AMENDED JUL 20 2018

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Michael W. Murphy
Name of the Holding Company Director and Official

Secretary/Treasurer & Director
Title of the Holding Company Director and Official

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

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

Mike Murphy
Signature of Holding Company Director and Official

03/20/18
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

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

December 31, 2017
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

ANB Bancshares, Inc.
Legal Title of Holding Company

1606 N. Sarah DeWitt Drive
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Gonzales	Texas	78629

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Michael W. Murphy	Secretary / Treasurer

830-672-8585
Area Code / Phone Number / Extension

830-672-6226
Area Code / FAX Number

mmurphy@sagecapitalbank.com
E-mail Address

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

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

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

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

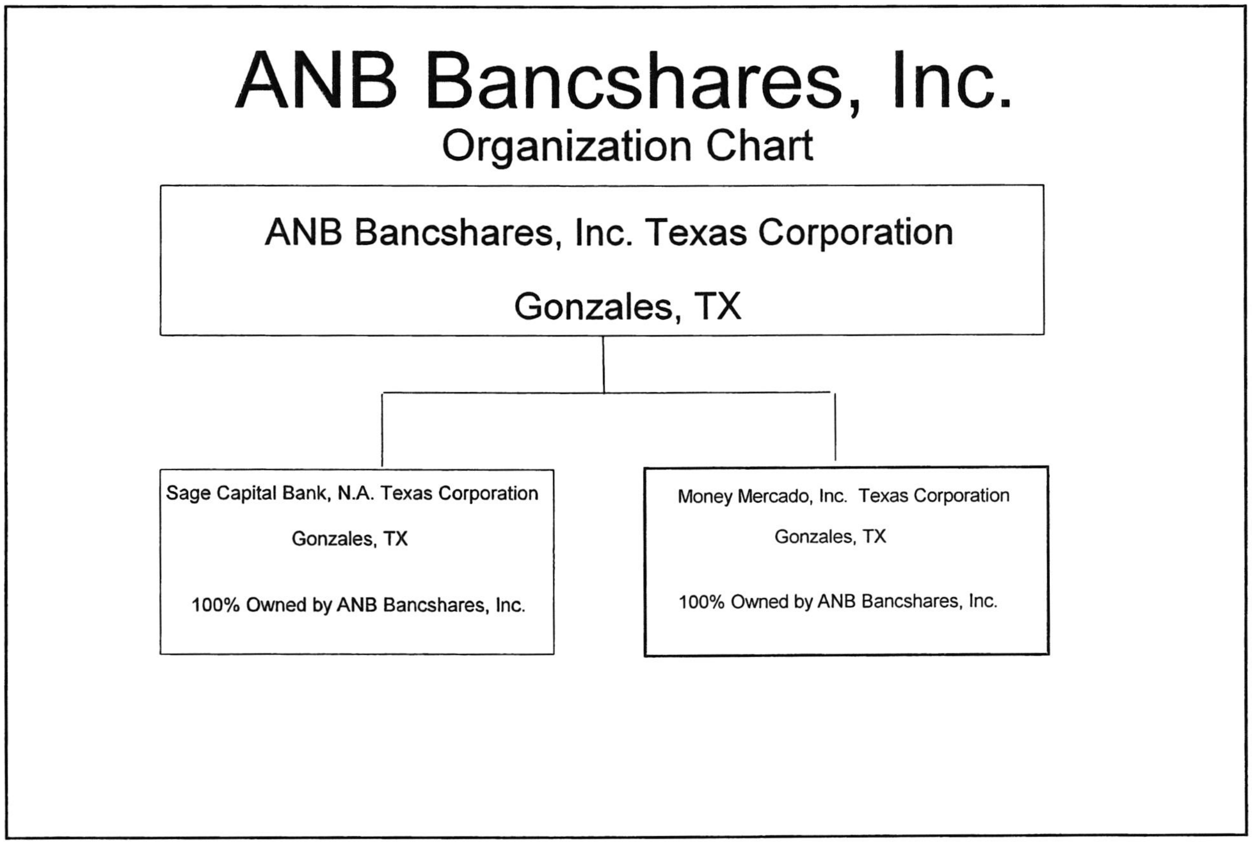
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

FR Y-6
12/31/17

Report Item 1:

Attached

Report Item 2a:



No LEI available.

