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 0MB 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, Keith Moore
Name of the Holding Company Director and Official

President ,Director
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/27/2018
Date of Signature

For holding companies not registered with the SEC-
Indicate status of Annual Report to Shareholders:
☒ is included with the FR Y-6 report
☐ will be sent under separate cover
☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID
C.I.

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

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

Reporter's Name, Street, and Mailing Address

First West Texas Bancshares
Legal Title of Holding Company

6 Desta Dr.Suite 2400
(Mailing Address of the Holding Company) Street / P.O. Box

Midland	TX	79705
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Hank Elder — Name
CFO — Title

432 685 6514
Area Code / Phone Number / Extension

432 687 9714
Area Code / FAX Number

helder@wtnb.com
E-mail Address

www.wtnb.com
Address (URL) for the Holding Company's web page

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

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

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

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

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

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

N/A
Legal Title of Subsidiary Holding Company

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

City | State: TX | Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City | State | Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

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

City | State | Zip Code

Physical Location (if different from mailing address)

FIRST WEST TEXAS BANCSHARES, INC
FR Y-6 REPORT ITEMS
FOR THE YEAR ENDED DECEMBER 31, 2017

REPORT ITEM 1.

ANNUAL REPORT TO SHAREHOLDERS

Included

REPORT ITEM 2.

* Denotes Incorporated in Texas

ORGANIZATION CHART:

PARENT
FIRST WEST TEXAS BANCSHARES INC*

MIDLAND, TX 79705

RSSD ID 1109834

No entity has a LEI Number

100%
SUBSIDIARY

100%
SUBSIDIARY

[redacted]

FIRST WEST TEXAS CAPITAL TRUST II *

MIDLAND, TX 79705

100%
SUBSIDIARY

[redacted] FIRST WEST TEXAS STATUTORY TRUST III *

MIDLAND, TX 79705

100%
SUBSIDIARY

[redacted] FIRST WEST TEXAS STATUTORY TRUST IV *

MIDLAND, TX 79705

[redacted]

100%
WEST TEXAS NATIONAL BANK

MIDLAND, TX 79705

100%
WEST TEXAS FINANCIAL INC *

MIDLAND, TX 79705

Results: A list of branches for your depository institution: WEST TEXAS NATIONAL BANK (ID_RSSD: 237066)
This depository institution is held by FIRST-WEST TEXAS BANCSHARES, INC. (1109834) of MIDLAND, TX
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

Reconciliation and Verification Steps

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

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.
If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information. If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of th
Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add. The FR Y-10 report may be submitted in a hardcopy format or
* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country
OK	12/31/2017	Full Service (Head Office)	237066	WEST TEXAS NATIONAL BANK	#6 DESTA DRIVE, SUITE 2400	MIDLAND	TX	79705	MIDLAND	UNITED STATES
OK	12/31/2017	Full Service	3527320	ALPINE BRANCH	101 E AVENUE E	ALPINE	TX	79830	BREWSTER	UNITED STATES
OK	12/31/2017	Full Service	772651	CRANE BRANCH	720 S GASTON ST	CRANE	TX	79731	CRANE	UNITED STATES
OK	12/31/2017	Full Service	2643885	DENVER CITY BRANCH	810 E BROADWAY	DENVER CITY	TX	79323	YOAKUM	UNITED STATES
OK	12/31/2017	Full Service	929857	KERMIT BRANCH	101 SOUTH EAST AVE	KERMIT	TX	79745	WINKLER	UNITED STATES
OK	12/31/2017	Full Service	3472644	DOWNTOWN BRANCH	300 N MARIENFELD	MIDLAND	TX	79701	MIDLAND	UNITED STATES
OK	12/31/2017	Full Service	3908228	WADLEY BRANCH	5401 WEST WADLEY DRIVE	MIDLAND	TX	79707	MIDLAND	UNITED STATES
OK	12/31/2017	Full Service	724360	PECOS BRANCH	100 E 6TH ST	PECOS	TX	79772-4037	REEVES	UNITED STATES
OK	12/31/2017	Full Service	401960	SEMINOLE BRANCH	200 SOUTHEAST AVENUE B	SEMINOLE	TX	79360	GAINES	UNITED STATES
OK	12/31/2017	Full Service	3023000	QUICKSILVER BRANCH	53610 STATE HIGHWAY 118	TERLINGUA	TX	79852	BREWSTER	UNITED STATES

e e-mail.

· via the FR Y-10 Online application - https://y10online.federalreserve.gov

FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	
Not Required	Not Required	WEST TEXAS NATIONAL BANK	237066	

Form FR Y-6

FIRST WEST TEXAS BANCSHARES, INC
MIDLAND, TX
Fiscal Year Ending 12/31/2017

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 MM/DD/YYYY			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 MM/DD/YYYY (but not at fiscal year-end)		
(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
J.L. DAVIS Midland, TX	USA	353,571, 80.030%	N/A	N/A	N/A
DAVID L. DAVIS Midland, TX	USA	37,391, 8.460%			
R. KEITH MOORE Midland, TX	USA	37,391, 8.460%			

Form FR Y-6

FIRST WEST TEXAS BANCSHARES, INC
MIDLAND, TX
Fiscal Year Ending 12/31/2017

Report Item 4: Insiders

(1) Name & 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 (including subsidiary name)	(3)(c) Title/Position with Other Businesses (including business name)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (including subsidiary name)	(4)(c) Percentage of Voting Securities in any other co. (including co. name) if ≥ 25%
J.L. DAVIS, MIDLAND, TX	ENGINEER	CHAIRMAN, DIRECTOR	WEST TEXAS NATIONAL BANK CHAIRMAN EMERITUS	WEST TEXAS GAS, INC DIRECTOR	80.030%	WEST TEXAS NATIONAL BANK, N/A	WEST TEXAS GAS, INC 100.000%
				AZTEC GAS , INC DIRECTOR			AZTEC GAS , INC 100.000%
				WTG GAS MARKETING, INC. DIRECTOR			WTG GAS MARKETING, INC., 100.000%
				WESTERN GAS INTERSTATE COMPANY DIRECTOR			WESTERN GAS INTERSTATE COMPANY, 100.000%
DAVID L. DAVIS, MIDLAND, TX	ENGINEER	EXECUTIVE VICE PRESIDENT, DIRECTOR	WEST TEXAS NATIONAL BANK CHAIRMAN,DIRECTOR	WEST TEXAS GAS, INC VICE PRESIDENT	8.460%	WEST TEXAS NATIONAL BANK, N/A	WEST TEXAS GAS, INC, N/A
				AZTEC GAS , INC VICE PRESIDENT			AZTEC GAS , INC, N/A
				WTG GAS MARKETING, INC. VICE PRESIDENT			WTG GAS MARKETING, INC., N/A
				WESTERN GAS INTERSTATE COMPANY VICE PRESIDENT			WESTERN GAS INTERSTATE COMPANY, N/A
R. KEITH MOORE, MIDLAND, TX	BANKER	PRESIDENT, DIRECTOR	WEST TEXAS NATIONAL BANK VICE CHAIRMAN,CEO,DIRECTOR	WEST TEXAS GAS, INC EXECUTIVE VICE PRESIDENT	8.460%	WEST TEXAS NATIONAL BANK, N/A	WEST TEXAS GAS, INC, N/A
				AZTEC GAS , INC VICE PRESIDENT			AZTEC GAS , INC, N/A
				WTG GAS MARKETING, INC. VICE PRESIDENT			WTG GAS MARKETING, INC. N/A
				WESTERN GAS INTERSTATE COMPANY VICE PRESIDENT			WESTERN GAS INTERSTATE COMPANY, N/A

FIRST WEST TEXAS BANCSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED
FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

together with

REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

FIRST WEST TEXAS BANCSHARES, INC. AND SUBSIDIARIES

CONTENTS

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors and Shareholders of
First West Texas Bancshares, Inc. and Subsidiaries

Report on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated financial statements of First West Texas Bancshares, Inc. and Subsidiaries (the Company) which comprises the consolidated statements of financial condition as of December 31, 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended and the related notes to the financial statements. We also have audited the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) and Consolidated Reports of Condition and income for a Bank with Domestic Offices Only (Call Report instructions), as of December 31, 2017 based on the criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

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 effective internal control over financial reporting relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit of the consolidated financial statements 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 and whether effective internal control over financial reporting was maintained in all material respects.

400 Pine St., Ste. 600 | Abilene, TX 79601-5190 | T 325.672.4000 | TF 800.588.2525 | F 325.672.7049 | EOE

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

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, with the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) and Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only (Call Report Instructions). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First West Texas Bancshares, Inc. and Subsidiaries as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017 based on the criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 43 through 51 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Matter

The consolidated financial statements of First West Texas Bancshares, Inc. and Subsidiaries as of and for the year ended December 31, 2016, were audited by Davis Kinard & Co, PC, who joined Eide Bailly LLP on December 4, 2017, and whose report dated March 6, 2017, expressed an unmodified opinion on those statements.

Eide Bailly LLP

Abilene, Texas
March 23, 2018

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Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control over Financial Reporting

First West Texas Bancshares, Inc. and Subsidiaries

Statement of Management's Responsibilities

The management of First West Texas Bancshares, Inc. and Subsidiaries (the Company) is responsible for preparing the Company's annual financial statements in accordaoce with accounting principles generally accepted in the United States of America; for designing, implementing, and maintaining an adequate internal control structure and procedures for financial reporting, including cont'ols over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C), with Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions); and for complying with the federal laws and regulations pertaining to insider loans and the foderal and, if applicable, state laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance With Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2017. Based upon its assessment, management has concluded that the Company complied with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2017.

