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 3(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 805 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.

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, Thomas J. Roth
Name of the Holding Company Director and Official

Director & Chairman of the Board
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 281, 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

06/27/2018
Date of Signature

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

- 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.

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

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

NONE
Reporters Legal Entity Identifier (LEI) (20 Character LEI Code)

Reporters Name, Street, and Mailing Address

Medina Community Bancshares, Inc.
Legal Title of Holding Company

1502 Avenue M / P O Box 130
(Mailing Address of the Holding Company) Street / P.O. Box
Hondo
City
TX
State
78861
Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:
Beverly Brown
Secretary/Treasurer
Name
(830) 426-3066
Area Code / Phone Number / Extension
(830) 426-2265
Area Code / FAX Number
bbrown@cnbtx.com
Email Address

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

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

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.

<table>
<thead>
<tr>
<th>Legal Title of Subsidiary Holding Company</th>
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<tbody>
<tr>
<td>(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box</td>
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<tr>
<td>City</td>
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<td>Physical Location (if different from mailing address)</td>
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<td>Physical Location (if different from mailing address)</td>
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Report Item 2a Organizational Chart

1. a. Medina Community Bancshares, Inc. is not required to prepare form 10K with the SEC.

1. b. Medina Community Bancshares, Inc. does prepare an annual report for its shareholders. Two copies of the annual report will be sent under separate cover.

2: Organization Chart

Medina Community Bancshares, Inc.
Hondo, Texas
USA

Community National Bank
Hondo, Texas
USA

No entity in this organization has an LEI

3: State of Origin - Texas

Medina Community Bancshares, Inc.
Community National Bank
This depository institution is held by MEDINA COMMUNITY BANCHARES, INC. (2412773) of MONDO, TX. The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

**Results:** A list of branches for your depository institution: COMMUNITY NATIONAL BANK (ID_RSSD: 643452).

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 opening or acquisition 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.

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

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

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

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<tr>
<th>Data Action</th>
<th>Effective Date</th>
<th>Branch Service Type</th>
<th>Branch ID_RSSD*</th>
<th>Popular Name</th>
<th>Street Address</th>
<th>City</th>
<th>State</th>
<th>Zip Code</th>
<th>County</th>
<th>Country</th>
<th>FDIC UNINUM*</th>
<th>Office Number*</th>
<th>Head Office</th>
<th>Head Office ID_RSSD*</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>OK</td>
<td>1/4/2018</td>
<td>Full Service (Head Office)</td>
<td>643452</td>
<td>COMMUNITY NATIONAL BANK</td>
<td>1502 AVENUE M</td>
<td>HONDO</td>
<td>TX</td>
<td>78861-1754</td>
<td>MEDINA</td>
<td>UNITED STATES</td>
<td>Not Required</td>
<td>Not Required</td>
<td>COMMUNITY NATIONAL BANK</td>
<td>643452</td>
<td></td>
</tr>
<tr>
<td>OK</td>
<td>1/4/2018</td>
<td>Full Service</td>
<td>1107581</td>
<td>CASTROVILLE BRANCH</td>
<td>815 HIGHWAY 80 EAST</td>
<td>CASTROVILLE</td>
<td>TX</td>
<td>78009</td>
<td>MEDINA</td>
<td>UNITED STATES</td>
<td>Not Required</td>
<td>Not Required</td>
<td>COMMUNITY NATIONAL BANK</td>
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<tr>
<td>DK</td>
<td>1/4/2018</td>
<td>Full Service</td>
<td>4079693</td>
<td>LA COSTE BRANCH</td>
<td>15996 SOUTH FRONT STREET</td>
<td>LA COSTE</td>
<td>TX</td>
<td>78039</td>
<td>MEDINA</td>
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<tr>
<td>DK</td>
<td>1/4/2018</td>
<td>Full Service</td>
<td>3927162</td>
<td>LYTLE BRANCH</td>
<td>20402 INTERSTATE 35 SOUTH</td>
<td>LYTLE</td>
<td>TX</td>
<td>78052</td>
<td>ATASCOSA</td>
<td>UNITED STATES</td>
<td>Not Required</td>
<td>Not Required</td>
<td>COMMUNITY NATIONAL BANK</td>
<td>643452</td>
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<tr>
<td>Name &amp; Address (City, State, Country)</td>
<td>Citizenship or Incorporation</td>
<td>Number and Percentage of Each Class of Voting Securities</td>
<td>Name &amp; Address (City, State, Country)</td>
<td>Citizenship or Incorporation</td>
<td>Number and Percentage of Each Class of Voting Securities</td>
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<tr>
<td>Christopher Moser</td>
<td>USA</td>
<td>14,123 6.66%</td>
<td>NONE</td>
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<tr>
<td>William Freed</td>
<td>USA</td>
<td>31,642 14.91%</td>
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<td>San Antonio, Tx</td>
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<tr>
<td>Joe M. Mims, Jr.</td>
<td>USA</td>
<td>10,810 5.09%</td>
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# Report Item 4: Insiders

<table>
<thead>
<tr>
<th>Names &amp; Address (City, State, Country)</th>
<th>Principal Occupation if other than with Holding Company</th>
<th>Title &amp; Position with Holding Company</th>
<th>Title &amp; Position with Subsidiaries (include names of subsidiaries)</th>
<th>Title &amp; Position with Other Businesses (include names of other businesses)</th>
<th>Percentage of Voting Securities in Holding Company</th>
<th>Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)</th>
<th>List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)</th>
</tr>
</thead>
</table>
| **Thomas J Rothe**
Hondo, TX USA
Attorney Private Practice
Director & Chairman of the Board Community National Bk
Director & Chairman of the Board DeMontel Joint Venture Community National Bk
| Attorney
Private Practice
Director & Chairman of the Board Community National Bk
Director & Chairman of the Board DeMontel Joint Venture Community National Bk | Director & Chairman of the Board Community National Bk
Director & Chairman of the Board DeMontel Joint Venture Community National Bk | DeMontel Joint Venture Partner
Hondo Venture, Inc. Corporation - Secretary
Penno Investments Sole Proprietorship-Owner
Thomas J Rothe, PC President
G R Joint Venture Partner
Dos Toros Cattle Company Partner | 3.16%
NONE | DeMontel Joint Venture
Hondo Venture, Inc. Corporation - Secretary
Penno Investments Sole Proprietorship-Owner
Thomas J Rothe, PC President
G R Joint Venture
Dos Toros Cattle Company | Hondo Venture, Inc. Corporation - Secretary
Penno Investments Sole Proprietorship-Owner
Thomas J Rothe, PC President
G R Joint Venture
Dos Toros Cattle Company |

| **Gail Boehme**
Castroville, TX USA
Agri-business Director Community National Bk | Director Community National Bk | B-Two Farms Partner
B & W Farms Partner
M J Farms Partner
Boehme & Jagge, LLC President | 2.36%
NONE | B-Two Farms
B & W Farms
M J Farms | B-Two Farms
B & W Farms
M J Farms |