Results: A list of branches for your holding company: ANB BANCSHARES, INC. (2536642) of GONZALES, TX.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/01/2018.

Reconciliation and Verification Steps

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

Actions

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

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

Submission Procedure

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	448554	SAGE CAPITAL BANK	1606 NORTH SARAH DEWITT DRIVE	GONZALES	TX	78629	GONZALES	UNITED STATES	Not Required	Not Required	SAGE CAPITAL BANK	448554	
OK		Full Service	5183403	CEDAR PARK BRANCH	13625 RONALD REAGAN BOULEVARD, SUITE 200	CEDAR PARK	TX	78613	WILLIAMSON	UNITED STATES	Not Required	Not Required	SAGE CAPITAL BANK	448554	
OK		Full Service	2649908	LOCKHART BRANCH	501 SOUTH COLORADO STREET	LOCKHART	TX	78644	CALDWELL	UNITED STATES	Not Required	Not Required	SAGE CAPITAL BANK	448554	
OK		Full Service	2578204	LULING BRANCH	121 SOUTH MAGNOLIA STREET	LULING	TX	78648	CALDWELL	UNITED STATES	Not Required	Not Required	SAGE CAPITAL BANK	448554	
OK		Full Service	4036221	NEW BRAUNFELS BRANCH	2009 STATE HIGHWAY 46	NEW BRAUNFELS	TX	78132	COMAL	UNITED STATES	Not Required	Not Required	SAGE CAPITAL BANK	448554	
OK		Full Service	3231926	SAN MARCOS BRANCH	2201 HUNTER ROAD	SAN MARCOS	TX	78666	HAYS	UNITED STATES	Not Required	Not Required	SAGE CAPITAL BANK	448554	
OK		Full Service	4361893	SHINER BRANCH	1406 NORTH AVENUE E	SHINER	TX	77984	LAVACA	UNITED STATES	Not Required	Not Required	SAGE CAPITAL BANK	448554	
OK		Full Service	3432116	TEXAS HILL BRANCH	18966 FORTY SIX PARKWAY	SPRING BRANCH	TX	78070	COMAL	UNITED STATES	Not Required	Not Required	SAGE CAPITAL BANK	448554	

Report Item 2b:

Branch information was verified, reconciled, and submitted. Also attached.

Report Item 3:

(1) ANB Bancshares, Inc. -

Clint Brisco, Houston, Texas, USA
U.S. Citizen
Partner in RDB ANB Coinvestment, L.P. with 229,207 Shares, 19.61%
Partner in R D Brisco Partners, L.P. with 76,410 Shares, 6.54%
Executor Ruth D. Brisco estate with 500 Shares, .04%

Lavo Brisco, Sheridan, Texas, USA
U.S. Citizen
Partner in Lavo & Ruth Brisco Family Partners, L.P. with 302,000 Shares, 25.84%

Brent Christian, Gonzales, Texas, USA
U.S. Citizen, 149,567 Shares, 12.80%

Janelle Trammel, Gonzales, Texas, USA
U.S. Citizen, 146,318 Shares, 12.52%

Michael Murphy, New Braunfels, Texas, USA
U.S. Citizen, 12,190 Shares, 1.04%
Options on 18170 Shares, 1.53%
Trustee for ESOP With Power to Vote 57,733 Shares, 4.94%

JPTM One, LP, Gonzales, Texas, USA
Limited Partnership, 63,551 Shares, 5.44%
Paula Jones, Mary Jones, & Tracy Jones Partners
Gonzales, Texas, USA, U.S. Citizens

(2) ANB Bancshares, Inc.:

None

Form FR Y-6
ANB Bancshares, Inc.
Gonzales, TX
Fiscal Year Ending December 31, 2017