Management's Assessment f Internal Control Over Financial Reporting

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial repo1ling and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., ConsoUdated Financial Statements for Bank Holding Companies (Form FR Y-9C) and Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to pcnnit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting ptrrposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and co1Tection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material cffect on the financial statements.

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h1temal conttol over financial reporting has inherent limitations. Internal control over :financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override.

Because of its inherent limitations, internal control over financial repo1ting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectjveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instrnctions for the Consolidated Financial Statements for Bank Holding Companies (Fonn FR Y-9C) and with the Federal Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions), as of December 31, 2017, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based upon its assessment, management has concluded that, as of December 31, 2017, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) and with the Federal Institutions Examination Council Instructions for Consolidated Reports of Condition and lncome (call report instructions), is effective based on the criteria established in *Internal Control-Integrated Framework*.

Management's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) and with the Federal Institutions Examination Council Instruction for Consolidated Reports of Conditjon and Income (call report instructions), as of December 31, 2017, has been audited by Eide Bailly, LLP, an independent public accounting finn, as stated in their report dated March 23, 2018.

Keith Moore
Vice Chairperson & CEO

Hank Elder
Senior Vice President & CFO

FIRST WEST TEXAS BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
December 31, 2017 and 2016

Assets	2017	2016
Cash and due from banks	$ 13,031,885	$ 40,244,546
Interest bearing deposits in banks	71,999,302	142,199,136
Securities available for sale, at fair value	524,207,715	552,992,820
Investment in partnerships	4,705,525	3,692,501
Investment in The Bank of River Oaks	500,000	500,000
Investment in statutory trusts	681,000	836,000
Loans receivable, net of allowance for loan losses of $10,515,944 in 2017 and $8,553,649 in 2016	574,411,914	425,123,710
Accrued interest receivable	5,630,521	4,518,676
Premises and equipment	10,127,016	10,118,214
Foreclosed assets	-	529,174
Cash surrender value of life insurance	15,620,211	15,207,088
Goodwill	8,987,095	8,987,095
Restricted investments held at cost	8,831,400	3,079,900
Other assets	2,157,005	2,226,184
	$ 1,240,890,589	$ 1,170,010,498
Liabilities and Shareholders' Equity		
Noninterest bearing	$ 553,991,959	$ 564,098,770
Interest bearing	516,303,198	530,730,082
Total deposits	1,070,295,157	1,094,828,852
Accrued expenses and other liabilities	5,140,595	4,437,027
Long term debt	17,975,000	19,250,000
Subordinated debentures	22,681,000	27,836,000
Federal funds purchased	50,000,000	-
Total liabilities	1,166,091,752	1,146,351,879
Shareholders' Equity		
Common stock, $1 par value; 1,000,000 shares authorized; 443,318 shares issued; 441,793 shares outstanding in 2017 and 2016, respectively	443,318	443,308
Capital surplus	47,313,663	47,312,673
Retained earnings	30,722,556	19,794,304
Treasury stock, at cost	(165,452)	(165,452)
Net unrealized depreciation on available for sale securities	(3,515,248)	(3,481,668)
Total shareholders' equity	74,798,837	63,903,165
	$ 1,240,890,589	$ 1,210,255,044

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

FIRST WEST TEXAS BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Income
Years ended December 31, 2017 and 2016

	2017	2016
Interest income		
Loans, including fees	$ 27,643,458	$ 22,466,141
Debt securities		
Taxable	8,373,201	7,335,637
Tax exempt	2,592,501	2,303,831
Deposits with banks	609,112	327,757
Total interest income	39,218,272	32,433,366
Interest expense		
Deposits	1,833,158	1,290,033
Federal funds purchased	25,045	-
Long term debt	1,225,812	675,867
Subordinated debentures	680,414	743,838
Total interest expense	3,764,429	2,709,738
Net interest income	35,453,843	29,723,628
Provision for loan losses	2,525,000	6,550,000
Net interest income after provision for loan losses	32,928,843	23,173,628
Noninterest income		
Service charges on deposit accounts	2,397,920	2,651,459
Other service charges and fees	2,315,484	2,017,837
Net realized gain on redemption of investment in partnerships	-	616,956
Net realized loss on sale of premises and equipment	(35,247)	-
Net realized gain on sale of foreclosed assets	75,818	-
Net appreciation in cash surrender value of life insurance	441,906	413,174
Net gain on extinguishment of debt	975,000	-
Other income	274,044	440,220
Total noninterest income	6,444,925	6,139,646
Noninterest expenses		
Salaries and employee benefits	11,468,863	10,236,634
Occupancy and equipment expense	2,996,987	2,744,330
Advertising	735,490	342,473
Data processing	2,206,237	1,271,882
Legal and professional	1,231,073	2,555,315
Other expense	4,478,917	5,311,812
Total noninterest expenses	23,117,567	22,462,446
Net income	$ 16,256,201	$ 6,850,828

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

FIRST WEST TEXAS BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years ended December 31, 2017 and 2016

		2017		2016
Net income	$	16,256,201	$	6,850,828
Other items of comprehensive income				
Change in unrealized depreciation on investment securities available for sale		(33,580)		(7,419,309)
Comprehensive income (loss)	$	16,222,621	$	(568,481)

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

FIRST WEST TEXAS BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Years ended December 31, 2017 and 2016

		Common Stock		Capital Surplus
Balance at January 1, 2016	$	443,308	$	47,312,673
Net income				
Dividends paid				
Net changes in unrealized depreciation on available for sale securities				
Balance at December 31, 2016		443,308		47,312,673
Net income				
Sale of common stock		10		990
Dividends paid				
Net changes in unrealized depreciation on available for sale securities				
Balance at December 31, 2017	$	443,318	$	47,313,663

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

Retained Earnings		Treasury Stock		Net Unrealized (Depreciation) Appreciation on Available for Sale Securities		Total Shareholders' Equity
$ 16,946,029	$	(165,452)	$	3,937,641	$	68,474,199
6,850,828						6,850,828
(4,002,553)						(4,002,553)
				(7,419,309)		(7,419,309)
19,794,304		(165,452)		(3,481,668)		63,903,165
16,256,201						16,256,201
						1,000
(5,327,949)						(5,327,949)
				(33,580)		(33,580)
$ 30,722,556	$	(165,452)	$	(3,515,248)	$	74,798,837

FIRST WEST TEXAS BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net income	$ 16,256,201	$ 6,850,828
Adjustments to reconcile net income to		
net cash provided by operating activities		
Provision for loan losses	2,525,000	6,550,000
Net amortization of securities	1,847,549	1,899,014
Depreciation	867,409	877,334
Net gain on sale of foreclosed assets	(75,818)	-
Net loss on sale of premises and equipment	35,247	-
Activity in other investment in partnerships	-	(616,956)
Net appreciation in cash surrender value of life insurance	(413,123)	(413,174)
Net gain on extinguishment of debt	(975,000)	-
FHLB stock dividends	(8,000)	(2,300)
Net change in		
Accrued interest receivable	(1,111,845)	(113,413)
Other assets	69,179	674,493
Accrued expenses and other liabilities	703,568	181,835
Net cash provided by operating activities	19,720,367	15,887,661
Cash flows from investing activities		
Net change in interest bearing deposits in banks	70,199,834	(61,892,466)
Activity in available for sale securities		
Maturities, prepayments and calls	104,529,931	202,853,408
Purchases	(81,650,955)	(305,781,889)
Activity in other investments in partnerships		
Sales	182,186	936,149
Purchases	(1,195,210)	(1,757,160)
Net change in restricted investments held at cost	(5,743,500)	(176,100)
Loan originations and principal collections, net	(151,813,204)	81,464,983
Proceeds from sale of foreclosed assets	604,992	-
Proceeds from sales of premises and equipment	177,531	-
Additions to premises and equipment	(1,088,989)	(603,174)
Net cash used in investing activities	(65,797,384)	(84,956,249)
Cash flows from financing activities		
Net change in federal funds purchased	50,000,000	-
Net (decrease) increase in deposits	(24,533,695)	37,812,729
Proceeds from long term debt	-	3,250,000
Repayment of long term debt	(1,275,000)	-
Sale of common stock	1,000	-
Dividends paid	(5,327,949)	(4,002,553)
Net cash provided by financing activities	18,864,356	37,060,176
Net change in cash and cash equivalents	(27,212,661)	(32,008,412)
Cash and cash equivalents at beginning of year	40,244,546	72,252,958
Cash and cash equivalents at end of year	$ 13,031,885	$ 40,244,546
Supplementary cash flow information		
Interest paid	$ 3,697,995	$ 2,788,723
Change in value of available for sale securities	(33,580)	(7,419,309)
Cancellation of trust preferred securities in exchange		
for available for sale securities	5,155,000	-
Exchange of securities for cancellation of debt	4,025,000	-
Redemption of statutory trust	155,000	-

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

Note 1: Summary of Significant Accounting Policies

Nature of Operations

First West Texas Bancshares, Inc. (the Company) and its subsidiary, West Texas National Bank (the Bank), provide loans and banking services to consumers and commercial customers throughout west Texas. The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles and to general practices of the banking industry. Policies and practices which materially affect the determination of financial position, results of operations and cash flows are summarized as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial position and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of foreclosed assets.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within the Texas cities of Midland and Odessa, and their surrounding areas. Note 2 discusses the types of securities in which the Company invests. Note 3 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations to any one industry or customer.

The Company carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. At December 31, 2017 and 2016, the deposits, as reported by the banks, were $9,999,731 and $38,882,845, respectively. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Company.

Cash and Cash Equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the statement of financial condition captions cash and due from banks and federal funds sold. Generally, federal funds are purchased and sold in one-day periods.

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. The Company properly maintained amounts in excess of required reserves of $0 and $4,797,000 as of December 31, 2017 and 2016, respectively.

