidt Fredericksburg, Texas United States of America	Certified Public Accountai	Director	Director Security State Bank & Trust	Geistweidt & Company, CPA Ownership	N/A	N/A	Geistweidt & Company, CPA Ownership/100%
				Mason National Bank Director	N/A	N/A	N/A
	TOTAL				69.372471%		

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

OFFICERS, DIRECTORS & STOCKHOLDERS

December 31, 2017

NAME & ADDRESS (City, State, Country)	PRINCIPAL OCCUPATION if other than Holding Company	TITLE & POSITION WITH HOLDING CO.	TITLE & POSITION with Subsidiaries (include names of subsidiaies)	TITLE & POSITION with Other Businesses (include names of other businesses)	PERCENTAGE of Voting Shares in Holding Company	PERCENTAGE of Voting Securities in Subsidiaries (include names of Subsidiaries)	List of names of othe Companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Patrick M. (Mike) Dooley Fredericksburg, Texas United States of America	Attorney	Director	Director Security State Bank & Trust	Patrick M. (Mike) Dooley Attorney at Law/Ownership	N/A	N/A	Patrick M. (Mike) Dooley Attorney at Law/Ownership 100%
William H. Cowden Jr. Fredericksburg, Texas United States of America	Banker	Director	Director/President Security State Bank & Trust	N/A	N/A	N/A	N/A
Ray Geistweidt Fredericksburg, Texas United States of America	Certified Public Accountant	Director	Director Security State Bank & Trust	Geistweidt & Company, CPA Ownership	N/A	N/A	Geistweidt & Company, CPA Ownership/100%
				Mason National Bank Director	N/A	N/A	N/A

REPORT ITEM 1b: ANNUAL REPORTS TO SHAREHOLDERS

Report Item 1b: Attached

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

STATEMENT OF ASSETS AND LIABLILITIES

December 29, 2017

ASSETS:

Cash	14,604.62
Certificate of Deposit	0.00
Accounts Receivable-Security State Bank & Trust	9,090.00
Prepaid Income Tax	0.00
Goodwill-Excess of Par	1,344,339.02
Investments-Security State Bank & Trust	131,292,979.87
Total Assets	132,661,013.51

LIABILITIES:

Capital Stock	9,868.72
Treasury Stock	-6,431,428.60
Income Tax Payable	0.00
Income Tax Benefits	0.00
Unrealized Gain (Loss) in Securities	-1,013,724.14
Paid in Capital-Excess of Par	10,118,359.49
Retained Earnings	122,064,065.27
Dividends Paid Common Stock	-8,000,000.00
Income	15,949,527.28
Expenses	-35,654.51
Total Liabilities	132,661,013.51

SECURITY HOLDING COMPANY

FREDERICKSBURG, TEXAS

OPERATING STATEMENT

December 29, 2017

INCOME	This Month	Year to date
Dividends-Security State Bank & Trust		8,037,500.00
Interest-Cerificate of Deposit		-
Undistributed Earnings		7,912,027.28
Earning of NonControlling Int		-
Total Income	-	15,949,527.28

EXPENSE:		
Franchise Tax		-
Fine & Penalties		459.63
Office Supplies-Stationary & Printing		777.22
Postage		-
Legal and Professional		34,417.66
Federal Income Tax Expense		-
Total Expenses	-	35,654.51

NET INCOME	**15,913,872.77**

Security Holding Company and Subsidiary

Consolidated Financial Statements
December 31, 2017 and 2016

CONTENTS

CliftonLarsonAllen LLP
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CliftonLarsonAllen

INDEPENDENT AUDITORS' REPORT

Board of Directors and Audit Committee
Security Holding Company and Subsidiary
Fredericksburg, Texas

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Security Holding Company and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, 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 financial statements.

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

Board of Directors and Audit Committee
Security Holding Company and Subsidiary

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Security Holding Company and Subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 26, 2018

Security Holding Company and Subsidiary
Consolidated Balance Sheets
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 41,952,036	$ 49,234,224
Available-for-sale securities	113,449,613	167,118,331
Held-to-maturity securities	152,449,305	162,667,073
Loans held for sale	7,228,615	9,169,418
Loans, net of allowance for loan losses of $3,303,987 and $2,969,264 at December 31, 2017 and 2016	615,219,616	517,654,581
Premises and equipment, net of accumulated depreciation of $13,463,759 and $12,341,857 at December 31, 2017 and 2016	16,905,008	16,035,046
Federal Home Loan Bank stock	391,100	1,803,800
Foreclosed assets held for sale, net	148,126	1,378,248
Interest receivable	4,261,304	4,042,169
Goodwill	1,344,339	1,344,339
Bank owned life insurance	25,289,848	6,760,738
Other assets	569,056	542,376
TOTAL ASSETS	$ 979,207,966	$ 937,750,343
Liabilities and Stockholders' Equity		
LIABILITIES		
Deposits		
Demand	$ 322,664,866	$ 299,713,090
Savings, NOW and money market	385,093,808	369,120,077
Time	87,344,826	94,804,036
Total deposits	795,103,500	763,637,203
Securities sold under agreements to repurchase	49,292,704	48,954,457
Accrued interest payable	112,761	78,478
Accrued expenses and other liabilities	1,973,473	1,199,009
Total liabilities	846,482,438	813,869,147
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; authorized - 30,000 shares; issued and outstanding 2017 - 9,849 shares ; 2016 - 9,849 shares	9,849	9,849
Additional paid-in capital	10,118,359	10,118,359
Retained earnings	129,977,958	122,064,085
Accumulated other comprehensive loss	(1,013,724)	(2,070,090)
Treasury stock, at cost		
Common: 829 shares	(6,431,429)	(6,431,429)
Total Security Holding Company stockholders' equity	132,661,013	123,690,774
Noncontrolling interest	64,515	190,422
Total stockholders' equity	132,725,528	123,881,196
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 979,207,966	$ 937,750,343

See Notes to Consolidated Financial Statements

Security Holding Company and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2017 and 2016