AMENDED
JUL 20 2018

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

(1) Name, City, State Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4) (b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4) (c) List names of other companies (includes partnerships) if 25% or more of voting securities are held(List names of companies and of percentage of voting securities held)
Clint Brisco Houston, TX USA	Retired Computer Engineer/Investor	Director	Director of Sage Capital Bank	Partner - Zane & Ruth Brisco Family Partners; President-Zane& Ruth Brisco Family Partners Mgmt Inc.;Trustee-Ruth D. Brisco Family Trust 2008;President Ruth D. Brisco Familty Mgmt LLC; President -RDB ANB Coinvestment Mgmt, Inc.;Partner-RD Brisco Partners, L.P.;Trustee of Clint & Mary Brisco Trust of 2005;Executor of the Est. of Ruth D. Brisco; Trustee of Clinton G. Brisco Trust; Trustee of Clinton G. Brisco Exempt Trust; President of RD Brisco Partners Mgmt, Inc.;Member of Brisco Resources Mgmt, LLC, Partner in Brisco Resources L.P.	26.19% (ANB Bancshares, Inc); 0% (Sage Capital Bank)	Zane & Ruth Brisco Family Partners (100%);Zane & Ruth Brisco Family Partners Mgmt, Inc. (100%);Ruth D. Brisco Family Trust 2008 (100%);Ruth Brisco Family Mgmt LLC (100%);RDB ANB Coinvestment Mgmt, Inc. (100%);RDB ANB Coinvestment L.P. (100%);R D Brisco Partners, L.P. (100%);Clint & Mary Brisco Trust of 2005 (100%);Estate of Ruth D. Brisco(100%);Clinton G. Brisco Trust (100%);Clinton G. Brisco Exempt Trust (100%); R D Brisco Partners Mgmt, Inc. (100%);Brisco Resources Mgmt L.L.C. (100%); Brisco Resources L.P (100%)

Lavo Brisco Sheridan, TX USA	Rancher	Advisory Member	Advisory Member of Board of Directors of Sage Capital Bank	Partner - LRB ANB Coinvestment L.P.;Partner in Lavo & Ruth Brisco Family Partners L.P.;Trustee-Lavo & Ruth Brisco Revocable Trust;Member- Lavo & Ruth Brisco Family Partners Mgmt L.L.C.; Member- Lavo & Ruth Brisco Family Trust of 2008;Trustee- Lenora Ruth Williamson Trust of 2008	25.84% of ANB Bancshares, Inc.; 0% of Sage Capital Bank	LRB ANB Coinvestment (100%);Lavo & Ruth Brisco Revocable Trust(100%);Lavo & Ruth Brisco Family Partners Mgmt L.L.C (100%);Lavo & Ruth Brisco Mgmt L.L.C. (100%);Lavo & Ruth Brisco Family Trust of 2008 (100%);Lenora Ruth Willaimson Trust of 2008 (100%)
Brent Christian Gonzales, TX USA	Retired Bank/Rancher	Director	Director Sage Capital Bank	N/A	12.80% of ANB Bancshares, Inc.; 0% of Sage Capital Bank	N/A
Janelle Trammell Gonzales, TX USA	Rancher	Investor	N/A	N/A	12.52% of ANB Bancshares	N/A
Michael Murphy New Braunfels, TX USA	Banker	Secretary, Vice President & Director	Executive VP-CFO, and Director of Sage Capital Bank;Secretary/Treasurer & Director of Money Mercado, Inc.	N/A	7.42% of ANB Bancshares, Inc. ;)0% of Sage Capital;0% of Money Mercado, Inc.	N/A
Cathy Colwell Houston, TX USA	Retired Probation Officer	Director	Director of Sage Capital Bank	N/A	3.49% of ANB Bancshares, Inc.;0% of Sage Capital Bank	N/A
Bill Hales Wimberly, TX USA	Banker	Director	Executive VP, CLO & Director of Sage Capital Bank	Member of Copperhead Oil & Gas LTD	1.75% of ANB Bancshares; 0% of Sage Capital Bank	Copperhead Oil & Gas LTD (100%)
Norman Burns Gonzales, TX USA	Attorney	Chair of Board, VP & Director	Chairman of Board & Director of Sage Capital Bank	N/A	.11% of ANB Bancshares;0% of Sage Capital Bank	N/A

Joseph M. Rankin III Spring Branch, TX USA	Banker	President, CEO & Director	President, CEO, Director of Sage Capital Bank; President, CEO & Director of Money Mercado, Inc.	N/A	1.42% of ANB Bancshares, Inc. 0% of Sage Capital Bank; 0% of Money Mercado, Inc.	
Regina Williamson Sheridan, TX USA	Retired Social Worker	Director	Director of Sage Capital Bank	N/A	.01% of ANB Bancshares; 0% of Sage Capital Bank	N/A

AMENDED
JUL 20 2018

ANB BANCSHARES, INC. and SUBSIDIARIES

CONSOLIDATED
FINANCIAL STATEMENTS
and INDEPENDENT AUDITORS' REPORT

DECEMBER 31 2017 and 2016

ANB BANCSHARES, INC. and SUBSIDIARIES

TABLE of CONTENTS

GLASS & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, P.C.