Interest Bearing Deposits in Banks

Interest bearing deposits in banks mature within one year and are carried at cost.

Note 1: Summary of Significant Accounting Policies – continued

Securities

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. The Company had no held-to-maturity securities at December 31, 2017 or 2016.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers whether the Company intends to sell the security or will, more likely than not, have to sell the security before its fair value is recovered. If either of these conditions is met, an other-than-temporary impairment is recognized.

Loans

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

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off which are measured at historical cost are generally reported at their outstanding unpaid principal balances net of any unearned income, charge-offs, and unamortized deferred fees and costs on originated loans. Interest income is accrued on the unpaid principal balance. Under generally accepted accounting principles, loan origination fees and certain direct origination costs are deferred and recognized as adjustments to interest income over the lives of the related loans. Management believes not deferring such fees and costs and amortizing them over the life of the related loan does not materially affect the Company's financial position or results of operations. Unearned income is amortized to interest income using a level yield methodology.

The Company makes disclosures of loans and other financing receivables and the related allowance in accordance with ASC 310. The guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk. The Company's portfolio segments are real estate, agriculture, commercial, consumer and home equity. Each portfolio segment contains a single class of financing receivables. Under this accounting guidance, the allowance is presented by portfolio segment.

Note 1: Summary of Significant Accounting Policies – continued

Troubled Debt Restructured Loans

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.

Allowance for Loan Losses

The allowance for credit losses, which includes the allowance for loan losses and the reserve for unfunded lending commitments, represents management's estimate of probable losses inherent in the Company's lending activities. The allowance for loan losses does not include amounts related to accrued interest receivable as accrued interest receivable is reversed when a loan is placed on nonaccrual status.

The allowance for loan losses represents the estimated probable credit losses in funded consumer and commercial loans while the reserve for unfunded lending commitments, including standby letters of credit and binding unfunded loan commitments, represents estimated probable credit losses on these unfunded credit instruments based on utilization assumptions. Credit exposures deemed to be uncollectible are charged against these accounts. Cash recovered on previously charged off amounts is recorded as a recovery to these accounts. Management evaluates the adequacy of the allowance for loan losses based on the combined total of these two components.

The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and assess the overall collectability of those portfolios. The allowance on certain homogenous loan portfolios is based on aggregated portfolio segment evaluations. Loss forecast models are utilized for these portfolios which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, bankruptcies, economic conditions and credit scores.

The Company's real estate portfolio segment is comprised primarily of homogenous loans secured by residential and commercial real estate. The amount of losses incurred in the homogenous loan pools is estimated based upon how many of the loans will default and the loss in the event of default. Using modeling methodologies, the Company estimates how many of the homogenous loans will default based on the individual loans' attributes aggregated into pools of homogenous loans with similar attributes. The attributes that are most significant to the probability of default and are used to estimate default include the risk ratings, historical loss, product type, and geography. The estimate is based on the Company's historical experience with the loan portfolio. The estimate is adjusted to reflect an assessment of environmental factors that are not reflected in the historical data in real estate values, local and national economies, underwriting standards and the regulatory environment.

The allowance on the remaining portfolio segments (agriculture, commercial, consumer and home equity) is calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Note 1: Summary of Significant Accounting Policies – continued

Allowance for Loan Losses – continued

Nonperforming loans are reviewed in accordance with applicable accounting guidance on impaired loans and troubled debt restructurings (TDRs). If necessary a specific allowance is established for these loans if they are deemed to be impaired. 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 the circumstances surrounding the loan and the borrower, including the length of delay, the reason 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 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.

For such 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 the loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject of a restructuring agreement.

In addition to the allowance for loan losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company’s internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, utilization assumptions, current economic conditions, performance trends within the portfolio and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments.

The allowance for credit losses related to the loan portfolio is reported as a part of loans in the consolidated statement of financial condition whereas the reserve for unfunded lending commitments is reported on the consolidated statement of financial condition in accrued expenses and other liabilities. Provision for credit losses related to the loan portfolio and unfunded lending commitments is reported separately in the consolidated statement of income.

Note 1: Summary of Significant Accounting Policies – continued

Nonperforming Loans, Charge-Offs and Delinquencies

Nonperforming loans generally include loans that have been placed on nonaccrual status including nonaccrual loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

The entire balance of a loan is contractually delinquent if the minimum payment is not received by the specified due date on the customer's billing statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

The outstanding balance of real estate secured loans within the residential real estate portfolio segment that is in excess of the estimated property value, less estimated costs to sell, is charged off no later than the end of the month in which the account becomes 180 days past due. The outstanding balance of real estate secured loans within the commercial real estate portfolio segment that is in excess of the present value of future cash flows discounted at the loan's effective rate, or as a practical expedient for collateral dependent loans, is charged off no later than the end of the month in which the account is determined to be impaired. The estimated property value is determined utilizing appraisals or broker price opinions of the fair value of the collateral. The present value of future cash flows is calculated in accordance with the guidance outlined in ASC 310-10.

The outstanding balance of consumer and other loans, that include overdrafts and credit cards, are treated in accordance with OCC Bulletin 2000-20, Uniform Retail Credit Classification and Account Management. Overdrafts are charged-off when it is determined recovery is not likely or the overdraft becomes 45 days old, whichever comes first.

The outstanding balance of secured commercial loans, are written down to the fair value of the collateral upon determination that all or a portion of any loan balance is uncollectible. The fair value of the collateral is estimated by management based on current financial information, inspections, and appraisals. The outstanding balance of unsecured commercial loans are charged off no later than the end of the month in which the account becomes 120 days past due.

Loans within all portfolio segments are generally placed on nonaccrual status and classified as nonperforming at 90 days past due. Accrued interest receivable is reversed when a loan is placed on nonaccrual status. Interest collections on nonaccruing loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to interest income when received. These loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

Loans whose contractual terms have been modified in a TDR and are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and repayment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and reported as nonperforming until there is sustained repayment performance for a reasonable period, generally six months. TDRs that are on accrual status are reported as performing TDRs through the end of the calendar year in which the restructuring occurred or the year in which the loans are returned to accrual status. In addition, if accruing TDRs bear less than a market rate of interest at the time of modification, they are reported as performing TDRs throughout the remaining lives of the loans.

Note 1: Summary of Significant Accounting Policies – continued

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished and, for loan participations sold, incoming cash flows on the base loan are allocated to all participants on a pro-rata basis. Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Financial Instruments

In the ordinary course of business the Company has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. All write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell and depreciation is not recorded. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value and depreciated based on the remaining useful life. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Banking Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter.

Treasury Stock

Treasury stock is accounted for on the cost method and consists of 1,525 shares in 2017 and 2016.

Cash Surrender Value of Life Insurance

Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for contract value. The adjustment to contract value increases or decreases the carrying value of the policies and is recorded as an income or expense on the consolidated statement of income.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2017 and 2016 amounted to $735,490 and $342,473, respectively.

Note 1: Summary of Significant Accounting Policies – continued

Restricted Investments Held at Cost

The Company owns stock in several entities that are restricted from sale or have limitations on redemptions imposed by the entities. Many times the entities require a minimum level of investment to conduct business with the entity. The investments are carried at cost, which approximates its fair value.

Investment in The Bank of River Oaks

The Company invested in a 2.3% interest in The Bank of River Oaks. Because the fair value of the investment is not readily determinable, it is held at cost and evaluated for other-than-temporary impairment annually. Impairment should be considered other-than-temporary unless the investor has the intent and ability to hold the investment for a reasonable period considered sufficient for a forecasted recovery in fair value, and evidence that the cost of the investment is recoverable within the reasonable period outweighs evidence to the contrary. There were no reductions of the recorded investment due to impairment for the years ended December 31, 2017 and 2016.

Investment in Partnerships

In 2006, the Company purchased a partnership interest in Lone Star Growth Capital, L.P. for $300,000 and committed to purchase a total of $1,000,000 as requested from the partnership. At December 31, 2017 and 2016, the carrying value of the investment in the partnership was $699,360.

In 2011, the Company purchased a partnership interest in Valesco Commerce Street Capital, L.P. for $177,565 and committed to purchase a total of $1,500,000. At December 31, 2017, the carrying value of the investment in the partnership was $360,608. At December 31, 2016, the carrying value of the investment in the partnership was $390,288.

In 2013, the Company purchased a partnership interest in Lone Star Opportunity Fund V, L.P. for $100,000 and committed to purchase a total of $1,000,000. At December 31, 2017 and 2016, the carrying value of the investment in the partnership was $750,000 and $550,000, respectively.

In 2013, the Company purchased a partnership interest in Pharos Capital Partners III-A, L.P. for $110,000 and committed to purchase a total of $1,000,000. At December 31, 2017 and 2016 the carrying value of the investment in the partnership was $410,000.

In 2014, the Company purchased a partnership interest in Bluehenge Secured Debt SBIC, L.P. for $272,727 and committed to purchase a total of $3,000,000. At December 31, 2017, the carrying value of the investment in the partnership was $1,433,465. At December 31, 2016, the carrying value of the investment in the partnership was $824,813.

In 2016, the Company purchased a partnership interest in Valesco Commerce Street Capital, LP for $104,519 and committed to purchase a total of $1,500,000. At December 31, 2017, the carrying value of the investment in the partnership was $399,490. At December 31, 2016, the carrying value of the investment in the partnership was $168,040.

In 2016, the Company purchased a partnership interest in Solomon Hess SBA Loan Fund LLC for $650,000. At December 31, 2017 and 2016, the carrying value of the investment in the partnership was $650,000.

Note 1: Summary of Significant Accounting Policies – continued

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated statement of financial condition and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation.