	2017	2016
Interest Income		
Loans, including fees	$ 32,710,602	$ 28,311,659
Investment securities	6,076,127	5,679,484
Interest bearing deposits	298,077	167,571
Total interest income	39,084,806	34,158,714
Interest Expense		
Deposits	1,053,976	755,899
Securities sold under agreements to repurchase	367,339	144,190
Other	85,492	21,137
Total interest expense	1,506,807	921,226
Net Interest Income	37,577,999	33,237,488
Provision for Loan Losses	766,525	34,995
Net Interest Income After Provision for Loan Losses	36,811,474	33,202,493
Noninterest Income		
Service charges on deposit accounts	2,060,947	2,095,302
Fiduciary activities	913,224	880,418
Mortgage loan income	4,984,016	6,154,435
Other service charges and fees	2,428,574	2,253,902
Net realized losses on sales of available-for-sale securities	(89,141)	(8,467)
Net realized and unrealized (gains)/losses on foreclosed assets	150,926	(464,834)
Other	1,590,858	1,664,933
Total noninterest income	12,039,404	12,575,689

See Notes to Consolidated Financial Statements

Security Holding Company and Subsidiary

Consolidated Statements of Income (continued)

Years Ended December 31, 2017 and 2016

	2017	2016
Noninterest Expense		
Salaries and employee benefits	$ 21,102,719	$ 19,492,939
Occupancy expense	2,643,802	2,417,299
Equipment expense	1,594,971	1,415,550
Data processing fees	1,254,589	989,470
Postage, printing and office supplies	653,205	608,008
Telecommunications	506,071	470,886
Expenses of foreclosed assets	177,841	231,216
Deposit insurance premiums	290,678	381,099
Other	4,732,255	4,677,993
Total noninterest expense	32,956,131	30,684,460
Income Before Income Tax	15,894,747	15,093,722
Provision for Income Taxes	-	1,293,471
Net Income	15,894,747	13,800,251
Less net income (loss) attributable to the noncontrolling interest	(19,126)	314,313
Net Income Attributable to Security Holding Company	$ 15,913,873	$ 13,485,938
Basic and Diluted Earnings Per Share	$ 1,764	$ 1,495
Average Shares Outstanding	9,020	9,020

See Notes to Consolidated Financial Statements

Security Holding Company and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016

	2017	2016
Net Income	$ 15,894,747	$ 13,800,251
Other Comprehensive (Loss)		
Unrealized (depreciation) appreciation on available-for-sale securities	967,225	(2,133,523)
Less reclassification adjustment for realized losses included in net income	89,141	8,467
	1,056,366	(2,125,056)
Comprehensive Income	16,951,113	11,675,195
Less comprehensive income (loss) attributable to the noncontrolling interest	(19,126)	314,313
Comprehensive Income Attributable to Security Holding Company	$ 16,970,239	$ 11,360,882

See Notes to Consolidated Financial Statements

Security Holding Company and Subsidiary
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2017 and 2016

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interest	Total
Balance, December 31, 2015	9,849	$ 9,849	$ 10,118,359	$ 114,708,311	$ 54,966	$ (6,431,429)	$ 62,109	$ 118,522,165
Net income	-	-	-	13,485,938	-	-	314,313	13,800,251
Other comprehensive loss	-	-	-	-	(2,125,056)	-	-	(2,125,056)
Distributions to noncontrolling interest	-	-	-	-	-	-	(186,000)	(186,000)
Distributions on common stock, $680 per share	-	-	-	(6,130,164)	-	-	-	(6,130,164)
Balance, December 31, 2016	9,849	9,849	10,118,359	122,064,085	(2,070,090)	(6,431,429)	190,422	123,881,196
Net income	-	-	-	15,913,873	-	-	(19,126)	15,894,747
Other comprehensive income	-	-	-	-	1,056,366	-	-	1,056,366
Distributions to noncontrolling interest	-	-	-	-	-	-	(106,781)	(106,781)
Distributions on common stock, $887 per share	-	-	-	(8,000,000)	-	-	-	(8,000,000)
Balance, December 31, 2017	9,849	$ 9,849	$ 10,118,359	$ 129,977,958	$ (1,013,724)	$ (6,431,429)	$ 64,515	$ 132,725,528

See Notes to Consolidated Financial Statements

Security Holding Company and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Net income	$ 15,894,747	$ 13,800,251
Items not requiring (providing) cash		
Depreciation and amortization	1,140,120	948,864
Provision for loan losses	766,525	34,995
Amortization of premiums and discounts on securities	2,614,872	2,607,743
Unrealized (gain) loss on derivatives	56,421	(193,719)
Deferred income taxes	-	1,562,688
Net realized losses on sales of available-for-sale securities	89,141	8,467
Net realized (gains) losses on sales of foreclosed assets	(224,177)	204,214
Net realized losses on sales of equipment	42,530	77,548
Appreciation in bank owned life insurance	(529,110)	(354,238)
Provision for losses on foreclosed assets	73,251	260,620
Changes in		
Loans held for sale	1,884,382	444,749
Interest receivable	(219,135)	(500,777)
Other assets	(26,680)	(159,898)
Interest payable and other liabilities	808,747	(661,811)
Net cash provided by operating activities	22,371,634	18,079,696
Investing Activities		
Purchases of available-for-sale securities	(688,529,822)	(947,911,380)
Proceeds from maturities of available-for-sale securities	22,121,311	92,811,588
Proceeds from the sales of available-for-sale securities	720,551,931	866,965,401
Purchases of held-to-maturity securities	(18,171,928)	(59,020,614)
Proceeds from maturities of held-to-maturity securities	26,267,347	33,958,856
Net change in loans	(98,432,760)	(68,545,115)
Purchases of premises and equipment	(2,071,388)	(2,440,750)
Sales (purchases) of Federal Home Loan Bank stock	1,412,700	(1,177,100)
Purchase of bank owned life insurance	(18,000,000)	-
Proceeds from sales of equipment	18,776	115,310
Proceeds from sales of foreclosed assets	1,482,248	3,666,714
Net cash used in investing activities	(53,351,585)	(81,577,090)

See Notes to Consolidated Financial Statements

Security Holding Company and Subsidiary

Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2017 and 2016

	2016	2015
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	$ 38,925,507	$ 44,574,419
Net decrease in certificates of deposit	(7,459,210)	(8,482,666)
Net increase in securities sold under agreements to repurchase	338,247	15,788,860
Dividends paid to stockholders	(8,000,000)	(6,130,164)
Dividends paid to noncontrolling interest	(106,781)	(186,000)
Net cash provided by financing activities	23,697,763	45,564,449
Decrease in Cash and Cash Equivalents	(7,282,188)	(17,932,945)
Cash and Cash Equivalents, Beginning of Year	49,234,224	67,167,169
Cash and Cash Equivalents, End of Year	$ 41,952,036	$ 49,234,224
Supplemental Cash Flows Information		
Interest paid	$ 1,472,524	$ 917,000
Real estate acquired in settlement of loans	$ 101,200	$ 107,000