| **Brad Boyd**
Lytle, TX USA
Realtor Director Community National Bk | Director Community National Bk | Brush Country Realty, Inc. President
BNS Properties, LTD President
BNK Investment President | 0.43%
NONE | Brush Country Realty, Inc.
BNS Properties, LTD
BNK Investment | Brush Country Realty, Inc.
BNS Properties, LTD
BNK Investment |
<table>
<thead>
<tr>
<th>Names &amp; Address</th>
<th>Principal Occupation if other than with Holding Company</th>
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<th>Percentage of Voting Securities in Holding Company</th>
<th>Percentage of Voting Securities in Subsidiaries (Include names of Subsidiaries)</th>
<th>List names of other companies (Includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glen Riff</td>
<td>Veterinarian</td>
<td>Director GKAT, LLC Managing Member 1951 Management, LLC President GK Riff GP, LLC President GK Riff LP President</td>
<td>1.95%</td>
<td>NONE</td>
<td>GKAT, LLC (50%) 1951 Management, LLC (94%) GK Riff GP, LLC (50%) GK Riff LP (49.5%)</td>
</tr>
<tr>
<td>Ronald A. Miller</td>
<td>Banking</td>
<td>CEO/President Nomad Adjusting Trustee</td>
<td>0.00%</td>
<td>NONE</td>
<td>N/A</td>
</tr>
<tr>
<td>A. Olin Gilliam</td>
<td>Agri-business</td>
<td>Director A Olin Gilliam, Jr. Children's Trust Trustee Gilliam Ranch, LP Limited Partner West Pasture, LC Co-Manager Gilliam/Winkler General Partner</td>
<td>4.71%</td>
<td>NONE</td>
<td>N/A</td>
</tr>
<tr>
<td>Christopher Moser</td>
<td>Investments</td>
<td>Director River Restaurants, LTD. Limited Partner COLM Restaurants, Inc. Chairman/Secretary Eslabon Ranch, Ltd Limited Partner Eslabon Co, LLC Vice President Riverwalk Properties, Ltd. Limited Partner BC-AM SA Investors JV Joint Venture - Partner BC-AM Capital GP, LLC Member BC-AM Capital Ltd. Ltd. Partners</td>
<td>6.66%</td>
<td>NONE</td>
<td>COLM Restaurants, Inc. (50%) Eslabon Ranch, Ltd (26%) Eslabon, LLC (26%) N/A</td>
</tr>
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<tr>
<td>Michael Saathoff Hondo, Tx USA</td>
<td>Agri-business</td>
<td>Director</td>
<td>E &amp; S Farms, Inc. President M &amp; M Farms Limited Partner Frio County Partners, Inc. Partner Panther Hollow LLC Limited Partner Dos Alemanes Partner</td>
<td>1.92% NONE</td>
<td>E &amp; S Farms, Inc. (33.333%) M &amp; M Farms (50%) Frio County Partners, Inc. (33.33%) Panther Hollow LLC (50%) Dos Alemanes (50%)</td>
</tr>
<tr>
<td>Geoffrey Groff Castroville, Tx USA</td>
<td>Petroleum Industry</td>
<td>Director</td>
<td>Devine/Lejondant Prop President Groff Land Enterprises Vice President Medina Valley Enterprises Vice President</td>
<td>0.53% NONE</td>
<td>N/A</td>
</tr>
<tr>
<td>Beverly Brown Hondo, Tx USA</td>
<td>Banking</td>
<td>Secretary/Treasurer</td>
<td>M &amp; B Farms Secretary/Treasurer</td>
<td>0.05% NONE</td>
<td>M &amp; B Farms (33.33%)</td>
</tr>
<tr>
<td>Clayton Scott Binford Castroville, Tx USA</td>
<td>Attorney</td>
<td>Director</td>
<td>Binford Farms, LLC Managing Member Binford Family Ventures, LLC Managing Member Binford Financial Solutions, LLC Managing Member MB Medina Country Ranch Ventures, LLC Member Base Financial Technologies, LLC Member Binford Brothers Trust Trustee Norton Rose Fullbrig US LLP None</td>
<td>2.36% NONE</td>
<td>Binford Farms, LLC (50%) Binford Family Ventures, LLC (25%) Binford Financial Solutions, LLC (50%) MB Medina Country Ranch Ventures, LLC (25%) Base Financial Technologies, LLC (30%) N/A</td>
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<td>Title &amp; Position with Other Businesses (include names of other businesses)</td>
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<tr>
<td>William A Freed</td>
<td>Investments Director</td>
<td>Director</td>
<td>WAFCO, Inc. President, Secretary, Director</td>
<td>14.91%</td>
<td>NONE</td>
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<td>FFP Investments, Ltd. President of General Partner</td>
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<td>FSD, Inc. Vice President, Director</td>
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<td>Commerce Oaklawn, Ltd Vice President of General Partner</td>
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<td>Anchovie Partners, Ltd President of General Partner</td>
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<td>Devine Retail, LLC President of General Partner of Member</td>
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<td>DT Building Mangement, Ltd. Vice President of General Partner</td>
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<td>Dueler-Tobin Building, Ltd. Vice President of General Partner</td>
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<td>Nueces Holliday Maverick II, Ltd. Vice President of General Partner</td>
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<td>Metrocom Plaza, Ltd. President of General Partner</td>
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<td>Marian Rosenthal Associates President of General Partner of Partner</td>
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<td>Nueces Blind River Partners, Ltd. Manager of General Partner</td>
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<td>Nueces Building Partners, Ltd. President of General Partner</td>
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<td>Nueces Marketing Partners, Ltd. Vice President of General Partner</td>
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<td>Nueces Royalty Partners, Ltd Manager of General Partner</td>
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<td>Nueces Royalty Partners I, Ltd. Manager of General Partner</td>
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<td>Nueces Strategic Partners, LC Manager, Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nueces Capital Partners President of General Partner of Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>E. F. Perrin Beitel, Ltd. President of General Partner</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>E. F. Blanco, LLC Manager, President of General Partner of Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nueces Hill Hospitality Partners, Ltd President of General Partner</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Northcross Business Center, Ltd. Vice President of General Partner</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Blossom-NMP Partners, Ltd. Vice President of General Partner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Names &amp; Address</td>
<td>Principal Occupation if other than with Holding Company</td>
<td>Title &amp; Position with Subsidiaries (include names of subsidiaries)</td>
<td>Title &amp; Position with Holding Company</td>
<td>Title &amp; Position with Other Businesses (include names of other businesses)</td>
<td>Percentage of Voting Securities in Holding Company</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>--------------------------------------------------------</td>
<td>-----------------------------------------------------------------</td>
<td>---------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>William A Freed</td>
<td>President</td>
<td>West Commerce Plaza, Ltd.</td>
<td>President of General Partner</td>
<td>West Commerce Plaza, Ltd.</td>
<td>(35.00%)</td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>West Commerce Plaza II, Ltd.</td>
<td>President of General Partner</td>
<td>West Commerce Plaza II, Ltd.</td>
<td>(35%)</td>
</tr>
<tr>
<td></td>
<td>Director</td>
<td>PCI Educational Publishing, Ltd.</td>
<td>Director</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Director</td>
<td>Flatrock Compression, Ltd.</td>
<td>Director</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Director</td>
<td>Northeast Crossroads Building, Ltd.</td>
<td>Director</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>T-Slash-Bar Texas, Ltd.</td>
<td>President of General Partner</td>
<td>T-Slash-Bar Texas, Ltd.</td>
<td>(70.00%)</td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>T-Slash-Bar Livestock, Inc.</td>
<td>President of General Partner</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>90/211 Farms</td>
<td>President of General Partner of Partner</td>
<td>90/211 Farms</td>
<td>(43.75%)</td>
</tr>
<tr>
<td></td>
<td>Director</td>
<td>TYRUS Properties I, Ltd.</td>
<td>Manager, President of General Partner of Partner</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manager</td>
<td>TSB Acquisition, LC</td>
<td>Manager, President of General Partner of Member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>Mobius Health, Inc.</td>
<td>Director, president of general partner of shareholder</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manager</td>
<td>S3D Investments, JV</td>
<td>President of General Partner</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>Trailcrest Office, LLC</td>
<td>Manager, President of General Partner of Member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chairman</td>
<td>CommZoom Communications, LLC</td>
<td>Chairman, president of General Partner of Member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>S3S Waterfleet, LLC</td>
<td>President of General Partner of Member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>173 Devine, LLC</td>
<td>President of General Partner of Member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manager</td>
<td>SEP is member</td>
<td>Manager, President of General Partner of Member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manager</td>
<td>Freham Properties, LLC</td>
<td>Manager, President of General Partner of Member</td>
<td>Freham Properties, LLC</td>
<td>(35%)</td>
</tr>
<tr>
<td></td>
<td>Manager</td>
<td>Nueces Holiday Maverick III, LLC</td>
<td>Manager, President of General Partner of Member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manager</td>
<td>NMP Ramsey, LLC</td>
<td>Manager, President of General Partner of Member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Treasurer</td>
<td>San Antonio Zoological Society, Inc.</td>
<td>Treasurer, executive comm member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Secretary</td>
<td>Accelerate H2O</td>
<td>Secretary, executive comm member</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Director</td>
<td>Retama Partners, Ltd.</td>
<td>Director</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

Continued
Board of Directors
Medina Community Bancshares, Inc.
Hondo, Texas

In planning and performing our audit of the consolidated financial statements of Medina Community Bancshares Inc. and subsidiary (the Company) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Company’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we do not express an opinion on the effectiveness of the entity’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the board of directors, others within the organization, and bank examiners and is not intended to be and should not be used by anyone other than these specified parties.