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance (FASB ASC 815, *Derivatives and Hedging).* Loan commitments that are derivatives are recognized at fair value on the consolidated statement of financial condition in other assets and other liabilities with changes in their fair values recorded in noninterest income.

Federal Home Loan Bank Stock

The Company's investment in Federal Home Loan Bank (FHLB) stock is a restricted investment carried at cost ($100 per share par value), which approximates its fair value. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. The Company may request redemption at par value of any stock in excess of the amount it is required to hold. Stock redemptions are made at the discretion of FHLB. The net investment of purchases and redemptions totaled $6,221,900 and $470,400 for the years ended December 31, 2017 and 2016, respectively.

Federal Reserve Bank Stock

The Company's investment in Federal Reserve Bank stock is a restricted investment carried at cost ($50 per share par value), which approximates its fair value. The net investment of purchases and redemptions totaled $2,538,000 for the years ended December 31, 2017 and 2016.

Forward Loan Sale Commitments

The Company carefully evaluates all loan sales agreements to determine whether they meet the definition of a derivative under the derivatives and hedging accounting guidance (FASB ASC 815) as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company utilizes "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

Accordingly, forward loan sale commitments are recognized at fair value on the consolidated statement of financial condition in other assets and liabilities with changes in their fair values recorded in other noninterest income.

The Company estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Note 1: Summary of Significant Accounting Policies – continued

Income Taxes

The Company files a federal income tax return on a calendar year basis. The Company is organized as an S-corporation and the entity is not liable for income taxes. All income and losses are passed through the shareholders of the Company.

In May of 2006, the State of Texas implemented a new tax on taxable margin, effective for years ended after December 31, 2006. For the Company, taxable margin is revenue less interest expense. The margin tax was insignificant for the years ended December 31, 2017 and 2016. This tax is current and does not have a deferred tax component.

The Company recognizes interest accrued on and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2017 and 2016 the Company recognized no interest and penalties. Based on management's analysis, the Company did not have any uncertain tax positions as of December 31, 2017 and 2016. The Company files income tax returns in the U.S. federal jurisdiction and the state of Texas. There are currently no income tax examinations underway for these jurisdictions. The Company's income tax returns are subject to examination by the relevant taxing authorities as follows: U.S. federal income tax returns for tax years 2014 and forward; Texas income and margin tax returns for tax years 2013 and forward.

Note 2: Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2017			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities				
Mortgage-backed - government	$ 193,136,077	$ 252,186	$ (1,737,627)	$ 191,650,636
U.S. government and agency	139,970,481	-	(2,169,181)	137,801,300
Municipal government obligation	139,459,452	1,541,841	(1,017,634)	139,983,659
U.S. treasury securities	55,083,646	-	(389,746)	54,693,900
Total debt securities	527,649,656	1,794,027	(5,314,188)	524,129,495
Equity securities	73,307	4,913	-	78,220
Total securities available for sale	$ 527,722,963	$ 1,798,940	$ (5,314,188)	$ 524,207,715

	December 31, 2016			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities				
Mortgage-backed - government	$ 221,861,220	$ 324,458	$ (2,671,044)	$ 219,514,634
U.S. government and agency	138,950,246	-	(2,103,746)	136,846,500
Municipal government obligation	131,519,450	1,872,927	(913,564)	132,478,813
U.S. treasury securities	60,118,572	20,600	(11,299)	60,127,873
Corporate bond	4,025,000	-	-	4,025,000
Total debt securities	556,474,488	2,217,985	(5,699,653)	552,992,820
Total securities available for sale	$ 556,474,488	$ 2,217,985	$ (5,699,653)	$ 552,992,820

Note 2: Securities – continued

During the year ended December 31, 2017, the Company exchanged $4,025,000 in securities for the cancellation of trust preferred securities of $5,155,000 and recognized a gain of $975,000. In conjunction with this, they redeemed the investment of $155,000 in the First West Texas Statutory Trust I. For the years ended December 31, 2017 and 2016, there were no sales of securities available for sale.

At December 31, 2017 and 2016, there were no securities pledged to secure public deposits.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2017, follows.

	Amortized Cost	Fair Value
Due in one year or less	$ 39,849,638	$ 39,756,481
Due from one to five years	204,852,613	202,075,242
Due from five to ten years	68,820,099	69,220,015
After ten years	20,991,229	21,427,121
Mortgage-backed securities	193,136,077	191,650,636
	$ 527,649,656	$ 524,129,495

Temporarily impaired securities

The following table shows the 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 category 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 longer	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency (13)	$ 34,857,650	$ (137,150)	$ 102,943,650	$ (2,032,031)
U.S. treasury securities (2)	54,693,900	(389,746)	-	-
Mortgage-backed - government (26)	137,802,777	(973,784)	19,502,308	(763,843)
Municipal government obligation (159)	47,454,086	(592,451)	20,066,084	(425,183)
Total	$ 274,808,413	$ (2,093,131)	$ 142,512,042	$ (3,221,057)

Note 2: Securities – continued

	December 31, 2016			
	Less than 12 months		12 months or longer	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency (11)	$ 112,846,500	$ (2,103,747)	$ -	$ -
U.S. treasury securities (3)	30,100,779	(11,299)	-	-
Mortgage-backed - government (21)	174,528,827	(2,055,289)	11,495,490	(615,755)
Municipal government obligation (102)	42,823,450	(864,354)	5,768,426	(49,210)
Total	$ 360,299,556	$ (5,034,689)	$ 17,263,916	$ (664,965)

Mortgage-backed securities

The unrealized losses on the Company's investment in mortgage-backed securities were caused by interest rate increases and increases in prepayment speeds. The Company purchased those investments at a discount relative to their face amount. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and increases in prepayment speeds and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that 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 and 2016.

Municipal government obligations

The unrealized losses on the Company's investment in municipal government obligations securities were caused by interest rate increases. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that 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 and 2016.

U.S. Government and agency

The unrealized losses on the Company's investment in U.S. government and agency securities were caused by interest rate increases. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that 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 and 2016.

Note 2: Securities – continued

U.S. Treasury securities

The unrealized losses on the Company's investment in U.S. Treasury securities were caused by interest rate increases. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that 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 and 2016.

Other-than-temporary impairment

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) evaluation by the Company of (a) its intent to sell a debt security prior to recovery and (b) whether it is more likely than not the Company will have to sell the debt security prior to recovery. As of December 31, 2017 and 2016, no investment securities were other-than-temporarily impaired.

Note 3: Loans

A summary of the balances of loans follows:

	December 31,	
	2017	2016
Real estate	$ 271,189,100	$ 250,501,862
Agriculture	16,556,241	16,613,499
Commercial	283,073,505	146,886,542
Consumer	13,482,115	19,519,982
Home equity	626,897	155,474
	584,927,858	433,677,359
Less: Allowance for loan losses	(10,515,944)	(8,553,649)
Loans, net	$ 574,411,914	$ 425,123,710

Note 3: Loans - continued

The following table sets forth information regarding the activity in the allowance for loans losses for the year ended December 31, 2017 (in thousands):

	December 31, 2017					
	Real Estate	Agriculture	Commercial	Consumer	Home Equity	Total
Allowance for credit losses:						
Beginning balance	$ 7,134	$ 592	$ 643	$ 22	$ 163	$ 8,554
Charge-offs	-	-	(456)	(500)	-	(956)
Recoveries	-	155	35	203	-	393
Provision	-	375	1,200	950	-	2,525
Ending balance	$ 7,134	$ 1,122	$ 1,422	$ 675	$ 163	$ 10,516
Ending balance allocated to loans individually evaluated for impairment	$ 622	$ -	$ -	$ 6	$ -	$ 628
Ending balance allocated to loans collectively evaluated for impairment	$ 6,512	$ 1,122	$ 1,422	$ 669	$ 163	$ 9,888
Loans receivable						
Ending balance of loans individually evaluated for impairment	$ 8,017	$ -	$ 2,995	$ 66	$ -	$ 11,078
Ending balance of loans collectively evaluated for impairment	263,172	16,556	280,079	13,416	627	573,850
Ending balance	$ 271,189	$ 16,556	$ 283,074	$ 13,482	$ 627	$ 584,928

Note 3: Loans – continued

The following table sets forth information regarding the activity in the allowance for loans losses for the year ended December 31, 2016 (in thousands):

	December 31, 2016					
	Real Estate	Agriculture	Commercial	Consumer	Home Equity	Total
Allowance for credit losses:						
Beginning balance	$ 6,877	$ 1,159	$ (546)	$ (22)	$ 163	$ 7,631
Charge-offs	(1)	(2,848)	(2,978)	(721)	-	(6,548)
Recoveries	258	38	405	220	-	921
Provision	-	2,243	3,762	545	-	6,550
Ending balance	$ 7,134	$ 592	$ 643	$ 22	$ 163	$ 8,554
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ 14	$ -	$ 14
Ending balance allocated to loans collectively evaluated for impairment	$ 7,134	$ 592	$ 643	$ 8	$ 163	$ 8,540
Loans receivable						
Ending balance of loans individually evaluated for impairment	$ 8,405	$ -	$ 3,016	$ 94	$ -	$ 11,515
Ending balance of loans collectively evaluated for impairment	242,097	16,613	143,871	19,426	155	422,162
Ending balance	$ 250,502	$ 16,613	$ 146,887	$ 19,520	$ 155	$ 433,677

The Company monitors credit quality within its portfolio segments based on primary credit quality indicators. All of the Company's loans are evaluated using pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans that are internally classified or listed by the Company as special mention, substandard, doubtful or loss. These assets pose an elevated risk and may have a high probability of default or total loss.

Note 3: Loans – continued

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company’s position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual.

Credits rated loss are those that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Pass rated refers to loans that are not considered criticized. In addition to this primary credit quality indicator, the Company uses other credit quality indicators for certain types of loans.