Board of Directors and Audit Committee
ANB Bancshares, Inc. and Subsidiaries
Gonzales, Texas

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of ANB Bancshares, Inc. and Subsidiaries (Company) which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholder's equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 reasonable 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 ANB Bancshares, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Glass & Company

February 27, 2018

GLASS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

500 W. 5th Street, Suite 1210 Austin, Texas 78701 (512) 480-8182 FAX: (512) 498-0813

ANB BANCSHARES, INC. and SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 25,816,953	$ 15,291,821
Federal funds sold	31,875,000	16,650,000
Total Cash and Cash Equivalents	57,691,953	31,941,821
Investment securities	46,993,782	61,325,234
Loans, net	257,541,191	231,813,763
Bank premises and equipment, net	13,402,696	10,888,103
Accrued interest receivable	1,499,134	1,498,423
Intangible assets, net	4,570,464	3,105,390
Bank owned life insurance	6,990,672	6,818,884
Deferred tax asset, net	752,286	1,043,191
Other assets	1,323,420	1,066,792
Total Assets	$ 390,765,598	$ 349,501,601
LIABILITIES and SHAREHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 114,614,602	$ 104,932,946
Interest bearing deposits	232,028,028	203,134,145
Total Deposits	346,642,630	308,067,091
Accrued interest payable	74,589	48,816
Accrued expenses and other liabilities	2,095,357	1,554,004
Total Liabilities	348,812,576	309,669,911
Shareholders' Equity:		
Common stock, $1.50 par value; 5,000,000 shares authorized; 1,535,868 and 1,521,500 shares issued; 1,168,887 and 1,183,073 shares outstanding, respectively	2,303,802	2,282,250
Capital surplus	7,828,723	7,247,715
Retained earnings	38,330,599	35,835,705
Accumulated other comprehensive income, net	53,253	82,361
Treasury Stock, at cost (366,981 and 338,427 shares)	(6,563,355)	(5,616,341)
Total Shareholders' Equity	41,953,022	39,831,690
Total Liabilities and Shareholders' Equity	$ 390,765,598	$ 349,501,601

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

ANB BANCSHARES, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS of INCOME

	Year Ended December 31, 2017	2016
INTEREST INCOME:		
Interest and fees on loans	$ 13,864,853	$ 12,173,527
Interest on investment securities	1,051,344	1,357,385
Interest on federal funds sold	289,514	102,421
Total Interest Income	15,205,711	13,633,333
INTEREST EXPENSE on DEPOSITS	(877,631)	(630,921)
Net Interest Income	14,328,080	13,002,412
PROVISION for LOAN LOSSES	(362,000)	(240,000)
Net Interest Income after Provision for Loan Losses	13,966,080	12,762,412
OTHER INCOME:		
Service charges, commissions and fees	1,259,277	1,335,870
Other income	184,858	218,298
Losses on sale of fixed assets	-	(21,184)
Gains on sale of investment securities	-	86,877
Total Other Income	1,444,135	1,619,861
Total Net Revenues	15,410,215	14,382,273
OTHER EXPENSES:		
Salaries and wages	5,579,395	5,130,076
Other operating expenses	2,430,040	2,245,749
Equipment and data processing expenses	844,630	847,356
Employee benefits	1,200,614	1,039,422
Occupancy costs, net	1,039,408	937,508
Total Other Expenses	11,094,087	10,200,111
INCOME before INCOME TAXES	4,316,128	4,182,162
Income tax expense	(1,821,234)	(1,133,049)
NET INCOME	$ 2,494,894	$ 3,049,113

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

ANB BANCSHARES, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS of COMPREHENSIVE INCOME

	Year Ended December 31,	
	2017	**2016**
NET INCOME	$ 2,494,894	$ 3,049,113
Other items of comprehensive income		
Unrealized holding gain (loss)	(44,103)	(555,491)
Reclassification adjustment for realized gains on available-for-sale securities included in net income	-	(86,877)
Comprehensive income before tax	2,450,791	2,406,745
Income tax (expense) benefit related to other items of of comprehensive income	14,995	218,405
Comprehensive income after tax	$ 2,465,786	$ 2,625,150