Hamby & Hengeli LLC
San Angelo, Texas
February 23, 2018
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR’S REPORT

MEDINA COMMUNITY BANCSHARES, INC.
AND SUBSIDIARY

December 31, 2017 and 2016
TABLE OF CONTENTS

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Consolidated Income Statements 3
Consolidated Statements of Comprehensive Income 4
Consolidated Statements of Changes in Stockholders’ Equity 5
Consolidated Statements of Cash Flows 6-7
Notes to Consolidated Financial Statements 8
INDEPENDENT AUDITOR’S REPORT

Board of Directors
Medina Community Banshares, Inc.
Hondo, Texas

We have audited the accompanying consolidated financial statements of Medina Community Banshares, Inc. and Subsidiary which are comprised of the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

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

San Angelo, Texas
February 23, 2018

Hamby & Hengeli LLC

Certified Public Accountants
2909 Sherwood Way, Suite 204, San Angelo, TX 76901
325.949.2567 | www.HambyHengeli.com
MEDINA COMMUNITY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Share Data)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and due from banks</td>
<td>$28,570</td>
<td>$17,077</td>
</tr>
<tr>
<td>Trading securities</td>
<td>-</td>
<td>2,043</td>
</tr>
<tr>
<td>Securities available for sale</td>
<td>43,566</td>
<td>49,420</td>
</tr>
<tr>
<td>Nonmarketable equity securities</td>
<td>679</td>
<td>675</td>
</tr>
<tr>
<td>Loans, net</td>
<td>115,595</td>
<td>116,379</td>
</tr>
<tr>
<td>Premises and equipment, net</td>
<td>4,450</td>
<td>4,928</td>
</tr>
<tr>
<td>Bank owned life insurance</td>
<td>4,754</td>
<td>4,636</td>
</tr>
<tr>
<td>Goodwill and intangible assets</td>
<td>2,255</td>
<td>2,286</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>1,147</td>
<td>1,216</td>
</tr>
<tr>
<td>Other assets</td>
<td>369</td>
<td>494</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$201,385</strong></td>
<td><strong>$199,154</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND STOCKHOLDERS' EQUITY</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noninterest-bearing</td>
<td>$61,607</td>
<td>$61,368</td>
</tr>
<tr>
<td>Interest-bearing</td>
<td>113,465</td>
<td>107,497</td>
</tr>
<tr>
<td><strong>Total deposits</strong></td>
<td>175,072</td>
<td>168,865</td>
</tr>
<tr>
<td>Note payable</td>
<td>528</td>
<td>2,500</td>
</tr>
<tr>
<td>Advances from Federal Home Loan Bank</td>
<td>3,484</td>
<td>6,379</td>
</tr>
<tr>
<td>Accrued interest payable and other liabilities</td>
<td>369</td>
<td>4,297</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>179,453</td>
<td>182,041</td>
</tr>
</tbody>
</table>

| Commitments (Notes E, I and K)       |            |            |
| Stockholders' equity                 |            |            |
| Common stock - 2,000,000 shares $5 par value stock authorized; | 1,166      | 1,166      |
| 233,104 shares issued                |            |            |
| Surplus                              | 3,236      | 3,236      |
| Treasury stock at cost (2017 - 20,923 shares; 2016 - 55,372 shares) | (1,623)   | (4,863)    |
| Retained earnings                    | 19,147     | 17,473     |
| Accumulated other comprehensive income | 6          | 101        |
| **Total stockholders' equity**       | 21,932     | 17,113     |

| **$201,385** | **$199,154** |

The accompanying notes are an integral part of these consolidated statements.
<table>
<thead>
<tr>
<th></th>
<th>Years ended December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans, including fees</td>
<td>$ 6,011</td>
<td>$ 5,805</td>
<td></td>
</tr>
<tr>
<td>Debt securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable</td>
<td>298</td>
<td>460</td>
<td></td>
</tr>
<tr>
<td>Tax-exempt</td>
<td>685</td>
<td>740</td>
<td></td>
</tr>
<tr>
<td>Other interest and dividends</td>
<td>334</td>
<td>170</td>
<td></td>
</tr>
<tr>
<td>Total interest income</td>
<td>7,328</td>
<td>7,175</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>446</td>
<td>445</td>
<td></td>
</tr>
<tr>
<td>Borrowed funds and other</td>
<td>134</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Total interest expense</td>
<td>580</td>
<td>545</td>
<td></td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>95</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Net interest income after provision for loan losses</td>
<td>6,653</td>
<td>6,480</td>
<td></td>
</tr>
<tr>
<td>Noninterest income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service charges on deposit accounts</td>
<td>651</td>
<td>741</td>
<td></td>
</tr>
<tr>
<td>Net gain on sale of assets(^1)</td>
<td>27</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td>Trading revenue</td>
<td>(11)</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>1,236</td>
<td>1,124</td>
<td></td>
</tr>
<tr>
<td>Total noninterest income</td>
<td>1,903</td>
<td>1,939</td>
<td></td>
</tr>
<tr>
<td>Noninterest expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>3,162</td>
<td>3,104</td>
<td></td>
</tr>
<tr>
<td>Occupancy and equipment</td>
<td>1,123</td>
<td>930</td>
<td></td>
</tr>
<tr>
<td>Other general and administrative</td>
<td>2,136</td>
<td>2,255</td>
<td></td>
</tr>
<tr>
<td>Total noninterest expense</td>
<td>6,421</td>
<td>6,289</td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>2,135</td>
<td>2,130</td>
<td></td>
</tr>
<tr>
<td>Income tax expense (benefit)</td>
<td>(169)</td>
<td>429</td>
<td></td>
</tr>
<tr>
<td>NET INCOME</td>
<td>$ 2,304</td>
<td>$ 1,701</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\)Net gain on sale of securities includes $-0- and $23 accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities for 2017 and 2016, respectively.

The accompanying notes are an integral part of these consolidated statements.
### MEDINA COMMUNITY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands, Except Share Data)

<table>
<thead>
<tr>
<th></th>
<th>Years ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Net income</td>
<td>$2,304</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td></td>
</tr>
<tr>
<td>Gross unrealized losses on securities available for sale</td>
<td>(147)</td>
</tr>
<tr>
<td>Reclassification adjustment for (gains) losses realized in net income</td>
<td>-</td>
</tr>
<tr>
<td>Net unrealized losses</td>
<td></td>
</tr>
<tr>
<td>Tax effect</td>
<td>52</td>
</tr>
<tr>
<td>Total other comprehensive loss</td>
<td>(95)</td>
</tr>
<tr>
<td>TOTAL COMPREHENSIVE INCOME</td>
<td>$2,209</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
MEDINA COMMUNITY BANC SHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY

Years Ended December 31, 2017 and 2016
(Dollars in Thousands, Except Share Data)