Note 3: Loans – continued

The following tables set forth information regarding the internal classifications of the loan portfolio, the primary credit quality indicator, as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017					
	Internal Loan Grade					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
Construction	$ 47,076	$ -	$ -	$ -	$ -	$ 47,076
Agricultural	27,946	-	542	-	-	28,488
1-4 Residential	51,632	124	1,043	-	-	52,799
Commercial	135,075	948	6,803	-	-	142,826
Agriculture	16,212	344	-	-	-	16,556
Commercial	253,113	8,641	21,320	-	-	283,074
Consumer	12,874	233	356	19	-	13,482
Home equity	627	-	-	-	-	627
Total	$ 544,555	$ 10,290	$ 30,064	$ 19	$ -	$ 584,928

	December 31, 2016					
	Internal Loan Grade					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
Construction	$ 32,298	$ -	$ -	$ -	$ -	$ 32,298
Agricultural	25,912	-	629	-	-	26,541
1-4 Residential	48,175	650	740	-	-	49,565
Commercial	134,321	222	7,555	-	-	142,098
Agriculture	16,365	248	-	-	-	16,613
Commercial	107,219	20,125	19,543	-	-	146,887
Consumer	18,965	258	297	-	-	19,520
Home equity	155	-	-	-	-	155
Total	$ 383,410	$ 21,503	$ 28,764	$ -	$ -	$ 433,677

Note 3: Loans – continued

The following table sets forth information regarding the credit risk profile based on payment activity of the loan portfolio, as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017			December 31, 2016		
	Credit Risk Profile Based on Payment Activity			Credit Risk Profile Based on Payment Activity		
	Performing	Non-Performing	Total	Performing	Non-Performing	Total
Real estate:						
Construction	$ 47,076	$ -	$ 47,076	$ 32,298	$ -	$ 32,298
Agricultural	28,096	392	28,488	26,116	425	26,541
1-4 Residential	51,885	914	52,799	48,872	693	49,565
Commercial	136,086	6,740	142,826	134,776	7,322	142,098
Agriculture	16,556	-	16,556	16,613	-	16,613
Commercial	281,662	1,412	283,074	143,804	3,083	146,887
Consumer	13,282	200	13,482	19,309	211	19,520
Home equity	627	-	627	155	-	155
Total	$ 575,270	$ 9,658	$ 584,928	$ 421,943	$ 11,734	$ 433,677

The following table sets forth information regarding the delinquencies within the loan portfolio as of December 31, 2017 (in thousands):

	December 31, 2017					
	30-89 Days Past Due	90 Days and Greater (and non accrual loans)	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Real estate:						
Construction	$ -	$ -	$ -	$ 47,076	$ 47,076	$ -
Agricultural	-	392	392	28,096	28,488	-
1-4 Residential	556	914	1,470	51,329	52,799	-
Commercial	-	6,740	6,740	136,086	142,826	-
Agriculture	16	-	16	16,540	16,556	-
Commercial	771	1,412	2,183	280,891	283,074	-
Consumer	317	200	517	12,965	13,482	-
Home equity	-	-	-	627	627	-
Total	$ 1,660	$ 9,658	$ 11,318	$ 573,610	$ 584,928	$ -

Note 3: Loans – continued

The following table sets forth information regarding the delinquencies within the loan portfolio as of December 31, 2016 (in thousands):

	December 31, 2016					
	30-89 Days Past Due	90 Days and Greater (and non accrual loans)	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Real estate:						
Construction	$ -	$ -	$ -	$ 32,298	$ 32,298	$ -
Agricultural	29	425	454	26,087	26,541	-
1-4 Residential	335	693	1,028	48,537	49,565	-
Commercial	234	7,322	7,556	134,542	142,098	-
Agriculture	-	-	-	16,613	16,613	-
Commercial	2,006	3,083	5,089	141,798	146,887	-
Consumer	740	211	951	18,569	19,520	-
Home equity	-	-	-	155	155	-
Total	$ 3,344	$ 11,734	$ 15,078	$ 418,599	$ 433,677	$ -

The following table sets forth information regarding the nonaccrual status within the loan portfolio as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Real estate:		
Construction	$ -	$ -
Agricultural	392	425
1-4 Residential	913	693
Commercial	6,740	7,322
Agriculture	-	-
Commercial	1,412	3,083
Consumer	200	211
Home equity	-	-
Total	$ 9,657	$ 11,734

A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings when concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. There was no interest income recognized on a cash basis on impaired loans in the years ended December 31, 2017 and 2016.

Note 3: Loans – continued

The following table sets forth information regarding impaired loans as of December 31, 2017:

	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate					
Construction	$ -	$ -	$ -	$ -	$ -
Agricultural	392,418	392,418	-	408,968	-
1-4 Residential	884,581	993,627	-	771,058	-
Commercial	21,763	33,697	-	3,671,739	-
Agriculture	-	-	-	-	-
Commercial	2,995,164	3,857,213	-	3,005,619	79,403
Consumer	42,012	54,220	-	35,449	-
Home equity	-	-	-	-	-
With a related allowance:					
Real estate					
Construction	-	-	-	-	-
Agricultural	-	-	-	-	-
1-4 Residential	-	-	-	-	-
Commercial	6,718,282	6,998,282	622,039	3,359,141	-
Agriculture	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	23,758	24,032	5,758	-	-
Home equity	-	-	-	-	-
Total:					
Real estate					
Construction	-	-	-	-	-
Agricultural	392,418	392,418	-	408,968	-
1-4 Residential	884,581	993,627	-	771,058	-
Commercial	6,740,045	7,031,979	622,039	7,030,880	-
Agriculture	-	-	-	-	-
Commercial	2,995,164	3,857,213	-	3,005,619	79,403
Consumer	65,770	78,252	5,758	35,449	-
Home equity	-	-	-	-	-
	$ 11,077,978	$ 12,353,489	$ 627,797	$ 11,251,974	$ 79,403

Note 3: Loans – continued

The following table sets forth information regarding impaired loans as of December 31, 2016:

	December 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate					
Construction	$ -	$ -	$ -	$ -	$ -
Agricultural	425,517	425,517	-	212,759	-
1-4 Residential	657,535	657,535	-	572,147	21,330
Commercial	7,321,715	7,321,715	-	3,708,101	8,437
Agriculture	-	-	-	-	-
Commercial	3,016,074	3,016,074	-	4,027,936	231,718
Consumer	28,885	28,885	-	20,019	-
Home equity	-	-	-	-	-
With a related allowance:					
Real estate					
Construction	-	-	-	-	-
Agricultural	-	-	-	-	-
1-4 Residential	-	-	-	-	-
Commercial	-	-	-	-	-
Agriculture	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	65,689	65,689	14,389	-	7,531
Home equity	-	-	-	-	-
Total:					
Real estate					
Construction	-	-	-	-	-
Agricultural	425,517	425,517	-	212,759	-
1-4 Residential	657,535	657,535	-	572,148	21,330
Commercial	7,321,715	7,321,715	-	3,708,101	8,437
Agriculture	-	-	-	-	-
Commercial	3,016,074	3,016,074	-	4,027,936	231,718
Consumer	94,574	94,574	14,389	20,019	7,531
Home equity	-	-	-	-	-
	$ 11,515,415	$ 11,515,415	$ 14,389	$ 8,540,963	$ 269,016

Note 3: Loans – continued

The recorded investment in troubled debt restructurings were $1,758,796 and $581,948 as of December 31, 2017 and 2016, respectively, of which $-0- was delinquent based on their revised terms at December 31, 2017. The Company has no current commitments to loan additional funds to the borrowers whose loans have been modified. The following table sets forth information regarding troubled debt restructurings for the years ended December 31, 2017 and 2016. The modifications were for extended payment terms that exceeded policy limits.

	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		2017	
Troubled Debt Restructuring			
Real estate			
1-4 families	1	$ 128,377	$ 128,377
Commercial	3	1,864,745	1,630,419
		2016	
Troubled Debt Restructuring			
Real estate			
1-4 families	3	$ 515,079	$ 515,079
Commercial	1	66,869	66,869

There were no defaults of troubled debt restructuring during the years ended December 31, 2017 or 2016.

Note 4: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31, 2017	December 31, 2016
Land	$ 1,370,482	$ 1,370,482
Bank premises	12,987,467	12,820,007
Furniture and equipment	10,302,427	12,642,086
Construction in process	173,677	283,381
	24,834,053	27,115,956
Accumulated depreciation	(14,707,037)	(16,997,742)
	$ 10,127,016	$ 10,118,214

Depreciation expense for the years ended December 31, 2017 and 2016 amounted to $867,409 and $877,334, respectively.

Note 5: Deposits

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2017 and 2016 was $40,056,698 and $37,243,159, respectively.

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

2018	$	71,192,733
2019		9,963,715
2020		5,708,298
2021		3,496,937
2022 and thereafter		3,597,629
Total	$	93,959,312

Note 6: Off-Balance-Sheet Activities - Credit-Related Financial Instruments

The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statement of financial condition.

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

At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2017	2016
Commitments to extend credit	$ 72,638,000	$ 110,055,000
Standby letters of credit	7,407,000	6,645,000
FHLB standby letters of credit	128,350,000	136,500,000

Commitments to extend credit 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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Note 6: Off-Balance-Sheet Activities - Credit-Related Financial Instruments – continued

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary. As an alternative to pledging investment securities for public funds, the Company offers standby letters of credit issued by FHLB. The Company does not anticipate that any standby letter of credit will be funded; however, if funding does occur, an appropriate term and interest rate will be determined by FHLB at that time.

The Company has no other off-balance-sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the financial statements.

Note 7: Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company’s consolidated financial statements.

Note 8: Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates.