See Notes to Consolidated Financial Statements

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

Nature of Operations

Security Holding Company ("Company") is a bank holding company whose principal activity is the ownership and management of its majority-owned subsidiary, Security State Bank and Trust (the "Bank"). The Bank is primarily engaged in providing a variety of financial services to individual and corporate customers through its main office in Fredericksburg, Texas, sixteen branch locations, an operations center, four remote branch locations in the surrounding area and a loan production office in Fort Worth, Texas. The Bank's primary deposit products are interest bearing checking accounts and certificates of deposits. Its primary lending products are real estate mortgage loans, commercial, financial, consumer and agricultural loans. During 2014, the Bank formed a mortgage company, SSBT Mortgage Group, LLC (SSBT Mortgage), with another individual to originate mortgage loans insured by the Federal Housing Authority (FHA). The Bank contributed all of the preferred capital and 70% of the common capital. SSBT Mortgage began originating loans in October of 2015. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

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

Variable Interest Entities

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE") under accounting principles generally accepted in the United States. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. We consolidate voting interest entities in which we have all, or at least a majority of, the voting interest. As defined in applicable accounting standards, VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and fair values of financial instruments.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

At December 31, 2017, the Company's cash accounts exceeded federally insured limits by approximately $35,150,000. In addition, the Company has approximately $24,667,000 on deposit with the Federal Reserve Bank.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale

As of January 1, 2016, the Bank has elected the fair value option for all mortgage loans held for sale by SSBT Mortgage which management believes more accurately portrays the value of the financial instrument. The principal amount of loans held for sale is $6,913,604 and $8,707,748 as of December 31, 2017 and 2016, respectively. The impact of this adoption was not significant to the consolidated financial statements. Fair value of mortgage loans held for sale is determined by using the investors' best efforts commitment price. Unrealized gains and losses on changes in fair value of mortgage loans held for sale are included in mortgage loan income in the accompanying consolidated statements of income. Interest income and fees on loans held for sale are included in loan interest income and fees in the accompanying consolidated statements of income. See Note 5. Derivative Instruments.

Loans

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

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

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

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

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

A troubled debt restructured loan is a loan, which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites. A troubled debt restructured loan would generally be considered impaired in the year of modification and will be assessed periodically for continued impairment.

Allowance for Loan Losses

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

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

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

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

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

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

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

Bank premises	10-40 years
Leasehold improvements	5-30 years
Furniture and equipment	5-10 years

Long-lived Asset Impairment

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

No asset impairment was recognized during the years ended December 31, 2017 and 2016.

Federal Home Loan Bank Stock

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

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Foreclosed Assets Held for Sale

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

Goodwill

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

Derivative Instruments

As part of SSBT Mortgage's operations, management enters into commitments to originate loans whereby the interest rate on the loans is determined prior to funding ("rate lock commitments"). The rate lock commitments on loans SSBT Mortgage intends to sell are recorded as derivatives and are recorded at fair value using current best effort commitment prices from investors, subject to the anticipated loan funding probability, or fallout factor. The value of rate lock commitments is affected by changes in the anticipated loan funding probability or fallout factor. The fair value of the interest rate lock commitments was an asset of $137,298 and $193,719 at December 31, 2017 and 2016, respectively. These amounts are included with loans held for sale on the accompanying consolidated balance sheets.

The use of the rate lock commitments does not qualify for hedge accounting under the applicable accounting guidance. As a result, all changes in fair value are recorded through mortgage loan income in the accompanying consolidated statements of income.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Transfers of Financial Assets

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

Income Taxes

Effective January 1, 2016, the Company elected to be taxed as an S-Corporation. In accordance with federal income tax regulations, no income taxes are levied on an S-Corporation, but rather on the individual shareholders. In connection with the election, the Company eliminated its net deferred tax asset of $1,562,688 as of the election date.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent, the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with the Bank.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. There were no dilutive shares outstanding at December 31, 2017 or 2016.
Treasury stock shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities. During the years ended December 31, 2017 and 2016, realized losses on available-for-sale securities of $89,141 and $8,467, respectively were reclassified out of accumulated other comprehensive income. Due to the S-Corporation tax status of the Company, there was no tax impact included. These losses have been included in the consolidated income statement as net realized losses on sales of available for securities.

Security Holding Company and Subsidiary
Notes to Consolidated Financial Statements

Transfers between Fair Value Hierarchy Levels

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

Upcoming Accounting Standards

ASU 2014-09 Revenue from Contracts with Customers (Topic 606). The FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for the Company for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period.

The Company is finalizing our assessment and have identified the revenue line items within the scope of this new guidance. We do not expect the new standard to result in a material change for revenue because the majority of the Company's financial instruments are not within the scope of Topic 606. Revenue streams within other noninterest income the Company is evaluating include service charges on deposit accounts and income from fiduciary activities.

ASU 2016-02 Leases (Topic 842). The FASB amended existing guidance that requires that lessees recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The Company is in the process of determining the effect of the standard on its consolidated results and financial condition. These amendments are effective beginning January 1, 2020.

ASU 2016-13 Financial Instruments – Credit Losses (Topic 326). The FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held to maturity securities and debt securities. ASU 2016-13 is effective for the company for annual periods beginning after December 15, 2020, including interim periods within those fiscal years. Entities will apply the standard's provisions as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact of the adoption of ASU 2016-13 will have on its consolidated operating results and financial condition.

ASU 2017-08 Receivables – Nonrefundable Fees and Other costs (Subtopic 310-20). Premium Amortization on Purchased Callable Debt Securities. FASB issued guidance to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earlies call date. The amendments do not require an accounting change for securities held at a discount as the discount continues to be amortized to maturity. These amendments are effective for period beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of ASU 2017-08 will have on its consolidated results and financial condition.

Security Holding Company and Subsidiary
Notes to Consolidated Financial Statements

Note 2. Restriction on Cash and Due from Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. At December 31, 2017, a reserve of $377,000 was required based on the daily average balances held by the Company at the Federal Reserve Bank.