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Surplus</th>
<th>Treasury Stock</th>
<th>Retained Earnings</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at Dec 31, 2015</td>
<td>$ 1,166</td>
<td>$ 3,236</td>
<td>$(955)</td>
<td>$ 15,992</td>
<td>$ 310</td>
<td>$ 19,749</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,701</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>-</td>
<td>-</td>
<td>(3,943)</td>
<td>-</td>
<td>-</td>
<td>(3,943)</td>
</tr>
<tr>
<td>Sale of treasury stock</td>
<td>-</td>
<td>-</td>
<td>35</td>
<td>-</td>
<td>-</td>
<td>35</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(209)</td>
<td>(209)</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(220)</td>
<td>-</td>
<td>(220)</td>
</tr>
<tr>
<td><strong>Balance at Dec 31, 2016</strong></td>
<td><strong>1,166</strong></td>
<td><strong>3,236</strong></td>
<td>(4,863)</td>
<td><strong>17,473</strong></td>
<td><strong>101</strong></td>
<td><strong>17,113</strong></td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,304</td>
<td>-</td>
<td>2,304</td>
</tr>
<tr>
<td>Sale of treasury stock</td>
<td>-</td>
<td>-</td>
<td>3,240</td>
<td>-</td>
<td>-</td>
<td>3,240</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(95)</td>
<td>-</td>
<td>(95)</td>
</tr>
<tr>
<td>Distributions paid</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(630)</td>
<td>-</td>
<td>(630)</td>
</tr>
<tr>
<td><strong>Balance at Dec 31, 2017</strong></td>
<td><strong>$ 1,166</strong></td>
<td><strong>$ 3,236</strong></td>
<td><strong>$ (1,623)</strong></td>
<td><strong>$ 19,147</strong></td>
<td><strong>$ 6</strong></td>
<td><strong>$ 21,932</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
### Cash flows from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 2,304</td>
<td>$ 1,701</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net amortization of premium on investment securities</td>
<td>653</td>
<td>750</td>
</tr>
<tr>
<td>Gain on sale of investment securities</td>
<td>-</td>
<td>(23)</td>
</tr>
<tr>
<td>Federal Home Loan Bank stock dividend</td>
<td>(4)</td>
<td>-</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>95</td>
<td>150</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>466</td>
<td>302</td>
</tr>
<tr>
<td>Gain on disposition of premises and equipment</td>
<td>(22)</td>
<td>(16)</td>
</tr>
<tr>
<td>Gain on sale of foreclosed real estate</td>
<td>(5)</td>
<td>(7)</td>
</tr>
<tr>
<td>Increase in cash surrender value of bank owned life insurance</td>
<td>(118)</td>
<td>(123)</td>
</tr>
<tr>
<td>Deferred tax provision (benefit)</td>
<td>(169)</td>
<td>62</td>
</tr>
<tr>
<td>Net change in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading account securities</td>
<td>2,043</td>
<td>1,489</td>
</tr>
<tr>
<td>Accrued interest receivable and other assets</td>
<td>255</td>
<td>(134)</td>
</tr>
<tr>
<td>Accrued interest payable and other liabilities</td>
<td>(3,707)</td>
<td>3,904</td>
</tr>
<tr>
<td><strong>Cash provided by operating activities</strong></td>
<td>1,791</td>
<td>8,055</td>
</tr>
</tbody>
</table>

### Cash flows from investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from maturities and calls of securities available for sale</td>
<td>4,405</td>
<td>2,199</td>
</tr>
<tr>
<td>Proceeds from paydowns of securities available for sale</td>
<td>2,199</td>
<td>2,784</td>
</tr>
<tr>
<td>Proceeds from sales of securities available for sale</td>
<td>-</td>
<td>8,073</td>
</tr>
<tr>
<td>Purchases of securities available for sale</td>
<td>(1,550)</td>
<td>(690)</td>
</tr>
<tr>
<td>Loans originated, net of principal collections</td>
<td>574</td>
<td>(12,655)</td>
</tr>
<tr>
<td>Proceeds from sales of premises and equipment</td>
<td>1,032</td>
<td>-</td>
</tr>
<tr>
<td>Additions to premises and equipment</td>
<td>(967)</td>
<td>(1,283)</td>
</tr>
<tr>
<td>Proceeds from sales of foreclosed assets</td>
<td>59</td>
<td>38</td>
</tr>
<tr>
<td><strong>Cash provided by (used for) investing activities</strong></td>
<td>5,752</td>
<td>(1,561)</td>
</tr>
</tbody>
</table>
Cash flows from financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net change in deposits</td>
<td>6,207</td>
<td>(1,425)</td>
</tr>
<tr>
<td>Advances on Federal Home Loan Bank borrowings</td>
<td>2,200</td>
<td>15,000</td>
</tr>
<tr>
<td>Advances on note payable</td>
<td>-</td>
<td>2,500</td>
</tr>
<tr>
<td>Principal payments on note payable</td>
<td>(1,972)</td>
<td>(242)</td>
</tr>
<tr>
<td>Principal payments on Federal Home Loan Bank borrowings</td>
<td>(5,095)</td>
<td>(10,090)</td>
</tr>
<tr>
<td>Proceeds from sale of treasury stock</td>
<td>3,240</td>
<td>35</td>
</tr>
<tr>
<td>Payments to acquire treasury stock</td>
<td>-</td>
<td>(3,943)</td>
</tr>
<tr>
<td>Cash dividends paid on common stock</td>
<td>(630)</td>
<td>(220)</td>
</tr>
<tr>
<td>Cash provided by financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,950</td>
<td>1,615</td>
</tr>
</tbody>
</table>

Net change in cash and cash equivalents                          | 11,493 | 8,109  |

Cash and cash equivalents, beginning of year                     | 17,077 | 8,968  |

Cash and cash equivalents, end of year                           | $ 28,570 | $ 17,077 |

Supplemental disclosure of cash flow information

Cash paid during the period for:

- Interest on deposits and borrowed funds                        | $ 579   | $ 549   |
- Income taxes                                                    | -       | 491     |

Supplemental disclosure of non-cash transactions

- Loan balances transferred to foreclosed real estate             | $ 115   | $ 31    |
NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Medina Community Bancshares, Inc. and Subsidiary conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

Organization and Principles of Consolidation

Medina Community Bancshares, Inc. is a bank holding company which owns 100% of the common stock of Community National Bank ("the Bank"). The entities are collectively referred to as "the Company".

The accompanying consolidated financial statements include the consolidated totals of the accounts of the Company. Significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a variety of banking services to individuals and businesses through their locations in South Central Texas. Their primary deposit products are checking, savings and term deposit accounts. Their primary lending products are commercial, agricultural loans and real estate mortgage loans. The Bank is subject to competition from other financial institutions and to regulation by certain federal agencies. The Bank undergoes periodic examinations by these regulatory authorities.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statement and the disclosures provided and actual results could differ.

Significant Concentrations of Credit Risk

Most of the Company’s activities are with customers located within Medina and surrounding counties. Therefore, the Company’s exposure to credit risk is significantly affected by changes in the economy in the theses areas. Note B discusses the types of securities that the Company invests in. Note D discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and deposits with other financial institutions with maturities fewer than 90 days.

Balances in transaction accounts at other financial institutions may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.
Trading Securities

The Company engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded at fair value with changes in fair value included in earnings. Interest is included in net interest income. The Company closed the trading account in 2017.

Investment Securities

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

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment charge to earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized as an impairment charge to earnings, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Nonmarketable Equity Securities

The Company, as a member of the Federal Reserve Bank and the Federal Home Loan Bank of Dallas (FHLB), is required to maintain an investment in the capital stock of each. Also, the Company maintains an investment in the capital stock of TIB – The Independent BankersBank. No ready market exists for these stocks, and they have no quoted market value. For financial reporting purposes, such stock is considered restricted and is carried at cost under the caption “nonmarketable equity securities.”

Periodically, management evaluates nonmarketable equity securities for other-than-temporary impairment. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. Both cash and stock dividends are reported as income.

Loans

The Company grants real estate, commercial, agriculture and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout South Central Texas. The ability of the Company’s borrowers to honor their contracts is dependent upon the real estate and 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 generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The accrual of interest on any loan is discontinued at the time the loan is specifically determined to be impaired unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year’s interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectibility is no longer doubtful.

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company’s nonaccrual criteria.

Generally, loans are charged off in whole or in part on a loan-by-loan basis after they become significantly past due and based upon management’s review of the collectibility of all or a portion of the loan unless the loan is in the process of restructuring. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgement, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are considered impaired, and is comprised of valuation allowances calculated on a loan-by-loan basis. Impaired loans are all specifically identified loans for which it is probable that the Company will not collect
all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and are classified as impaired. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower’s financial condition and overall loan quality as determined by an internal loan grading system. Included in impaired loans are all nonaccruing loans and all accruing troubled debt restructurings. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. For impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan’s original effective interest rate. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan’s effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of economic factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio’s historical loss experience. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. Economic factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; trends in the quality of risk management and loan administration practices; ability and depth of lending staff; levels and trends in delinquencies and impaired loans; levels and changes in the concentration of credit; levels and trends of loan quality as determined by an internal loan grading system.