Annual activity consisted of the following:

	December 31,	
	2017	2016
Beginning balance	$ 1,024,476	$ 94,577
Additions	8,137,792	979,370
Repayments	(209,916)	(49,471)
Ending Balance	$ 8,952,352	$ 1,024,476

Deposits from related parties held by the Company at December 31, 2017 and 2016 amounted to $45,181,292 and $34,855,169, respectively.

Note 9: Minimum Regulatory Capital Requirements

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and additionally for banks prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015, subject to a phase-in for certain provisions. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of common quality tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined).

The Bank's regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock, related paid-in-capital and retained earnings; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital – consisting of a permissible portion of the allowance for loan losses; and 4) total capital – the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income/less in common equity tier 1 capital.

When fully phased in on January 1, 2019, the Basel III capital rules will require the Bank to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity tier 1 capital to risk-weighted assets of 7.0% upon full phase in). The Bank will also be required to maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer phases in at 0.625% annually over a four year period beginning January 1, 2016, and is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2017 and 2016 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital rules have been fully passed-in, and include the capital conservation buffer. Capital levels required to be considered well capitalized are based on prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules.

Note 9: Minimum Regulatory Capital Requirements – continued

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are also presented in the table (in thousands):

	Actual		Minimum required for capital adequacy purposes - Basel III phase-in schedule		Minimum required for capital adequacy purposes - Basel III fully phased-in		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
				(dollars in thousands)				
December 31, 2017								
Total Risk-Based Capital to Risk Weighted Assets								
Consolidated	$ 100,454	14.0 %	$ 66,298	9.3 %	$ 75,257	10.5 %	$ 71,674	10.0 %
Bank	117,531	16.4	66,175	9.3	75,117	10.5	71,540	10.0
Common Equity Tier I Capital (CETI) to Risk Weighted Assets								
Consolidated	69,471	9.7	41,212	5.8	50,171	7.0	46,588	6.5
Bank	108,565	15.2	41,136	5.8	50,078	7.0	46,501	6.5
Tier I Capital to Risk Weighted Assets								
Consolidated	90,286	12.6	51,963	7.3	60,922	8.5	57,339	8.0
Bank	108,565	15.2	51,867	7.3	60,809	8.5	57,232	8.0
Tier I Capital to Adjusted Total Assets								
Consolidated	90,286	7.4	48,788	4.0	48,788	4.0	60,985	5.0
Bank	108,565	8.6	50,447	4.0	50,447	5.0	63,059	5.0
December 31, 2016								
Total Risk-Based Capital to Risk Weighted Assets								
Consolidated	$ 86,098	14.3 %	$ 52,011	8.6 %	$ 63,317	10.5 %	$ 60,302	10.0 %
Bank	107,267	18.0	51,529	8.6	62,731	10.5	59,744	10.0
Common Equity Tier I Capital (CETI) to Risk Weighted Assets								
Consolidated	58,543	9.7	30,905	5.1	42,212	7.0	39,196	6.5
Bank	99,781	16.7	30,619	5.1	41,821	7.0	38,834	6.5
Tier I Capital to Risk Weighted Assets								
Consolidated	78,057	12.9	39,950	6.6	51,257	8.5	48,242	8.0
Bank	99,781	16.7	39,581	6.6	50,783	8.5	47,795	8.0
Tier I Capital to Adjusted Total Assets								
Consolidated	78,057	6.7	46,442	4.0	46,442	4.0	58,053	5.0
Bank	99,781	8.7	46,114	4.0	46,114	4.0	57,642	5.0

Note 10: Restrictions on Dividends

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. Such regulations generally restrict cash dividends for the year 2018 to the extent of the Bank's earnings for 2017 plus $10,670,756 of available earnings from prior years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Note 11: Employee Benefit Plans

Profit-Sharing Plan

The Company has a profit-sharing plan covering substantially all employees. The plan is a qualified salary reduction plan under Section 401(k) of the Internal Revenue Code, which allows deferral of compensation, effective January 1, 1987. The plan became effective February 29, 2000.

Under this plan, the Company's annual contribution to the plan cannot exceed five percent (5%) of eligible compensation, three percent (3%) of which is nondiscretionary and the other two percent (2%) is at the discretion of the Company's Board of Directors. Company contributions are made in the form of cash. The Company contributed $337,725 and $244,587 to the profit-sharing plan in 2017 and 2016, respectively.

Deferred Compensation Agreements

In 2001, the Company established a non-qualified share deferred compensation plan covering certain employees. The unfunded liability related to this plan is recorded in the Company records and determined through a calculation of the book value of the Company along with consideration of dividends paid and other adjustments. The unfunded liability was $3,492,756 and $3,057,474 at December 31, 2017 and 2016, respectively.

Annual activity consisted of the following:

	2017	2016
Beginning Balance	$ 3,057,474	$ 2,561,943
Accruals	528,320	523,320
Payments	(93,038)	(27,789)
Ending Balance	$ 3,492,756	$ 3,057,474

Note 12: Fair Value Measurements

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Authoritative guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability.

Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quotes market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

Note 12: Fair Value Measurements – continued

While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale - Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans - Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2017			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Investment securities:				
U.S. government and agency	$ -	$ 137,801,300	$ -	$ 137,801,300
Mortgage-backed government	-	191,650,636	-	191,650,636
Municipal government obligations	-	139,983,659	-	139,983,659
U.S. Treasury securities	-	54,693,900	-	54,693,900
Equity Securities	-	78,220	-	78,220
Total financial assets	$ -	$ 524,207,715	$ -	$ 524,207,715

Note 12: Fair Value Measurements – continued

	December 31, 2016			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Investment securities:				
U.S. government and agency	$ -	$ 136,846,500	$ -	$ 136,846,500
Mortgage-backed government	-	219,514,634	-	219,514,634
Municipal government obligations	-	132,478,813	-	132,478,813
U.S. Treasury securities	-	60,127,873	-	60,127,873
Corporate bond	-	4,025,000	-	4,025,000
Total financial assets	$ -	$ 552,992,820	$ -	$ 552,992,820

The following table summarizes financial and non-financial assets and financial and non-financial liabilities measured at fair value on a nonrecurring basis as of December 31, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2017			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	$ -	$ -	$ 10,450,181	$ 10,450,181

	December 31, 2016			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	$ -	$ -	$ 11,501,026	$ 11,501,026
Nonfinancial assets:				
Foreclosed assets	-	529,174	-	529,174

During the years ended December 31, 2017 and 2016, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. For the years ended December 31, 2017 and 2016, impaired loans with a carrying value of $11,077,978 and $11,515,415, respectively, were reduced by specific valuation allowance allocations totaling $627,797 and $14,389, respectively, to a total reported fair value of $10,450,181 and $11,501,026, respectively, based on collateral valuations utilizing Level 3 valuation inputs.

Note 12: Fair Value Measurements – continued

Other real estate owned is valued at the time the loan is foreclosed upon and the asset is transferred to foreclosed assets. The value is based primarily on third party appraisals, less costs to sell. Appraisals based upon comparable sales result in a Level 2 classification while appraisals based upon expected cash flows of the property result in a Level 3 classification.

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements – The following table represents the Company's Level 3 financial assets and liabilities, the valuation techniques used to measure the fair value of those financial assets and liabilities, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value at December 31, 2017	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 10,450,181	Appraisal of collateral (1)	Appraisal adjustment	10-30%

Instrument	Fair Value at December 31, 2016	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 11,501,026	Appraisal of collateral (1)	Appraisal adjustment	10-30%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less associated allowance.
(2) Fair value is generally determined through a bottom-up loan level approach, which generally includes a focus on loan-level details, generating assumptions, and applying these assumptions to bond-level cash flow liability models, and, ultimately, estimating the bond's future cash flows.

Note 13: Long Term Debt

The Company was obligated under a note payable to a shareholder in the amount of $7,500,000. The proceeds drawn on this note were used to inject capital into the Company. The note bears an interest rate of prime which at December 31, 2017 and 2016 was 4.5% and 3.75%, respectively. Interest payments will be made on the first day of each quarter with principal and interest due on maturity. The note had a balance of $6,500,000 at December 31, 2017 and 2016. The note has a maturity date of September 4, 2018. For the years ended December 31, 2017 and 2016, interest expense on the note payable was $270,066 and $232,014, respectively.

Note 13: Long Term Debt – continued

During 2014, the Company entered into a promissory note payable (advancing line of credit loan) with a corresponding bank (senior lender) and a shareholder (junior lender) in the amount of $10,000,000. The note payable was modified in 2016 to increase the amount to $12,750,000. The proceeds drawn on this note were used to inject capital into the Company. The note bears an interest rate of prime + 1.00% which at December 31, 2017 and 2016 was 5.5% and 4.75%, respectively. Interest payments will be made on the last day of each quarter beginning September 30, 2014 with principal and interest due on maturity. The note had a balance of $11,475,000 and $12,750,000 at December 31, 2017 and December 31, 2016, respectively. The note has a maturity date of June 30, 2018. For the years ended December 31, 2017 and 2016, interest expense on the note payable was $624,476 and $443,853, respectively.

Note 14: Subordinated Debentures

On September 26, 2002, the Company completed the private placement of $10,310,000 in subordinated debentures to First West Texas Statutory Trust I (the Trust). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Capital Markets with a liquidation value of $10,310,000. Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders on December 26, 2002. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 3.40% (4.38% at December 31, 2017); however, the interest rate cannot exceed 11.90%. Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years.

The preferred securities mature in September 2032 unless the Company elects and obtains regulatory approval to accelerate the maturity date. The Company redeemed all outstanding debentures related to this Trust in 2017 and dissolved First West Texas Statutory Trust I.