Note 3. Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2017				
U.S. Treasury securities	$ 1,000,000	$ -	$ 16,172	$ 983,828
U.S. Government-sponsored enterprises (GSEs)	76,558,417	82,335	1,347,836	75,292,916
U.S. agencies and GSEs residential mortgage-backed	4,790,697	109,430	12,581	4,887,546
State and political subdivisions	31,107,254	179,788	127,292	31,159,750
Other	1,006,968	118,605	-	1,125,573
	$ 114,463,336	$ 490,158	$ 1,503,881	$ 113,449,613
December 31, 2016				
U.S. Treasury securities	$ 56,488,346	$ 24,397	$ 132,666	$ 56,380,077
U.S. Government-sponsored enterprises (GSEs)	69,583,589	85,970	2,116,938	67,552,621
U.S. agencies and GSEs residential mortgage-backed	6,319,708	167,577	21,107	6,466,178
State and political subdivisions	35,788,205	144,902	300,190	35,632,917
Other	1,008,573	77,965	-	1,086,538
	$ 169,188,421	$ 500,811	$ 2,570,901	$ 167,118,331

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Securities:				
December 31, 2017				
U.S. agencies and GSEs residential mortgage-backed	$ 13,543,769	$ 31,995	$ 107,016	$ 13,468,748
State and political subdivisions	138,905,536	901,787	692,186	139,115,137
	$ 152,449,305	$ 933,782	$ 799,202	$ 152,583,885
December 31, 2016				
U.S. agencies and GSEs residential mortgage-backed	$ 16,559,360	$ 63,950	$ 103,072	$ 16,520,238
State and political subdivisions	146,107,713	1,065,075	863,618	146,309,170
	$ 162,667,073	$ 1,129,025	$ 966,690	$ 162,829,408

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ 4,279,234	$ 4,278,874	$ 18,762,622	$ 18,758,930
One to five years	15,704,651	15,649,045	50,026,267	50,019,929
Five to ten years	72,636,069	71,626,938	39,874,877	40,058,682
After ten years	16,045,717	15,881,637	30,241,770	30,277,596
	108,665,671	107,436,494	138,905,536	139,115,137
Mortgage-backed securities	4,790,697	4,887,546	13,543,769	13,468,748
Other securities	1,006,968	1,125,573	-	-
Totals	$ 114,463,336	$ 113,449,613	$ 152,449,305	$ 152,583,885

The fair value of securities pledged as collateral, to secure public deposits, repurchase agreements and for other purposes, was $219,582,468 at December 31, 2017 and $194,550,784 at December 31, 2016.

Certain investments are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2017 and 2016, was $174,582,739 and $203,005,758, which is approximately 66% and 62%, respectively, of the fair value of the Company's available-for-sale and held-to-maturity investment portfolio. These declines primarily resulted from recent increases in market interest rates and failure of certain investments to maintain consistent credit quality ratings.

Management believes the declines in fair value for these securities are temporary.

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016:

	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury securities	$ -	$ -	$ 983,828	$ 16,172	$ 983,828	$ 16,172
U.S. Government-sponsored enterprises (GSEs)	19,895,982	97,197	49,314,599	1,250,639	69,210,581	1,347,836
U.S. agencies and GSEs residential mortgage-backed	534,794	536	855,349	12,045	1,390,143	12,581
State and political subdivisions	11,049,928	56,110	4,616,846	71,182	15,666,774	127,292
Total temporarily impaired securities	$ 31,480,704	$ 153,843	$ 55,770,622	$ 1,350,038	$ 87,251,326	$ 1,503,881

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury securities	$ 31,358,240	$ 132,666	$ -	$ -	$ 31,358,240	$ 132,666
U.S. Government-sponsored enterprises (GSEs)	58,448,025	2,116,938	-	-	58,448,025	2,116,938
U.S. agencies and GSEs residential mortgage-backed	1,449,007	19,555	188,624	1,552	1,637,631	21,107
State and political subdivisions	20,526,160	278,627	1,218,332	21,563	21,744,492	300,190
Total temporarily impaired securities	$ 111,781,432	$ 2,547,786	$ 1,406,956	$ 23,115	$ 113,188,388	$ 2,570,901

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-Maturity Securities:						
U.S agencies and GSEs						
residential mortgage-backed	$ 4,229,643	$ 26,576	$ 4,665,275	$ 80,440	$ 8,894,918	$ 107,016
State and political subdivisions	49,019,146	310,814	29,417,349	381,372	78,436,495	692,186
	$ 53,248,789	$ 337,390	$ 34,082,624	$ 461,812	$ 87,331,413	$ 799,202

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-Maturity Securities:						
U.S agencies and GSEs						
residential mortgage-backed	$ 8,055,202	$ 103,072	$ -	$ -	$ 8,055,202	$ 103,072
State and political subdivisions	75,004,750	846,436	6,757,418	17,182	81,762,168	863,618
	$ 83,059,952	$ 949,508	$ 6,757,418	$ 17,182	$ 89,817,370	$ 966,690

U.S. Government-Sponsored Enterprises (GSEs)

The unrealized losses on the Company's investments in direct obligations of U.S. government-sponsored enterprises were caused by changes in the market interest rates from those at the time the securities were purchased. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2017.

State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by changes in the market interest rates from those at the time the securities were purchased. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2017.

Note 4. Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	2017	2016
Real estate		
Residential	$ 116,603,000	$ 114,878,000
Commercial	186,169,000	166,601,000
Construction and land development	166,525,000	115,820,000
Commercial	121,355,000	96,237,000
Consumer and other	27,871,603	27,087,845
Total loans	618,523,603	520,623,845
Less allowance for loan losses	3,303,987	2,969,264
Net loans	$ 615,219,616	$ 517,654,581

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

	December 31, 2017			
	Real Estate	Commercial	Consumer and Other	Total
Allowance for loan losses				
Balance, beginning of year	$ 1,793,009	$ 961,117	$ 215,138	$ 2,969,264
Provision charged to expense	252,207	381,430	132,888	766,525
Losses charged off	(323,802)	(32,000)	(168,000)	(523,802)
Recoveries	8,000	32,000	52,000	92,000
Balance, end of year	$ 1,729,414	$ 1,342,547	$ 232,026	$ 3,303,987
Ending balance, individually evaluated for impairment	$ 28,667	$ 637,399	$ 29,309	$ 695,375
Ending balance, collectively evaluated for impairment	1,700,747	705,148	202,717	2,608,612
Balance, end of year	$ 1,729,414	$ 1,342,547	$ 232,026	$ 3,303,987
Loans				
Ending balance, individually evaluated for impairment	$ 8,441,467	$ 899,339	$ 160,305	$ 9,501,111
Ending balance, collectively evaluated for impairment	460,855,533	120,455,661	27,711,298	609,022,492
Balance, end of year	$ 469,297,000	$ 121,355,000	$ 27,871,603	$ 618,523,603