On a monthly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Company’s major loan segments. Significant overall risk factors for both the Company’s commercial and consumer portfolios include the strength of the real estate and agricultural market in the Company’s lending area.

The quality of the Company’s loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated quarterly by management. The ratings on the Company’s internal credit scale are broadly grouped into the categories “pass”, “special mention” and “substandard.” Loans with a pass rating are those loans with minimal identified credit risk. Special mention loans include those with potential credit weaknesses which deserve management’s attention but for which full collection of contractual principal and interest is not significantly at risk. Substandard loans are those loans that have well-defined weakness that put full collection of contractual principal or interest at risk, and doubtful loans for which it is probable that the Company will not collect all contractual principal or interest are also considered impaired. The credit quality ratings are an important part of the Company’s overall credit risk management process and are considered in the determination of the allowance for loan losses.
Determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

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. Maintenance and repairs, which do not extend the useful lives of buildings and equipment, are charged to expense as incurred.

Foreclosed Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the initial carrying value or fair value less costs to sell. Expenses relative to foreclosed assets are expensed as incurred.

Bank Owned Life Insurance

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

Goodwill and Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. Goodwill impairment is deemed to exist when carrying value exceeds the Company's estimated fair value. Goodwill is the only intangible asset with an indefinite life on our balance sheet. At December 31, 2017 and 2016, the Company had $2.25 million in goodwill recorded on the balance sheet.

Intangible assets consist of the core deposit intangible of acquired deposits. These assets are amortized over their estimated useful life of 8 years. At December 31, 2017 and 2016, the Company had $5 thousand and $36 thousand, respectively in intangible assets net of amortization.

Income Taxes

The Company, with the consent of its stockholders, elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code effective January 1, 2017. Under those provisions, the Company neither pays corporate income taxes on its taxable income nor is allowed a net operating loss carryover or
carryback as a deduction. Instead, the stockholders of the Company include their respective shares of the Company’s net operating income or loss in their individual income tax returns.

Because the Company’s stockholders will be obligated to pay income taxes on the earnings of the Company, the Company expects to declare cash dividends sufficient to fund the stockholders’ tax payments as they come due.

For 2016, deferred income tax assets and liabilities were determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which the occur. During 2017, the Company reversed the deferred tax liability recorded on the books due to the conversion to Subchapter S.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Company is no longer subject to examination by taxing authorities for years before 2014.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. 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.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.
Fair Value Measurements

Fair values of financial instruments are estimated using the relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Dividend Restrictions

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Comprehensive Income

Components of comprehensive income are net income and all other non-owner changes in equity. The only component of other comprehensive income consists of net unrealized holding gains and losses on available-for-sale securities.

Accounting Standards Updates

ASU 2014-09 “Revenue from Contracts with Customers”. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. It will supersede most current revenue recognition requirements when it becomes effective. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies the performance obligation. This guidance becomes effective for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the effect that the guidance will have on its consolidated financial statements, if any.

ASU 2016-01 “Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”. ASU 2016-01 amends a number of accounting standards, including: (1) Requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in income; (2) Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (3) Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables); (4) Simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (5) Clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets; (6) Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost; and (7) Eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. This guidance becomes effective for annual reporting periods beginning after December
The adoption of this standard is not expected to have a material effect on the Company’s operating results or financial condition.

ASU 2016-02 “Leases”. ASU 2016-02 will require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. This guidance becomes effective for annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the overall effect that the guidance will have on its consolidated financial statements and disclosures.

ASU 2016-13 “Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments”. The amendments under ASU 2016-13 require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This guidance becomes effective for annual reporting periods beginning after December 15, 2020 and interim reporting periods beginning after December 15, 2021. The Company is currently evaluating the effect that the guidance will have on its consolidated financial statements and disclosures.

ASU 2017-04 “Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment”. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. The annual goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The guidance becomes effective for annual reporting periods beginning after December 15, 2021. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. The Company has elected to early adopt this guidance effective January 1, 2017. The adoption of this standard did not have a material effect on the Company’s operating results or financial condition.

ASU 2017-08 “Receivables – Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities”. The amendments in ASU 2017-08 shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, the discount continues to be amortized to maturity. This guidance becomes effective for annual reporting periods beginning after December 15, 2019 and interim reporting periods beginning after December 15, 2020. Early adoption is permitted. The Company has elected to early adopt this guidance effective January 1, 2017, the impact of the adoption was not material to the consolidated financial statements or disclosures.
Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through February 23, 2018, which is the date the financial statements were available to be issued.

NOTE B – INVESTMENT SECURITIES

The following presents information related to the Company’s portfolio of debt securities (dollars in thousands):

<table>
<thead>
<tr>
<th>Securities available for sale</th>
<th>December 31, 2017</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amortized Cost</td>
<td>Gross Unrealized Gains</td>
<td>Gross Unrealized Losses</td>
<td>Fair Value</td>
</tr>
<tr>
<td>State and municipal</td>
<td>$32,932</td>
<td>$238</td>
<td>$(197)</td>
<td>$32,973</td>
</tr>
<tr>
<td>Mortgage-backed</td>
<td>10,128</td>
<td>8</td>
<td>(43)</td>
<td>10,093</td>
</tr>
<tr>
<td>Structured CDs</td>
<td>500</td>
<td></td>
<td></td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>$43,560</td>
<td>$246</td>
<td>$(240)</td>
<td>$43,566</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Securities available for sale</th>
<th>December 31, 2016</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amortized Cost</td>
<td>Gross Unrealized Gains</td>
<td>Gross Unrealized Losses</td>
<td>Fair Value</td>
</tr>
<tr>
<td>State and municipal</td>
<td>$37,892</td>
<td>$388</td>
<td>$(227)</td>
<td>$38,053</td>
</tr>
<tr>
<td>Mortgage-backed</td>
<td>10,874</td>
<td>50</td>
<td>(57)</td>
<td>10,867</td>
</tr>
<tr>
<td>Structured CDs</td>
<td>500</td>
<td></td>
<td></td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>$49,266</td>
<td>$438</td>
<td>$(284)</td>
<td>$49,420</td>
</tr>
</tbody>
</table>
The amortized cost and estimated market value of debt securities at December 31, 2017, by contractual maturity are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Available for Sale</th>
<th>Amortized Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in one year or less</td>
<td>$3,085</td>
<td>$3,070</td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>9,869</td>
<td>9,839</td>
</tr>
<tr>
<td>Due after five years through ten years</td>
<td>13,173</td>
<td>13,198</td>
</tr>
<tr>
<td>Due after ten years</td>
<td>7,305</td>
<td>7,366</td>
</tr>
<tr>
<td>Securities without fixed maturities</td>
<td>33,432</td>
<td>33,473</td>
</tr>
<tr>
<td></td>
<td>10,128</td>
<td>10,093</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$43,560</strong></td>
<td><strong>$43,566</strong></td>
</tr>
</tbody>
</table>

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

At December 31, 2017 and 2016, investment securities with carrying values of $3.2 million and $4.2 million, respectively, were pledged to secure public deposits, repurchase agreements and for other purposes.

During 2017, there were no sales of investment securities. During 2016, there were gross realized gains of $23 thousand and no gross realized losses on the sale of investment securities.