On June 22, 2004, the Company completed the private placement of $7,217,000 in subordinated debentures to First West Texas Capital Trust II (Trust II). Trust II funded the purchase of the subordinated debentures through the sale of trust preferred securities to NBC Capital Markets Group with a liquidation value of $7,217,000.

Using interest payments made by the Company on the debentures, Trust II began paying quarterly dividends to preferred security holders on July 23, 2004. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 2.60% (3.96% at December 31, 2017); however, the interest rate cannot exceed the highest rate permitted by New York law. Dividends on the preferred securities are cumulative and Trust II may defer the payments for up to five years. The preferred securities mature on July 23, 2034. The Company did not redeem any debentures in 2017.

On October 25, 2005, the Company completed the private placement of $7,732,000 in subordinated debentures to First West Texas Statutory Trust III (Trust III). Trust III funded the purchase of the subordinated debentures through the sale of trust preferred securities to Bear, Stearns & Co., Inc. with a liquidation value of $7,732,000. Using interest payments made by the Company on the debentures, Trust III began paying quarterly dividends to preferred security holders on January 7, 2006. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is fixed at 6.185% from October 27, 2005 until January 7, 2011. After this fixed rate period, the annual percentage rate will be 3-Month LIBOR plus 1.37% (2.73% at December 31, 2017.) Dividends on the preferred securities are cumulative and Trust III may defer the payments for up to five years. The preferred securities mature on January 7, 2036. The Company did not redeem any debentures in 2017.

Note 14: Subordinated Debentures – continued

On October 25, 2005, the Company completed the private placement of $7,732,000 in subordinated debentures to First West Texas Statutory Trust IV (Trust IV). Trust IV funded the purchase of the subordinated debentures through the sale of trust preferred securities to Bear, Stearns & Co., Inc. with a liquidation value of $7,732,000. Using interest payments made by the Company on the debentures, Trust IV began paying quarterly dividends to preferred security holders on January 7, 2006. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 1.37% (2.73% at December 31, 2017); however, the interest rate cannot exceed the highest rate permitted by New York law. Dividends on the preferred securities are cumulative and Trust IV may defer the payments for up to five years. The preferred securities mature on January 7, 2036. The Company did not redeem any debentures in 2017.

For the years ended December 31, 2017 and 2016, interest expense on the subordinated debentures was $680,414 and $743,838, respectively. The Company had no deferred debt financing costs at December 31, 2017 and 2016.

Subordinated debt may be included in regulatory Tier 1 capital subject to a limitation that such amounts not exceed 25% of Tier 1 capital. The remainder of subordinated debt is included in Tier II capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital.

Note 15: Lines of Credit

The Company has an unused line of credit with a correspondent bank totaling $5,000,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds for the first thirty (30) days and on the thirty-first (31) day, the Company must furnish collateral in the form of marketable securities. The agreement does not contain a stated expiration date, but may be terminated at any time at the discretion of the correspondent bank. As of December 31, 2017, no advances were made under this agreement.

The Company has an unused line of credit with a correspondent bank totaling $4,000,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds for the first thirty (30) days and on the thirty-first (31) day, the Company must furnish collateral in the form of marketable securities. The agreement does not contain a stated expiration date, but may be terminated at any time at the discretion of the correspondent bank. As of December 31, 2017, no advances were made under this agreement.

The Company has an unused line of credit with a correspondent bank totaling $10,000,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds for the first ten (10) days and on the eleventh (11) day, the Company must furnish collateral in the form of government securities. The agreement expires November 10, 2017. As of December 31, 2017, no advances were made under this agreement.

Note 16: Subsequent Events

The Company has evaluated all subsequent events through March 23, 2018, the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION – **CONSOLIDATION**

FIRST WEST TEXAS BANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Financial Condition

December 31, 2017

Assets	First West Texas Bancshares, Inc.	West Texas National Bank
Cash and due from banks	$ 507,816	$ 13,031,885
Total cash and cash equivalents	507,816	13,031,885
Interest bearing deposits in banks		71,999,302
Securities available for sale, at fair value		524,207,715
Investment in partnerships		4,705,525
Investment in The Bank of River Oaks	500,000	
Investment in statutory trusts	681,000	
Investment in subsidiary	113,891,562	
Loans receivable, net of allowance for loan losses		574,411,914
Accrued interest receivable		5,630,521
Premises and equipment		10,127,016
Cash surrender value of life insurance		15,620,211
Goodwill	145,073	8,842,022
Restricted investments held at cost		8,831,400
Other assets	6,500	2,150,505
	$ 115,731,951	$ 1,239,558,016
Liabilities and Shareholders' Equity		
Noninterest bearing	$	$ 554,499,775
Interest bearing		516,303,198
Total deposits		1,070,802,973
Accrued expenses and other liabilities	277,114	4,863,481
Long term debt	17,975,000	
Subordinated debentures	22,681,000	
Federal funds purchased		50,000,000
Total liabilities	40,933,114	1,125,666,454
Shareholders' Equity		
Common stock	443,318	7,500,000
Capital surplus	47,313,663	77,099,019
Retained earnings	30,722,556	32,807,791
Treasury stock, at cost	(165,452)	
Net unrealized depreciation on available for sale securities	(3,515,248)	(3,515,248)
Total shareholders' equity	74,798,837	113,891,562
	$ 115,731,951	$ 1,239,558,016

Eliminations	Consolidated
$ (507,816)	$ 13,031,885
(507,816)	13,031,885
	71,999,302
	524,207,715
	4,705,525
	500,000
	681,000
(113,891,562)	-
	574,411,914
	5,630,521
	10,127,016
	15,620,211
	8,987,095
	8,831,400
	2,157,005
$ (114,399,378)	$ 1,240,890,589
$ (507,816)	$ 553,991,959
	516,303,198
(507,816)	1,070,295,157
	5,140,595
	17,975,000
	22,681,000
	50,000,000
(507,816)	1,166,091,752
(7,500,000)	443,318
(77,099,019)	47,313,663
(32,807,791)	30,722,556
	(165,452)
3,515,248	(3,515,248)
(113,891,562)	74,798,837
$ (114,399,378)	$ 1,240,890,589

FIRST WEST TEXAS BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Statement of Income
Year ended December 31, 2017

	First West Texas Bancshares, Inc.	West Texas National Bank
Interest income		
Loans, including fees	$	$ 27,643,458
Debt securities		
Taxable		8,373,201
Tax exempt		2,592,501
Deposits with banks		609,112
Total interest income		39,218,272
Interest expense		
Deposits		1,833,158
Federal funds purchased		25,045
Long term debt	894,542	331,270
Subordinated debentures	680,414	
Total interest expense	1,574,956	2,189,473
Net interest (loss) income	(1,574,956)	37,028,799
Provision for loan losses		2,525,000
Net interest (loss) income after provision for loan losses	(1,574,956)	34,503,799
Noninterest income		
Service charges on deposit accounts		2,397,920
Other service charges and fees		2,315,484
Net realized loss on sale of premises and equipment		(35,247)
Net realized gain on sale of foreclosed assets		75,818
Appreciation in cash surrender value of life insurance		441,906
Equity in earnings of subsidiary	16,783,616	
Net gain on extinguishment of debt	975,000	
Other income	76,041	198,003
Total noninterest income	17,834,657	5,393,884
Noninterest expenses		
Salaries and employee benefits		11,468,863
Occupancy and equipment expense		2,996,987
Advertising		735,490
Data processing		2,206,237
Legal and professional	3,500	1,227,573
Other expense		4,478,917
Total noninterest expenses	3,500	23,114,067
Net income	$ 16,256,201	$ 16,783,616

Eliminations	Consolidated
$	$ 27,643,458
	8,373,201
	2,592,501
	609,112
	39,218,272
	1,833,158
	25,045
	1,225,812
	680,414
	3,764,429
	35,453,843
	2,525,000
	32,928,843
	2,397,920
	2,315,484
	(35,247)
	75,818
	441,906
(16,783,616)	-
	975,000
	274,044
(16,783,616)	6,444,925
	11,468,863
	2,996,987
	735,490
	2,206,237
	1,231,073
	4,478,917
	23,117,567
$ (16,783,616)	$ 16,256,201

FIRST WEST TEXAS BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Statement of Cash Flows
Year ended December 31, 2017

	First West Texas Bancshares, Inc.	West Texas National Bank
Cash flows from operating activities		
Net income	$ 16,256,201	$ 16,783,616
Adjustments to reconcile net income to		
net cash provided by operating activities		
Provision for loan losses		2,525,000
Net amortization of securities		1,847,549
Depreciation		867,409
Net gain on sale of foreclosed assets		(75,818)
Net loss on sale of premises and equipment		35,247
Net appreciation in cash surrender value of life insurance		(413,123)
Equity in undistributed earnings of subsidiary	(8,783,616)	
Net gain on extinguishment of debt	(975,000)	
FHLB stock dividends		(8,000)
Net change in		
Accrued interest receivable		(1,111,845)
Other assets		69,179
Accrued expenses and other liabilities	33,926	669,642
Net cash provided by operating activities	6,531,511	21,188,856
Cash flows from investing activities		
Net change in interest bearing deposits in banks		70,199,834
Activity in available for sale securities		
Maturities, prepayments and calls		104,529,931
Purchases		(81,650,955)
Activity in other investments in partnerships		
Sales		182,186
Purchases		(1,195,210)
Net change in restricted investments held at cost		(5,743,500)
Loan originations and principal collections, net		(151,813,204)
Proceeds from sale of foreclosed assets		604,992
Proceeds from sale of premises and equipment		177,531
Additions to premises and equipment		(1,088,989)
Net cash used in investing activities		(65,797,384)
Cash flows from financing activities		
Net increase in federal funds purchased		50,000,000
Net increase in deposits		(24,604,133)
Repayment of long term debt	(1,275,000)	
Sale of common stock	1,000	
Dividends paid	(5,327,949)	(8,000,000)
Net cash (used in) provided by financing activities	(6,601,949)	17,395,867
Net change in cash and cash equivalents	(70,438)	(27,212,661)
Cash and cash equivalents at beginning of year	578,254	40,244,546
Cash and cash equivalents at end of year	$ 507,816	$ 13,031,885