	December 31, 2016			
	Real Estate	Commercial	Consumer and Other	Total
Allowance for loan losses				
Balance, beginning of year	$ 1,505,700	$ 1,710,883	$ 192,641	$ 3,409,224
Provision charged to expense	276,309	(367,766)	126,452	34,995
Losses charged off	(1,000)	(398,000)	(132,000)	(531,000)
Recoveries	12,000	16,000	28,045	56,045
Balance, end of year	$ 1,793,009	$ 961,117	$ 215,138	$ 2,969,264
Ending balance, individually evaluated for impairment	$ 36,349	$ 78,112	$ 51,127	$ 165,588
Ending balance, collectively evaluated for impairment	1,756,660	883,005	164,011	2,803,676
Balance, end of year	$ 1,793,009	$ 961,117	$ 215,138	$ 2,969,264
Loans				
Ending balance, individually evaluated for impairment	$ 14,567,823	$ 787,917	$ 182,918	$ 15,538,658
Ending balance, collectively evaluated for impairment	382,731,177	95,449,083	26,904,927	505,085,187
Balance, end of year	$ 397,299,000	$ 96,237,000	$ 27,087,845	$ 520,623,845

Internal Risk Categories

Loan grades are numbered 1 through 6. Grades 1 and 2 are considered satisfactory grades. The grade of 3, or OAEM/Watch, represents loans of lower quality and is considered criticized. The grades of 4, or Substandard, and 6, or Doubtful, refer to assets that are classified. The use and application of these grades by the Company are uniform and conform to the Company's policy.

Pass (1) – This grade includes borrowers with strong financial strength, above average liquidity, and collateral that is liquid and well margined. These borrowers have performed on past obligations, and the Company expects their performance to continue throughout the term of the loan.

Acceptance/Pass (2) – This grade includes borrowers with an average financial condition, adequate collateral margins, adequate cash flow to service long-term debt and net worth comprised mainly of fixed assets. These entities are minimally profitable now, with projections indicating continued profitability into the foreseeable future. Closely held corporations or businesses where a majority of the profits are withdrawn by the owners or paid in dividends are included in this rating category. These loans generally require more than average servicing or attention.

OAEM/Watch (3) – This grade includes loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (4) – This grade includes loans that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful (5) – Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (6) – Loans classified as 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 loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Residential Real Estate: The residential real estate loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Construction and Land Development Real Estate: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors such as unemployment and general economic conditions in the Company's market area and the creditworthiness of a borrower.

The following table presents the credit risk profile of the Company's loan portfolio based on the internal rating category as of December 31, 2017 and 2016:

	December 31, 2017			
	Pass/Acceptance	**OAEM/Watch**	**Substandard**	**Total**
Real Estate				
Residential	$ 115,429,301	$ 152,382	$ 1,021,317	$ 116,603,000
Commercial	185,150,364	86,295	932,341	186,169,000
Construction and land development	165,479,893	121,359	923,748	166,525,000
Commercial	120,485,167	76,955	792,878	121,355,000
Consumer and other	27,711,919	35,507	124,177	27,871,603
Total	$ 614,256,644	$ 472,498	$ 3,794,461	$ 618,523,603

	December 31, 2016			
	Pass/Acceptance	**OAEM/Watch**	**Substandard**	**Total**
Real Estate				
Residential	$ 111,216,919	$ 407,598	$ 3,253,483	$ 114,878,000
Commercial	158,837,463	90,732	7,672,805	166,601,000
Construction and land development	112,752,684	-	3,067,316	115,820,000
Commercial	95,444,201	99,773	693,026	96,237,000
Consumer and other	26,905,433	78,377	104,035	27,087,845
Total	$ 505,156,700	$ 676,480	$ 14,790,665	$ 520,623,845

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the past year. The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2017 and 2016:

	December 31, 2017					
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate						
Residential	$ 1,003,233	$ -	$ 1,003,233	$ 115,599,767	$ 116,603,000	$ -
Commercial	128,921	-	128,921	186,040,079	186,169,000	-
Construction and land development	981,820	121,359	1,103,179	165,421,821	166,525,000	-
Commercial	463,928	6,826	470,754	120,884,246	121,355,000	6,826
Consumer and other	376,894	16,361	393,255	27,478,348	27,871,603	16,361
Total	$ 2,954,796	$ 144,546	$ 3,099,342	$ 615,424,261	$ 618,523,603	$ 23,187

	December 31, 2016					
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate						
Residential	$ 981,314	$ 2,842,334	$ 3,823,648	$ 111,054,352	$ 114,878,000	$ 596,663
Commercial	1,321,725	-	1,321,725	165,279,275	166,601,000	-
Construction and land development	292,250	4,731,343	5,023,593	110,796,407	115,820,000	-
Commercial	716,289	307,187	1,023,476	95,213,524	96,237,000	-
Consumer and other	288,908	22,460	311,368	26,776,477	27,087,845	13,811
Total	$ 3,600,486	$ 7,903,324	$ 11,503,810	$ 509,120,035	$ 520,623,845	$ 610,474

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

The following tables present impaired loans for the years ended December 31, 2017 and 2016:

	December 31, 2017				
	Unpaid Principal Balance	Recorded Investment	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific allowance:					
Real estate					
Residential	$ 1,434,544	$ 1,434,544	$ -	$ 2,585,757	$ 94,670
Commerical	5,949,606	5,949,606	-	6,856,572	388,314
Construction and land development	968,650	968,650	-	1,969,807	64,426
Commercial	246,160	246,160	-	334,514	36,628
Consumer and other	119,496	119,496	-	129,377	12,163
	8,718,456	8,718,456	-	11,876,027	596,201
Loans with a specific allowance:					
Real estate					
Residential	$ -	$ -	$ -	$ -	$ -
Commerical	-	-	-	-	-
Construction and land development	88,667	88,667	28,667	92,508	3,936
Commercial	653,179	653,179	637,399	509,114	49,616
Consumer and other	40,809	40,809	29,309	64,966	3,344
	782,655	782,655	695,375	666,588	56,896
Total					
Real estate					
Residential	$ 1,434,544	$ 1,434,544	$ -	$ 2,585,757	$ 94,670
Commerical	5,949,606	5,949,606	-	6,856,572	388,314
Construction and land development	1,057,317	1,057,317	28,667	2,062,317	68,362
Commercial	899,339	899,339	637,399	843,628	86,244
Consumer and other	160,305	160,305	29,309	194,342	15,507
	$ 9,501,111	$ 9,501,111	$ 695,375	$ 12,542,615	$ 653,097