Information pertaining to securities with gross unrealized losses, at December 31, 2017 and 2016 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (dollars in thousands):

<table>
<thead>
<tr>
<th>December 31, 2017</th>
<th>Less than 12 months</th>
<th>Over 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Unrealized</td>
<td>Fair Value</td>
<td>Gross Unrealized</td>
</tr>
<tr>
<td>Losses</td>
<td></td>
<td>Losses</td>
</tr>
<tr>
<td>Securities available for sale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and municipal</td>
<td>$135</td>
<td>$13,264</td>
</tr>
<tr>
<td>Mortgage-backed</td>
<td>34</td>
<td>6,112</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$169</td>
<td>$19,376</td>
</tr>
</tbody>
</table>
MEDINA COMMUNITY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

<table>
<thead>
<tr>
<th>Securities available for sale</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than 12 months</td>
</tr>
<tr>
<td></td>
<td>Gross Unrealized Losses</td>
</tr>
<tr>
<td>State and municipal</td>
<td>$ 146</td>
</tr>
<tr>
<td>Mortgage-backed</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td>$ 203</td>
</tr>
</tbody>
</table>

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions 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) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE C – NONMARKETABLE EQUITY SECURITIES

Nonmarketable equity securities carried at cost are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Home Loan Bank of Dallas</td>
<td>$ 348</td>
<td>$ 344</td>
</tr>
<tr>
<td>Federal Reserve Bank</td>
<td>192</td>
<td>192</td>
</tr>
<tr>
<td>TIB - The Independent BankersBank</td>
<td>139</td>
<td>139</td>
</tr>
<tr>
<td></td>
<td>$ 679</td>
<td>$ 675</td>
</tr>
</tbody>
</table>
NOTE D - LOANS

Major classifications of loans are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td><strong>Real Estate:</strong></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>46,714</td>
</tr>
<tr>
<td>Residential</td>
<td>22,309</td>
</tr>
<tr>
<td>Agriculture</td>
<td>11,576</td>
</tr>
<tr>
<td>Commercial</td>
<td>20,151</td>
</tr>
<tr>
<td>Agricultural</td>
<td>10,370</td>
</tr>
<tr>
<td>Consumer and Other</td>
<td>6,414</td>
</tr>
<tr>
<td><strong>Less: Unearned Loan Fees</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Less: Allowance For Loan Losses</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Loans</strong></td>
<td>$ 115,595</td>
</tr>
</tbody>
</table>

Transactions in the allowance for loan losses are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2017</th>
<th>Year Ended December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Commercial Real Estate</td>
<td>Residential Real Estate</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2016</strong></td>
<td>$ 646</td>
<td>$ 527</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>(144)</td>
<td>(143)</td>
</tr>
<tr>
<td>Charge-offs</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Recoveries</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net (charge-offs) recoveries</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2017</strong></td>
<td>$ 502</td>
<td>$ 384</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2016</th>
<th>Year Ended December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Commercial Real Estate</td>
<td>Residential Real Estate</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2015</strong></td>
<td>$ 461</td>
<td>$ 486</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>185</td>
<td>40</td>
</tr>
<tr>
<td>Charge-offs</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Recoveries</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td><strong>Net (charge-offs) recoveries</strong></td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2016</strong></td>
<td>$ 646</td>
<td>$ 527</td>
</tr>
</tbody>
</table>
Components of the allowance for loan losses, and the related carrying amounts of loans for which the allowance is determined, are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Allocation of Allowance To:</th>
<th>Commercial Real Estate</th>
<th>Residential Real Estate</th>
<th>Agriculture Real Estate</th>
<th>Commercial</th>
<th>Agricultural Production</th>
<th>Consumer and Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired loans - evaluated individually</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$29</td>
<td>$</td>
<td>$7</td>
<td>$36</td>
</tr>
<tr>
<td>Impaired loans - evaluated collectively</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total impaired loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unimpaired loans - evaluated collectively</td>
<td>502</td>
<td>384</td>
<td>140</td>
<td>385</td>
<td>178</td>
<td>142</td>
<td>1,731</td>
</tr>
<tr>
<td></td>
<td>$502</td>
<td>$384</td>
<td>$140</td>
<td>$385</td>
<td>$178</td>
<td>$142</td>
<td>$1,767</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recorded Investment In:</th>
<th>Commercial Real Estate</th>
<th>Residential Real Estate</th>
<th>Agriculture Real Estate</th>
<th>Commercial</th>
<th>Agricultural Production</th>
<th>Consumer and Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired loans - evaluated individually</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$52</td>
<td>$</td>
<td>$3</td>
<td>$14</td>
</tr>
<tr>
<td>Impaired loans - evaluated collectively</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total impaired loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unimpaired loans - evaluated collectively</td>
<td>46,714</td>
<td>21,973</td>
<td>11,524</td>
<td>20,076</td>
<td>10,367</td>
<td>6,400</td>
<td>117,054</td>
</tr>
<tr>
<td></td>
<td>$46,714</td>
<td>$22,309</td>
<td>$11,576</td>
<td>$20,151</td>
<td>$10,370</td>
<td>$6,414</td>
<td>$117,534</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocation of Allowance To:</th>
<th>Commercial Real Estate</th>
<th>Residential Real Estate</th>
<th>Agriculture Real Estate</th>
<th>Commercial</th>
<th>Agricultural Production</th>
<th>Consumer and Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired loans - evaluated individually</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$36</td>
<td>$</td>
<td>$7</td>
<td>$36</td>
</tr>
<tr>
<td>Impaired loans - evaluated collectively</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total impaired loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unimpaired loans - evaluated collectively</td>
<td>646</td>
<td>527</td>
<td>78</td>
<td>356</td>
<td>153</td>
<td>122</td>
<td>1,882</td>
</tr>
<tr>
<td></td>
<td>$646</td>
<td>$527</td>
<td>$78</td>
<td>$356</td>
<td>$153</td>
<td>$122</td>
<td>$1,918</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recorded Investment In:</th>
<th>Commercial Real Estate</th>
<th>Residential Real Estate</th>
<th>Agriculture Real Estate</th>
<th>Commercial</th>
<th>Agricultural Production</th>
<th>Consumer and Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired loans - evaluated individually</td>
<td>$63</td>
<td>367</td>
<td>$</td>
<td>103</td>
<td>$</td>
<td>$3</td>
<td>$536</td>
</tr>
<tr>
<td>Impaired loans - evaluated collectively</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total impaired loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unimpaired loans - evaluated collectively</td>
<td>45,590</td>
<td>27,624</td>
<td>6,962</td>
<td>20,949</td>
<td>9,415</td>
<td>7,426</td>
<td>117,966</td>
</tr>
<tr>
<td></td>
<td>$45,653</td>
<td>$27,991</td>
<td>$6,962</td>
<td>$21,052</td>
<td>$9,415</td>
<td>$7,429</td>
<td>$118,502</td>
</tr>
</tbody>
</table>
Information relative to impaired loans is as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>Year Ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recorded Investment</td>
<td>Recorded Investment</td>
</tr>
<tr>
<td></td>
<td>In Impaired Loans With</td>
<td>In Impaired Loans With A Valuation Allowance</td>
</tr>
<tr>
<td>Real Estate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$ 336</td>
<td>$ -</td>
</tr>
<tr>
<td>Residential</td>
<td>$ 52</td>
<td>$ -</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$ 6</td>
<td>$ 69</td>
</tr>
<tr>
<td>Commercial Production</td>
<td>$ 3</td>
<td>$ -</td>
</tr>
<tr>
<td>Consumer and Other</td>
<td>$ 1</td>
<td>$ 13</td>
</tr>
<tr>
<td>Total Loans</td>
<td>$ 398</td>
<td>$ 82</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>Year Ended December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recorded Investment</td>
<td>Recorded Investment</td>
</tr>
<tr>
<td></td>
<td>In Impaired Loans With</td>
<td>In Impaired Loans With A Valuation Allowance</td>
</tr>
<tr>
<td>Real Estate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$ 63</td>
<td>$ -</td>
</tr>
<tr>
<td>Residential</td>
<td>$ 367</td>
<td>$ -</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Commercial</td>
<td>$ 27</td>
<td>$ 76</td>
</tr>
<tr>
<td>Agricultural Production</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Consumer and Other</td>
<td>$ 3</td>
<td>$ -</td>
</tr>
<tr>
<td>Total Loans</td>
<td>$ 460</td>
<td>$ 76</td>
</tr>
</tbody>
</table>