Eliminations	Consolidated
$ (16,783,616)	$ 16,256,201
	2,525,000
	1,847,549
	867,409
	(75,818)
	35,247
	(413,123)
8,783,616	-
	(975,000)
	(8,000)
	(1,111,845)
	69,179
	703,568
(8,000,000)	19,720,367
	70,199,834
	104,529,931
	(81,650,955)
	182,186
	(1,195,210)
	(5,743,500)
	(151,813,204)
	604,992
	177,531
	(1,088,989)
	(65,797,384)
	50,000,000
70,438	(24,533,695)
	(1,275,000)
	1,000
8,000,000	(5,327,949)
8,070,438	18,864,356
70,438	(27,212,661)
(578,254)	40,244,546
$ (507,816)	$ 13,031,885

SUPPLEMENTARY INFORMATION – **First West Texas Bancshares, Inc.**
(Parent Company)

FIRST WEST TEXAS BANCSHARES, INC.
(PARENT COMPANY)
Statements of Financial Condition
December 31, 2017 and 2016

Assets	2017	2016
Cash and cash equivalents	$ 507,816	$ 578,254
Securities available for sale, at fair value	-	4,025,000
Investment in The Bank of River Oaks	500,000	500,000
Investment in statutory trusts	681,000	836,000
Investment in subsidiary	113,891,562	105,141,526
Goodwill	145,073	145,073
Other assets	6,500	6,500
	$ 115,731,951	$ 111,232,353

Liabilities and Shareholders' Equity		
Accrued expenses and other liabilities	$ 277,114	$ 243,188
Long term debt	17,975,000	19,250,000
Subordinated debentures	22,681,000	27,836,000
Total liabilities	40,933,114	47,329,188
Shareholders' Equity		
Common stock	443,318	443,308
Capital surplus	47,313,663	47,312,673
Retained earnings	30,722,556	19,794,304
Treasury stock, at cost	(165,452)	(165,452)
Net unrealized depreciation on available for sale securities	(3,515,248)	(3,481,668)
Total shareholders' equity	74,798,837	63,903,165
	$ 115,731,951	$ 111,232,353

FIRST WEST TEXAS BANCSHARES, INC.
(PARENT COMPANY)
Statements of Income
Years ended December 31, 2017 and 2016

	2017	2016
Income		
Net gain on extinguishment of debt	$ 975,000	$ -
Other income	76,041	33,393
Total income	1,051,041	33,393
Expenses		
Interest on long term debt	894,542	675,867
Interest on subordinated debentures	680,414	743,838
Legal and professional	3,500	-
Total expenses	1,578,456	1,419,705
Loss before equity in earnings of subsidiary	(527,415)	(1,386,312)
Equity in earnings of subsidiary		
Dividend income	8,000,000	6,350,000
Undistributed earnings of subsidiary	8,783,616	1,887,140
Total equity in earnings of subsidiary	16,783,616	8,237,140
Net income	$ 16,256,201	$ 6,850,828

FIRST WEST TEXAS BANCSHARES, INC.
(PARENT COMPANY)
Statements of Cash Flows
Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net income	$ 16,256,201	$ 6,850,828
Adjustments to reconcile net income to		
net cash provided by operating activities		
Equity in undistributed earnings of subsidiary	(8,783,616)	(1,887,140)
Net gain on extinguishment of debt	(975,000)	-
Net change in		
Accrued expenses and other liabilities	33,926	(76,355)
Net cash provided by operating activities	6,531,511	4,887,333
Cash flows from investing activities		
Purchase of securities available for sale	-	(4,025,000)
Net cash used in investing activities	-	(4,025,000)
Cash flows from financing activities		
Proceeds from long term debt	-	3,250,000
Repayment of long term debt	(1,275,000)	-
Sale of common stock	1,000	-
Dividends paid	(5,327,949)	(4,002,553)
Net cash used in financing activities	(6,601,949)	(752,553)
Net change in cash and cash equivalents	(70,438)	109,780
Cash and cash equivalents at beginning of year	578,254	468,474
Cash and cash equivalents at end of year	$ 507,816	$ 578,254

SUPPLEMENTARY INFORMATION – **West Texas National Bank**

WEST TEXAS NATIONAL BANK

Statements of Financial Condition

December 31, 2017 and 2016

Assets		2017		2016
Cash and due from banks	$	13,031,885	$	40,244,546
Interest bearing deposits in banks		71,999,302		142,199,136
Securities available for sale, at fair value		524,207,715		548,967,820
Investment in partnerships		4,705,525		3,692,501
Loans receivable, net of allowance for loan losses		574,411,914		425,123,710
Accrued interest receivable		5,630,521		4,518,676
Premises and equipment		10,127,016		10,118,214
Foreclosed assets		-		529,174
Cash surrender value of life insurance		15,620,211		15,207,088
Goodwill		8,842,022		8,842,022
Restricted investments held at cost		8,831,400		3,079,900
Other assets		2,150,505		2,219,684
	$	1,239,558,016	$	1,204,742,471
Liabilities and Shareholders' Equity				
Noninterest bearing	$	554,499,775	$	564,677,024
Interest bearing		516,303,198		530,730,082
Total deposits		1,070,802,973		1,095,407,106
Accrued expenses and other liabilities		4,863,481		4,193,839
Federal funds purchased		50,000,000		-
Total liabilities		1,125,666,454		1,099,600,945
Shareholders' Equity				
Common stock		7,500,000		7,500,000
Capital surplus		77,099,019		77,099,019
Undivided profits		32,807,791		24,024,175
Net unrealized depreciation on available for sale securities		(3,515,248)		(3,481,668)
Total shareholders' equity		113,891,562		105,141,526
	$	1,239,558,016	$	1,204,742,471

WEST TEXAS NATIONAL BANK

Statements of Income

Years ended December 31, 2017 and 2016

	2017	2016
Interest income		
Loans, including fees	$ 27,643,458	$ 22,466,141
Debt securities		
Taxable	8,373,201	7,335,637
Tax exempt	2,592,501	2,303,831
Deposits with banks	609,112	327,757
Total interest income	39,218,272	32,433,366
Interest expense		
Deposits	1,833,158	1,290,033
Federal funds purchased	25,045	-
Long term debt	331,270	-
Total interest expense	2,189,473	1,290,033
Net interest income	37,028,799	31,143,333
Provision for loan losses	2,525,000	6,550,000
Net interest income after provision for loan losses	34,503,799	24,593,333
Noninterest income		
Service charges on deposit accounts	2,397,920	2,651,459
Other service charges and fees	2,315,484	2,017,837
Net realized gain on redemption of investment in partnerships	-	616,956
Net realized gain on sale of foreclosed assets	75,818	-
Net realized loss on sale of premises and equipment	(35,247)	-
Appreciation in cash surrender value of life insurance	441,906	413,174
Other income	198,003	406,827
Total noninterest income	5,393,884	6,106,253
Noninterest expenses		
Salaries and employee benefits	11,468,863	10,236,634
Occupancy and equipment expense	2,996,987	2,744,330
Advertising	735,490	342,473
Data processing	2,206,237	1,271,882
Legal and professional	1,227,573	2,555,315
Other expense	4,478,917	5,311,812
Total noninterest expenses	23,114,067	22,462,446
Net income	$ 16,783,616	$ 8,237,140

WEST TEXAS NATIONAL BANK

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net income	$ 16,783,616	$ 8,237,140
Adjustments to reconcile net income to		
net cash provided by operating activities		
Provision for loan losses	2,525,000	6,550,000
Net amortization of securities	1,847,549	1,899,014
Depreciation	867,409	877,334
Net gain on sale of foreclosed assets	(75,818)	-
Net loss on sales of premises and equipment	35,247	-
Activity in other investment in partnerships	-	(616,956)
Net, appreciation in cash surrender value of life insurance	(413,123)	(413,174)
FHLB stock dividends	(8,000)	(2,300)
Net change in		
Accrued interest receivable	(1,111,845)	(113,413)
Other assets	69,179	674,493
Accrued expenses and other liabilities	669,642	258,190
Net cash provided by operating activities	21,188,856	17,350,328
Cash flows from investing activities		
Net change in interest bearing deposits in banks	70,199,834	(61,892,466)
Activity in available for sale securities		
Maturities, prepayments and calls	104,529,931	202,853,408
Purchases	(81,650,955)	(301,756,889)
Activity in other investments in partnerships		
Sales	182,186	936,149
Purchases	(1,195,210)	(1,757,160)
Net change in restricted investments held at cost	(5,743,500)	(176,100)
Loan originations and principal collections, net	(151,813,204)	81,464,983
Proceeds from sale of foreclosed assets	604,992	-
Proceeds from sales of premises and equipment	177,531	-
Additions to premises and equipment	(1,088,989)	(603,174)
Net cash used in investing activities	(65,797,384)	(80,931,249)
Cash flows from financing activities		
Net change in federal funds purchased	50,000,000	-
Net increase in deposits	(24,604,133)	37,922,509
Dividends paid	(8,000,000)	(6,350,000)
Net cash provided by financing activities	17,395,867	31,572,509
Net change in cash and cash equivalents	(27,212,661)	(32,008,412)
Cash and cash equivalents at beginning of year	40,244,546	72,252,958
Cash and cash equivalents at end of year	$ 13,031,885	$ 40,244,546