	December 31, 2016				
	Unpaid Principal Balance	Recorded Investment	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific allowance:					
Real estate					
Residential	$ 3,736,969	$ 3,736,969	$ -	$ 2,285,936	$ 149,649
Commerical	7,763,537	7,763,537	-	4,099,497	464,048
Construction and land development	2,970,967	2,970,967	-	3,907,852	395,708
Commercial	422,868	422,868	-	462,649	54,919
Consumer and other	139,257	139,257	-	87,709	8,404
	15,033,598	15,033,598	-	10,843,643	1,072,728
Loans with a specific allowance:					
Real estate					
Residential	$ -	$ -	$ -	$ -	$ -
Commerical	-	-	-	-	-
Construction and land development	96,349	96,349	36,349	98,877	5,235
Commercial	365,049	365,049	78,112	609,521	51,507
Consumer and other	89,122	89,122	51,127	90,852	9,038
	550,520	550,520	165,588	799,250	65,780
Total					
Real estate					
Residential	$ 3,736,969	$ 3,736,969	$ -	$ 2,285,936	$ 149,649
Commerical	7,763,538	7,763,538	-	4,099,497	464,048
Construction and land development	3,067,316	3,067,316	36,349	4,006,729	400,943
Commercial	787,917	787,917	78,112	1,072,170	106,426
Consumer and other	182,918	182,918	51,127	178,561	17,442
	$ 15,538,658	$ 15,538,658	$ 165,588	$ 11,642,893	$ 1,138,508

Security Holding Company and Subsidiary
Notes to Consolidated Financial Statements

The following tables present the Company's nonaccrual loans at December 31, 2017 and 2016.

	2017	2016
Real Estate		
Residential	$ 819,198	$ 3,185,525
Commercial	61,659	38,859
Construction and land development	2,789,623	4,731,775
Commercial	1,045,485	737,888
Consumer and other	83,404	40,488
Total	$ 4,799,369	$ 8,734,535

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Company has a recorded investment in troubled debt restructurings of approximately $6 million and $5.7 million, respectively. The Company has allocated an immaterial amount of specific allowance for those loans at December 31, 2017 and 2016 and is not committed to lend additional amounts to these borrowers.

The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following table presents information regarding troubled debt restructurings by class that occurred during the years ended December 31, 2017 and 2016.

	2017		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real Estate			
Residential	-	$ -	$ -
Commercial	1	299,099	299,099
Construction and land development	-	-	-
Commercial	-	-	-
Consumer and other	-	-	-
Total	1	$ 299,099	$ 299,099

	2016		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real Estate			
Residential	-	$ -	$ -
Commercial	-	-	-
Construction and land development	-	-	-
Commercial	1	36,626	78,854
Consumer and other	1	638	638
Total	2	$ 37,264	$ 79,492

The restructurings did not have an impact on the determination of the Company's recorded allowance for loan losses during the years ended December 31, 2017 and 2016.

None of the loans modified in a troubled debt restructuring in the past 12 months have subsequently defaulted and resulted in charge offs during the year ended December 31, 2017.

Note 5. Derivative Instruments

The Company, through SSBT Mortgage, originates and markets conventional and government-sponsored residential mortgage loans, which are held for sale. The volume of mortgage loans originated for sale and secondary market prices are the primary drivers of originating and marketing revenue.

Residential mortgage loan commitments are generally outstanding for 60 to 90 days, which represents the typical period from commitment to originate a residential mortgage loan to when the closed loan is sold to an investor. Residential mortgage loans are subject to both credit and interest rate risk. Credit risk is managed through underwriting policies and procedures. Exposure to interest rate fluctuations are managed through the use of best efforts commitments with investors and rate lock commitments with borrowers. Interest rate lock commitments are included in loans held for sale in the accompanying consolidated balance sheets.

The notional amounts and fair value of outstanding interest rate lock commitments at December 31, 2017 and 2016, is as follows.

	December 31, 2017	
	Notional Amount	Fair Value
Interest rate lock commitments	$ 8,838,100	$ 137,298

	December 31, 2016	
	Notional Amount	Fair Value
Interest rate lock commitments	$ 13,340,000	$ 193,719

Note 6. Premises and Equipment

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

	2017	2016
Land	$ 3,989,938	$ 3,935,098
Bank premises	15,439,909	15,224,893
Furniture and equipment	9,232,212	7,962,983
Leasehold improvements	1,706,708	1,199,089
Construction in progress	-	54,840
	30,368,767	28,376,903
Less accumulated depreciation	(13,463,759)	(12,341,857)
Net premises and equipment	$ 16,905,008	$ 16,035,046

Note 7. Interest-Bearing Time Deposits

Interest-bearing time deposits in denominations of more than $250,000 were approximately $15,103,000 and $17,396,000 on December 31, 2017 and 2016, respectively.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

2016	$ 64,332,931
2017	12,881,362
2018	8,157,795
2019	742,501
2020	1,230,237
	$ 87,344,826

Note 8. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The obligations are secured by U.S agency and GSE securities and such collateral is held by a third-party safekeeping agent. The maximum amount of outstanding agreements at any month end during 2017 totaled $51,622,854 and the monthly average of such agreements totaled $47,085,294 and $45,124,253 for 2017 and 2016, respectively. The agreements at December 31, 2017, mature over periods ranging from one day to one year and paid interest at rates from 0.40% to 0.75% at December 31, 2017 and 0.15% to 0.60% at December 31, 2016.

Note 9. Lines of Credit

FHLB Line of Credit

At December 31, 2017 and 2016, the Company had a revolving line of credit with no expiration and a maximum available limit of $269,135,730 and $232,978,273, respectively. At December 31, 2017 and 2016, there were no funds borrowed against this line. The line is collateralized by all FHLB stock and a blanket lien on certain commercial and residential mortgage loans. The line of credit bears interest at a daily variable rate which is set by the FHLB.

Frost Bank Line of Credit

At December 31, 2017 and 2016, the Company had an unsecured line of credit available for overnight borrowing of $10,000,000 expiring in 2018. At December 31, 2017 and 2016, there were no funds borrowed against this line. The line of credit bears interest at a daily variable rate, which is set by Frost Bank.