There are no commitments to extend credit on impaired loans at December 31, 2017 and interest income recognized on impaired loans was immaterial for the years ended December 31, 2017 and 2016.
Troubled debt restructurings included in impaired loans, and the related valuation allowance thereon, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>TDRs - included in impaired loans</th>
<th>Portion of Valuation Allowance on Impaired Loans</th>
<th>Attributable to TDRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$ -</td>
<td>$ -</td>
<td>-</td>
</tr>
<tr>
<td>Residential</td>
<td>256</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commercial</td>
<td>69</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Agricultural Production</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer and Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Loans</strong></td>
<td><strong>$ 325</strong></td>
<td><strong>$ 29</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>TDRs - included in impaired loans</th>
<th>Portion of Valuation Allowance on Impaired Loans</th>
<th>Attributable to TDRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$ -</td>
<td>$ -</td>
<td>-</td>
</tr>
<tr>
<td>Residential</td>
<td>281</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commercial</td>
<td>76</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Agricultural Production</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer and Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Loans</strong></td>
<td><strong>$ 357</strong></td>
<td>$</td>
<td>-</td>
</tr>
</tbody>
</table>
The carrying amount of loans by performance status are as follows (dollars in thousands):

### December 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>30-89</th>
<th>90 Days</th>
<th>90 Days or More Past Due</th>
<th>Nonaccrual Loans</th>
<th>Total Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real Estate:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$46,698</td>
<td>$16</td>
<td>$-</td>
<td>$-</td>
<td>$46,714</td>
</tr>
<tr>
<td>Residential</td>
<td>21,690</td>
<td>283</td>
<td>-</td>
<td>336</td>
<td>22,309</td>
</tr>
<tr>
<td>Agriculture</td>
<td>11,524</td>
<td>-</td>
<td>-</td>
<td>52</td>
<td>11,576</td>
</tr>
<tr>
<td>Commercial</td>
<td>19,490</td>
<td>531</td>
<td>55</td>
<td>75</td>
<td>20,151</td>
</tr>
<tr>
<td>Agricultural Production</td>
<td>10,367</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>10,370</td>
</tr>
<tr>
<td>Consumer and Other</td>
<td>6,375</td>
<td>25</td>
<td>-</td>
<td>14</td>
<td>6,414</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$116,144</td>
<td>$855</td>
<td>$55</td>
<td>$480</td>
<td>$117,534</td>
</tr>
</tbody>
</table>

### December 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>30-89</th>
<th>90 Days</th>
<th>90 Days or More Past Due</th>
<th>Nonaccrual Loans</th>
<th>Total Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real Estate:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$45,409</td>
<td>$181</td>
<td>$-</td>
<td>63</td>
<td>$45,653</td>
</tr>
<tr>
<td>Residential</td>
<td>27,195</td>
<td>326</td>
<td>103</td>
<td>367</td>
<td>27,991</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6,921</td>
<td>41</td>
<td>-</td>
<td>-</td>
<td>6,962</td>
</tr>
<tr>
<td>Commercial</td>
<td>20,772</td>
<td>177</td>
<td>-</td>
<td>103</td>
<td>21,052</td>
</tr>
<tr>
<td>Agricultural Production</td>
<td>9,415</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,415</td>
</tr>
<tr>
<td>Consumer and Other</td>
<td>7,305</td>
<td>116</td>
<td>5</td>
<td>3</td>
<td>7,429</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$117,017</td>
<td>$841</td>
<td>$108</td>
<td>$536</td>
<td>$118,502</td>
</tr>
</tbody>
</table>
The carrying amounts of loans by credit quality indicator are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pass</td>
<td>Special Mention</td>
<td>Substandard</td>
<td>Total Loans</td>
</tr>
<tr>
<td>Real Estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$46,269</td>
<td>$212</td>
<td>$233</td>
<td>$46,714</td>
</tr>
<tr>
<td>Residential</td>
<td>21,400</td>
<td>56</td>
<td>853</td>
<td>22,309</td>
</tr>
<tr>
<td>Agriculture</td>
<td>10,883</td>
<td>174</td>
<td>519</td>
<td>11,576</td>
</tr>
<tr>
<td>Commercial</td>
<td>18,615</td>
<td>-</td>
<td>1,536</td>
<td>20,151</td>
</tr>
<tr>
<td>Agricultural Production</td>
<td>10,258</td>
<td>11</td>
<td>101</td>
<td>10,370</td>
</tr>
<tr>
<td>Consumer and Other</td>
<td>6,414</td>
<td>-</td>
<td>-</td>
<td>6,414</td>
</tr>
<tr>
<td>Total Loans</td>
<td>$113,839</td>
<td>$453</td>
<td>$3,242</td>
<td>$117,534</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pass</td>
<td>Special Mention</td>
<td>Substandard</td>
<td>Total Loans</td>
</tr>
<tr>
<td>Real Estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$44,903</td>
<td>$220</td>
<td>$530</td>
<td>$45,653</td>
</tr>
<tr>
<td>Residential</td>
<td>27,022</td>
<td>-</td>
<td>969</td>
<td>27,991</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5,810</td>
<td>405</td>
<td>747</td>
<td>6,962</td>
</tr>
<tr>
<td>Commercial</td>
<td>20,514</td>
<td>-</td>
<td>538</td>
<td>21,052</td>
</tr>
<tr>
<td>Agricultural Production</td>
<td>9,218</td>
<td>15</td>
<td>182</td>
<td>9,415</td>
</tr>
<tr>
<td>Consumer and Other</td>
<td>7,365</td>
<td>-</td>
<td>64</td>
<td>7,429</td>
</tr>
<tr>
<td>Total Loans</td>
<td>$114,832</td>
<td>$640</td>
<td>$3,030</td>
<td>$118,502</td>
</tr>
</tbody>
</table>

**NOTE E – PREMISES AND EQUIPMENT**

Premises and equipment are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Land</td>
<td>$1,273</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>4,252</td>
</tr>
<tr>
<td>Furniture, fixtures and equipment</td>
<td>3,319</td>
</tr>
<tr>
<td></td>
<td>8,844</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>4,394</td>
</tr>
<tr>
<td></td>
<td>$4,450</td>
</tr>
</tbody>
</table>
MEDINA COMMUNITY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

Operating Leases

The Company leases certain ATM properties and equipment under operating leases. Rent expense was $51 thousand and $22 thousand for 2017 and 2016, respectively.

Rent commitments, before considering renewal options were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>51</td>
</tr>
<tr>
<td>2019</td>
<td>44</td>
</tr>
<tr>
<td>2020</td>
<td>5</td>
</tr>
<tr>
<td>2021</td>
<td>3</td>
</tr>
<tr>
<td>2022</td>
<td>-</td>
</tr>
<tr>
<td>Thereafter</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>103</strong></td>
</tr>
</tbody>
</table>

NOTE F - DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250 thousand at December 31, 2017 and 2016 were $5.8 million and $6.6 million, respectively.

At December 31, 2017, the scheduled maturities of time deposits are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>25,225</td>
</tr>
<tr>
<td>2019</td>
<td>7,737</td>
</tr>
<tr>
<td>2020</td>
<td>1,981</td>
</tr>
<tr>
<td>2021</td>
<td>723</td>
</tr>
<tr>
<td>2022</td>
<td>288</td>
</tr>
<tr>
<td>Thereafter</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35,954</strong></td>
</tr>
</tbody>
</table>

NOTE G - BORROWINGS

Note Payable

The Company has a note payable to an unrelated financial institution with a principal balance of $528 thousand and $2.5 million at December 31, 2017 and 2016, respectively. The note is secured by 200,000 shares of Bank stock. The note is payable in monthly installments of principal and interest through the maturity date of March 1, 2027. The interest rate is a variable rate equal to the Wall Street Journal Prime Rate plus 0.50%; which equaled the rate of 5.0% at December 31, 2017 and a rate of 4.25% at December 31, 2016.
Advances from the Federal Home Loan Bank

Advances amounting to $3.48 million and $6.38 million were outstanding at December 31, 2017 and 2016, respectively. The interest rates on fixed rate, long-term debt ranged from 0.56% to 6.0%. The weighted average rate at December 31, 2017 and 2016 was 4.09% and 1.63%, respectively. The advances were collateralized by first mortgage loans under a blanket lien agreement. Based on this collateral and the Company’s holdings of FHLB stock, the Company is eligible to borrow up to a total of $41.7 million at December 31, 2017.