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
DECEMBER 31, 2015	$ 2,253,150	$ 6,811,012	$ 32,786,592	$ 506,324	$ (4,645,454)	$ 37,711,624
Net income			3,049,113			3,049,113
Other comprehensive income, net of tax				(423,963)		(423,963)
Total Comprehensive Income						2,625,150
ESOP contribution	5,393	105,010				110,403
Stock based compensation		73,678				73,678
Sale of stock in connection with stock option plan	23,707	258,015			(281,722)	-
Purchase of treasury stock					(689,165)	(689,165)
DECEMBER 31, 2016	2,282,250	7,247,715	35,835,705	82,361	(5,616,341)	39,831,690
Net income			2,494,894			2,494,894
Other comprehensive income, net of tax				(29,108)		(29,108)
Total Comprehensive Income						2,465,786
ESOP contribution	6,867	177,718				184,585
Stock based compensation		252,385				252,385
Sale of stock in connection with stock option plan	14,685	150,905			(165,590)	-
Purchase of treasury stock					(781,424)	(781,424)
DECEMBER 31, 2017	$ 2,303,802	$ 7,828,723	$ 38,330,599	$ 53,253	$ (6,563,355)	$ 41,953,022

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

ANB BANCSHARES, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS of CASH FLOWS

	Year Ended December 31, 2017	2016
CASH FLOWS from OPERATING ACTIVITIES:		
Net income	$ 2,494,894	$ 3,049,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment securities amortization, net	293,580	559,788
Provision for loan losses	362,000	240,000
Loss on sale/disposal of the fixed assets	-	21,184
Depreciation and amortization	815,892	763,874
Write-down of foreclosed assets	11,320	-
Gain on sale of investment securities	-	(86,877)
ESOP contribution	184,585	110,403
Stock-based compensation	252,385	73,678
Deferred tax expense (benefit)	319,178	(199,306)
Change in asset accounts:		
Accrued interest receivable	(711)	(12,746)
Bank owned life insurance	(171,788)	(206,953)
Other assets	(266,648)	152,501
Change in liability accounts:		
Accrued interest payable	25,196	9,636
Accrued expenses	497,818	99,421
Net Cash Provided by Operating Activities	4,817,701	4,573,716
CASH FLOWS from INVESTING ACTIVITIES:		
Investment securities:		
Proceeds from maturities	14,520,000	7,850,000
Proceeds from sales	-	3,670,450
Proceeds from principal paydowns	685,722	1,306,289
Purchases	(1,225,230)	-
Purchase of Federal Home Loan Bank stock	(1,300)	(400)
Net cash received in branch acquisition	9,887,994	-
Net change in loans	(23,956,058)	(30,127,433)
Purchases of bank premises and equipment	(980,485)	(1,708,063)
Net Cash Used by Investing Activities	(1,069,357)	(19,009,157)

Continued on next page...

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

ANB BANCSHARES, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS of CASH FLOWS (Continued)

	Year Ended December 31,	
	2017	**2016**
CASH FLOWS from FINANCING ACTIVITIES:		
Net change in demand deposits	$ (5,201,845)	$ (4,413,623)
Net change in interest bearing deposits	27,985,057	(1,396,026)
Purchase of treasury stock	(781,424)	(689,165)
Net Cash Provided (Used) by Financing Activities	22,001,788	(6,498,814)
NET INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	25,750,132	(20,934,255)
CASH and CASH EQUIVALENTS:		
Beginning Balance	31,941,821	52,876,076
Ending Balance	$ 57,691,953	$ 31,941,821

SUPPLEMENTAL INFORMATION

Cash paid during the year for interest	$ 851,858	$ 621,285
Cash paid during the year for income taxes	$ 1,141,224	$ 1,581,411

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

SAGE CAPITAL BANK, N.A.