The Independent Bankers' Bank (TIB) Line of Credit

At December 31, 2017 and 2016, the Company had available a $2,000,000 revolving line of credit with an open-ended term, which can be terminated by either party at any time. At December 31, 2017 and 2016, there were no funds borrowed against this line. The line is collateralized by securities as applicable. The line of credit bears interest at a daily variable rate, which is set by TIB.

Note 10. Income Taxes

The provision for income taxes includes these components:

	2017	2016
Taxes currently payable	$ -	$ (269,217)
Deferred income taxes	-	1,562,688
Income tax expense	$ -	$ 1,293,471

The Company elected to be taxed as an S-Corporation effective January 1, 2016. Therefore, there are no deferred tax assets or liabilities at December 31, 2017 or 2016.

Note 11. Regulatory Matters

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

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Prior to January 1, 2015, the Company was also subject to these capital requirements. However, the Company is no longer subject to these ratios until it reaches $1 billion in consolidated assets. Management believes, as of December 31, 2017, that the Company and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2017, the most recent notification from the Texas Department of Banking categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

U.S. banking regulators adopted final rules related to standards on bank capital adequacy and liquidity (commonly referred to "Basel III") that were effective for the Bank beginning on January 1, 2015, subject to a phase-in period for certain provisions extending through January 1, 2019. The rules include a new common equity Tier 1 capital ratio, an increase to the minimum Tier 1 capital ratio, an increase to risk weightings of certain assets, implementation of a new capital conservation buffer in excess of the required minimum (which is being phased in beginning in 2016), and changes to how regulatory capital is defined. The Bank met the minimum capital ratios and a fully phased-in capital conservation buffer under the new rules at year-end 2017.

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

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017						
Total capital (to risk-weighted assets)						
Security State Bank & Trust	$ 135,609,000	19.1%	$ 65,851,000	9.250%	$ 71,190,000	10.0%
Tier I capital (to risk-weighted assets)						
Security State Bank & Trust	$ 132,305,000	18.6%	$ 51,613,000	7.250%	$ 56,952,000	8.0%
Common equity Tier 1 capital (to risk-weighted assets)						
Security State Bank & Trust	$ 132,305,000	18.6%	$ 40,934,000	5.750%	$ 46,273,000	6.5%
Tier I capital (to average assets)						
Security State Bank & Trust	$ 132,305,000	13.4%	$ 39,585,000	4.0%	$ 49,481,000	5.0%

	Actual		Minimum Capital Requirement		Minimum 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)						
Security State Bank & Trust	$ 127,349,000	29.2%	$ 37,647,000	8.625%	$ 43,649,000	10.0%
Tier I capital (to risk-weighted assets)						
Security State Bank & Trust	$ 124,379,000	28.5%	$ 28,917,000	6.625%	$ 34,919,000	8.0%
Common equity Tier 1 capital (to risk-weighted assets)						
Security State Bank & Trust	$ 124,379,000	28.5%	$ 22,370,000	5.125%	$ 28,372,000	6.5%
Tier I capital (to average assets)						
Security State Bank & Trust	$ 124,379,000	13.5%	$ 36,928,000	4.0%	$ 46,160,000	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Dividends are generally limited to the current year net income plus net income from the previous two years less any dividends previously declared during that timeframe.

Note 12. Related Party Transactions

At December 31, 2017 and 2016, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $7,130,416 and $4,893,781, respectively.

Annual activity consisted of the following:

	2017	2016
Beginning balance	$ 4,893,781	$ 5,156,281
New loans	3,634,097	1,213,500
Repayments	(1,397,462)	(1,476,000)
Ending balance	$ 7,130,416	$ 4,893,781

In addition to the outstanding balances on the loans above, there were unused amounts on lines of credit available to these related parties of $2,955,000 and $608,000 at December 31, 2017 and 2016, respectively.

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

Deposits from related parties held by the Company at December 31, 2017 and 2016, totaled $3,481,624 and $7,164,428, respectively.

Note 13. Employee Benefits

The Company has a defined contribution retirement plan covering substantially all employees. Employees may contribute up to 50 percent of their compensation up to the maximum amount established by the Internal Revenue Service. The plan is safe-harbor plan, which requires the Company to contribute 3 percent of eligible employees' base pay to the plan. Additional matching contributions under the plan are made at the discretion of the Board of Directors. Employer contributions charged to expense for 2017 and 2016 were $782,915 and $695,971, respectively.

The Company has a deferred cash incentive plan for the benefit of certain employees. The maximum amounts to be deferred for each employee are determined annually by the Board of Directors and such amounts cliff vest over a five year period at which point they are paid in cash to the employee. The amount of expense related to the plan during 2017 and 2016 was $161,821 and $103,105, respectively, and the amount of liability related to the plan that is recorded in the consolidated balance sheet at December 31, 2017 and 2016 is $500,243 and $346,461, respectively.

Note 14. Operating Leases

The Company has several noncancellable operating leases, primarily for branch facilities and land that expire over the next 25 years. These leases generally contain renewal options for periods ranging from five to ten years and require the Company to pay all executory costs such as taxes, maintenance and insurance. Rental expense for these leases was $627,725 and $544,664 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments under operating leases are:

2018	$ 588,872
2019	302,788
2020	227,635
2021	30,476
2022 and thereafter	169,023
Total minimum lease payments	$ 1,318,794

Note 15. Disclosures about Fair Value of Assets and Liabilities

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

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

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

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
U.S. Treasury securities	$ 983,828	$ 983,828	$ -	$ -
U.S. Government-sponsored enterprises (GSEs)	75,292,916	-	75,292,916	-
U.S agencies and GSEs residential mortgage-backed	4,887,546	-	4,887,546	-
State and political subdivisions	31,159,750	-	31,159,750	-
Other	1,125,573	-	1,125,573	-
Interest rate locks	137,298	-	137,298	-
Mortgage loans held for sale	7,091,317	-	7,091,317	-

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
U.S. Treasury securities	$ 56,380,077	$ 56,380,077	$ -	$ -
U.S. Government-sponsored enterprises (GSEs)	67,552,621	-	67,552,621	-
U.S agencies and GSEs residential mortgage-backed	6,466,178	-	6,466,178	-
State and political subdivisions	35,632,917	-	35,632,917	-
Other	1,086,538	-	1,086,538	-
Interest rate locks	193,719	-	193,719	-
Mortgage loans held for sale	8,975,699	-	8,975,699	-

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

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Interest Rate Lock Commitments

Where model inputs such as the underlying rate, price or index can be observed in a liquid market and the model does not require significant judgement, such derivatives are typically classified as Level 2 of the fair value hierarchy. When instruments are traded in less liquid markets and significant inputs are unobservable, such derivatives are classified within Level 3. The valuation of the interest rate lock commitments was based upon best effort commitments from investors subject to the anticipated loan funding probability, or fallout factor and is classified as Level 2.