At December 31, 2017, future scheduled principal payments on Federal Home Loan Bank borrowings are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$173</td>
</tr>
<tr>
<td>2019</td>
<td>187</td>
</tr>
<tr>
<td>2020</td>
<td>195</td>
</tr>
<tr>
<td>2021</td>
<td>205</td>
</tr>
<tr>
<td>2022</td>
<td>553</td>
</tr>
<tr>
<td>Thereafter</td>
<td>2,171</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,484</strong></td>
</tr>
</tbody>
</table>

NOTE H – INCOME TAXES

Allocation of federal income taxes between current and deferred positions is as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Years ended December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>Current federal provision</td>
<td>$</td>
<td>$367</td>
</tr>
<tr>
<td>Deferred provision (benefit)</td>
<td>(169)</td>
<td>62</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$(169)</td>
<td>$429</td>
</tr>
</tbody>
</table>
Listed below are the components of the net deferred tax liability (dollars in thousands):

<table>
<thead>
<tr>
<th>Deferred tax assets</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>$</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
</tr>
<tr>
<td>Securities available for sale</td>
<td>-</td>
</tr>
<tr>
<td>Trading securities</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Net deferred tax liability</td>
<td>-</td>
</tr>
</tbody>
</table>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Years ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Statutory federal tax rate</td>
<td>-</td>
</tr>
<tr>
<td>Increase (decrease) resulting from:</td>
<td></td>
</tr>
<tr>
<td>Tax-exempt income</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
</tr>
<tr>
<td>Effective tax rates</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

**NOTE I – LOAN COMMITMENTS AND OTHER RELATED ACTIVITY**

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.
The contractual amounts of financial instruments with off-balance sheet risk at December 31, 2017 and 2016, were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Unfunded commitments to extend credit</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial and standby letters of credit</td>
<td>$16,410</td>
<td>$20,248</td>
</tr>
<tr>
<td></td>
<td>514</td>
<td>364</td>
</tr>
</tbody>
</table>

**NOTE J – MINIMUM REGULATORY CAPITAL REQUIREMENTS**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct effect on the Company’s and the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The final rules implementing Basel Committee on Banking Supervision’s capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at a rate of 0.625% per year from 0.0% for 2015 to 2.5% by 2019. The capital conservation buffer for 2017 is 1.25%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2017, that the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2017 and 2016, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank’s category.
The Bank's actual and required capital amounts and ratios as of December 31, 2017 and 2016 are presented in the following table.

<table>
<thead>
<tr>
<th></th>
<th>Actual Amount</th>
<th>Actual Ratio</th>
<th>Minimum capital requirement Amount</th>
<th>Minimum capital requirement Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of December 31, 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total capital (to risk weighted assets)</td>
<td>$21,588</td>
<td>17.1%</td>
<td>$10,096</td>
<td>8.0%</td>
</tr>
<tr>
<td>Tier 1 capital (to risk weighted assets)</td>
<td>20,008</td>
<td>15.9%</td>
<td>7,572</td>
<td>6.0%</td>
</tr>
<tr>
<td>Common Tier 1 (to risk weighted assets)</td>
<td>20,008</td>
<td>15.9%</td>
<td>5,679</td>
<td>4.5%</td>
</tr>
<tr>
<td>Tier 1 capital (to average assets)</td>
<td>20,008</td>
<td>10.0%</td>
<td>7,966</td>
<td>4.0%</td>
</tr>
<tr>
<td>As of December 31, 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total capital (to risk weighted assets)</td>
<td>$20,150</td>
<td>16.0%</td>
<td>$10,051</td>
<td>8.0%</td>
</tr>
<tr>
<td>Tier 1 capital (to risk weighted assets)</td>
<td>18,575</td>
<td>14.8%</td>
<td>7,538</td>
<td>6.0%</td>
</tr>
<tr>
<td>Common Tier 1 (to risk weighted assets)</td>
<td>18,575</td>
<td>14.8%</td>
<td>5,654</td>
<td>4.5%</td>
</tr>
<tr>
<td>Tier 1 capital (to average assets)</td>
<td>18,575</td>
<td>9.5%</td>
<td>7,850</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

### NOTE K – EMPLOYEE BENEFIT PLANS

**401(k) Plan**

The Company has a 401(k) plan in which substantially all eligible employees participate. Employees may contribute up to 75% of their compensation subject to certain limits based on federal tax laws. The Company makes a fully vested contribution of 3% of each participant’s compensation, under the Safe Harbor Nonelective Allocation method. For the years ended December 31, 2017 and 2016, expense related to the plan amounted to $73 thousand and $72 thousand, respectively.

### NOTE L – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to executive officers, principal shareholders and directors and parties affiliated with those persons (collectively, “insiders”). The Company has loans to insiders aggregating $6.8 million and $3.6 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, deposits from insiders totaled $4.0 million and $5.8 million, respectively.

### NOTE M – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, excluding transaction costs. When measuring fair value, entities should maximize the use of observable inputs and minimize the use of unobservable inputs. The following describes the three levels of inputs that may be used to measure fair value:

- **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.

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Level 2 Inputs - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Inputs - Unobservable inputs that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following is a description of the Company’s valuation methodologies for assets and liabilities recorded at fair value:

Trading and Securities Available for Sale – Securities are recorded at fair value on a recurring basis based upon measurements obtained from an independent pricing service. The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the bonds’ terms and conditions, among other things (Level 2).

Impaired Loans – The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants (Level 3).

Foreclose Real Estate – The Company does not record foreclosed real estate at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these properties to reflect the current appraised value (less an estimate of cost to sell). In some cases, the properties for which appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for real estate held for sale are obtained from independent appraisers (Level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a recurring basis (dollars in thousands):

<table>
<thead>
<tr>
<th>Securities available for sale</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
</tr>
<tr>
<td>State and municipal</td>
<td>$</td>
</tr>
<tr>
<td>Mortgage-backed</td>
<td>$</td>
</tr>
<tr>
<td>Structured CDs</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>
MEDINA COMMUNITY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Total</td>
</tr>
<tr>
<td>State and municipal</td>
<td>$</td>
<td>-</td>
<td>$2,043</td>
<td>$</td>
</tr>
<tr>
<td>Securities available for sale</td>
<td>-</td>
<td>$38,053</td>
<td>$</td>
<td>$38,053</td>
</tr>
<tr>
<td>Mortgage-backed</td>
<td>-</td>
<td>$10,867</td>
<td>-</td>
<td>$10,867</td>
</tr>
<tr>
<td>Structured CDs</td>
<td>-</td>
<td>-</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>-</td>
<td>$49,420</td>
<td>$</td>
</tr>
</tbody>
</table>

During 2017 and 2016, there were no Level 3 assets or liabilities measured at fair value on a recurring basis.

Assets and liabilities recorded at fair value on a non-recurring basis are summarized below (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Total</td>
</tr>
<tr>
<td>Impaired loans</td>
<td>$</td>
<td>-</td>
<td>$444</td>
<td>$444</td>
</tr>
<tr>
<td>Foreclosed real estate</td>
<td>-</td>
<td>-</td>
<td>61</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Total</td>
</tr>
<tr>
<td>Impaired loans</td>
<td>$</td>
<td>-</td>
<td>$500</td>
<td>$500</td>
</tr>
</tbody>
</table>

Impaired loans, had a carrying amount of $480, with a valuation allowance of $36, at December 31, 2017, and a carrying amount of $536, with a valuation allowance of $36, at December 31, 2016.

At December 31, 2017 foreclosed real estate had an initial cost basis of $61 thousand, with no valuation allowance. The Company did not have any foreclosed real estate at December 31, 2016.

NOTE N – SUBSEQUENT EVENTS

On January 18, 2018, the Board declared a distribution of $2.50 a share for shareholders of record as of December 31, 2017 payable on January 29, 2018.