Mortgage Loans Held for Sale

SSBT Mortgage uses best efforts to sell mortgage loans held for sale to investors. Fair value of mortgage loans held for sale is determined by using the investors' best efforts commitment price and is classified as Level 2.

Nonrecurring Measurements

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Impaired loans	$ 87,280	$ -	$ -	$ 87,280
Foreclosed assets held for sale	$ 131,470	$ -	$ -	$ 131,470
December 31, 2016				
Impaired loans	$ 384,932	$ -	$ -	$ 384,932
Foreclosed assets held for sale	$ 556,700	$ -	$ -	$ 556,700

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale or other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy. Appraisals of OREO are obtained when the real estate is acquired and, subsequently, as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management.

Collateral-dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and, subsequently, as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2017 and 2016.

	Fair Value at December 31, 2017	Valuation Technique	Unobservable Inputs	Range
Impaired loans	$ 87,280	Market comparable properties	Marketability discount	10% - 15%
Foreclosed assets held for sale	$ 131,470	Market comparable properties	Comparability adjustments (%)	10% - 15%

	Fair Value at December 31, 2016	Valuation Technique	Unobservable Inputs	Range
Impaired loans	$ 384,932	Market comparable properties	Marketability discount	10% - 15%
Foreclosed assets held for sale	$ 556,700	Market comparable properties	Comparability adjustments (%)	10% - 15%

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2017 and 2016.

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	$ 41,952,036	$ 41,952,036	$ 49,234,224	$ 49,234,224
Available-for-sale securities	113,449,613	113,449,613	167,118,331	167,118,331
Held-to-maturity securities	152,449,305	152,583,885	162,667,073	162,829,408
Loans held for sale	7,228,615	7,228,615	9,169,418	9,169,418
Loans, net of allowance for losses	615,219,616	616,806,000	517,654,581	519,835,000
Federal Home Loan Bank stock	391,100	391,100	1,803,800	1,803,800
Accrued interest receivable	4,261,304	4,261,304	4,042,169	4,042,169
Financial Liabilities				
Deposits	$795,103,500	$ 795,849,000	$ 763,637,203	$ 764,707,000
Securities sold under agreements to repurchase	49,292,704	49,294,000	$ 48,954,457	$ 48,954,457
Accrued interest payable	112,761	112,761	78,478	78,478

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Loans Held For Sale

Loans held for sale are recorded at fair value using the fair value option. See description of fair value methods used above.

Loans

Fair value is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

Federal Home Loan Bank Stock

Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

Accrued Interest Receivable and Payable

The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Deposits

Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the Bank.

The estimated fair value of demand, NOW, savings and money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

Securities Sold Under Agreements to Repurchase

Fair value of term repurchase agreements and other term borrowings is estimated based on current repurchase rates and borrowing rates currently available to the Company for repurchases and borrowings with similar terms and maturities.

Commitments to Originate Loans, Forward Sale Commitments, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair value of commitments to sell securities is estimated based on current market prices for securities of similar terms and credit quality.

The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

The fair values of these instruments were insignificant at December 31, 2017 and 2016.

Note 16. Significant Estimates, Concentrations and Contingencies

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk. Other significant estimates and concentrations not discussed in those footnotes include:

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Note 17. Commitments and Credit Risk

Commitments to Originate Loans

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

At December 31, 2017 and 2016, the Company had outstanding commitments to originate loans aggregating approximately $39,028,000 and $116,105,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid. The Company had total outstanding standby letters of credit amounting to $213,300 and $589,800, at December 31, 2017 and 2016, respectively, with terms ranging from 30 days to one year.

Note 18: Parent Company Only Financial Statements

Summarized financial information for Security Holding Company – Parent Company Only follows:

Balance Sheets	December 31, 2017	December 31, 2016
Assets		
Cash and due from banks	$ 14,604	$ 12,758
Investment in common stock of subsidiaries	131,292,980	122,324,587
Goodwill	1,344,339	1,344,339
Receivables - subsidiary	9,090	9,090
Total assets	$ 132,661,013	$ 123,690,774
Liabilities	$ -	$ -
Stockholders' Equity		
Common stock	9,849	9,849
Capital surplus	10,118,359	10,118,359
Retained earnings	129,977,958	122,064,085
Treasury stock	(6,431,429)	(6,431,429)
Accumulated other comprehensive loss	(1,013,724)	(2,070,090)
Total stockholders' equity	132,661,013	123,690,774
Total liabilities and stockholders' equity	$ 132,661,013	$ 123,690,774

Security Holding Company and Subsidiary

Notes to Consolidated Financial Statements

Statements of Income	Year Ended December 31, 2017	2016
Income		
Dividends from subsidiary	$ 8,037,500	$ 6,270,165
Expenses		
Other expenses	35,654	115,383
Total expenses	35,654	115,383
Income Before Income Tax and Equity in Undistributed Net Income of Subsidiaries	8,001,846	6,154,782
Income Tax Expense	-	77,400
Income Before Equity in Undistributed Net Income of Subsidiaries	8,001,846	6,077,382
Equity in Undistributed Net Income of Subsidiaries	7,912,027	7,408,556
Net Income	$ 15,913,873	$ 13,485,938

Security Holding Company and Subsidiary
Notes to Consolidated Financial Statements

Statements of Cash Flows	Year Ended December 31, 2017	2016
Operating Activities		
Net income	$ 15,913,873	$ 13,485,938
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed income of subsidiary	(7,912,027)	(7,408,556)
Change in other assets	-	48,249
Net cash provided by operating activities	8,001,846	6,125,631
Investing Activities	-	-
Financing Activities		
Dividends paid	(8,000,000)	(6,130,164)
Net cash used in financing activities	(8,000,000)	(6,130,164)
Net Change in Cash and Cash Equivalents	1,846	(4,533)
Cash and Cash Equivalents at Beginning of Year	12,758	17,291
Cash and Cash Equivalents at End of Year	$ 14,604	$ 12,758

Note 19. Subsequent Events

Subsequent events have been evaluated through March 26, 2018, which is the date the financial statements were available to be issued.