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The 2015 consolidated financial statements include the accounts of ANB Bancshares, Inc. (Company) and its wholly–owned subsidiary ANB Nevada Group, Inc. (Nevada) and Nevada's wholly–owned subsidiary Sage Capital Bank, N.A. (Bank). Effective October 21, 2016, Nevada was merged into the Company. As a result, the Bank became a wholly-owned subsidiary of ANB Bancshares, Inc. Also, during 2016, the Company established a wholly-owned subsidiary, Money Mercado, Inc. (MMI), which is licensed to operate as a consumer lending company in Texas. The 2017 and 2016 consolidated financial statements include the accounts of the Company, the Bank, and MMI. Collectively, these entities are referred to as Company in these consolidated financial statements. All significant intercompany transactions and balances have been eliminated in consolidation.

Organization

Bancshares was incorporated under the laws of the State of Texas on February 11, 1997. Its wholly-owned subsidiary Nevada was incorporated under the laws of the State of Nevada on January 29, 1997. Nevada's wholly–owned subsidiary Sage Capital Bank, N.A., formerly American National Bank, was chartered as a national bank on July 12, 1984 and began operations in Gonzales, Texas. In 1995, the Bank opened a branch in Lockhart, Texas; in 1996 the Bank opened a branch in Luling, Texas; in 2003 the Bank opened a branch in San Marcos, Texas; in 2009 the Bank opened a branch in New Braunfels, Texas; in 2010 the Bank opened a branch in Shiner, Texas; in 2017 the Company purchased a branch in Spring Branch, Texas.

Nature of Operations

The Bank provides a variety of banking services to individuals and businesses throughout its market area of Gonzales, Caldwell, Hays, Travis, and Comal counties. Its primary deposit products are demand, savings, and certificates of deposits. Its primary lending products are agricultural, commercial business, real estate mortgage, and consumer loans.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Material estimates that are particularly susceptible to significant changes in the near–term relate to the determination of the allowance for loan losses, deferred income taxes, and valuation of foreclosed real estate. Actual results could differ from those estimates.

Cash, Cash Equivalents and Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, cash items in process of clearing, due from banks and federal funds sold under agreements to resell, all of which mature within 90 days. Cash flows from loans originated by the Company and deposits are reported net.

Pursuant to an agreement with the Federal Reserve Bank, the Bank has agreed to maintain a cash balance of approximately $350,000 in lieu of charges for check clearing and other services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Funds Sold and Purchased

Federal funds transactions involve lending (federal funds sold) or borrowing (federal funds purchased) of immediately available reserve balances. Usually, the federal funds transactions are for one day or overnight borrowing and lending. In addition, agreements may include rollover provisions.

In monitoring credit risk associated with these uninsured deposits, The Company periodically evaluates the stability of the correspondent financial institutions.

Other Investments

The Bank, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding home loans or 5% of advances from the FHLB. The Bank's investment in FHLB stock totaled $155,200 and $153,900 at December 31, 2017 and 2016, respectively.

Federal Reserve Bank stock is a restricted investment security, carried at cost, and evaluated for impairment. Both cash and stock dividends received on Federal Reserve Bank stock are reported as income. The Bank's investment in Federal Reserve Bank Stock totaled $336,000 at December 31, 2017 and 2016.

The Bank also has $9,600 invested in shares of Federal Agriculture Mortgage Corporation at December 31, 2017 and 2016. Ownership is a condition of membership in this entity and the Bank is required to maintain a minimum level of stock.

These securities are carried at cost and classified as "Other Assets" in the accompanying balance sheet. There are no ready markets that exist for these investments, and they have no quoted market value.

Fair Values of Financial Instruments

The Company has determined the fair value of certain assets based on the fair value hierarchy, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets using Level 3 inputs are primarily valued using management's assumptions about the assumptions a market participant would utilize in pricing the asset. Valuation techniques utilized to determine fair value are consistently applied.

Investment Securities

The Company records its available-for-sale portfolio at fair value.

Management classifies debt securities as held-to-maturity, available-for-sale, or trading based on its intent. Debt securities that management has both the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustment to interest income using the interest method. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at estimated fair value, with all unrealized gains and unrealized losses judged to be temporary, net of deferred income taxes, excluded from earnings and reported in the statements of comprehensive income. Available-for-sale securities that have unrealized losses that are judged other than temporary are included in gain (loss) on sale of securities and a new cost basis is established. Securities classified as trading are recorded at estimated fair value with unrealized gains and losses included in earnings.

Fair values of these securities are determined based on methodologies in accordance with current authoritative accounting guidance. Fair value are volatile and may be influenced by a number of

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities (Continued)

factors, including market interest rates, prepayment speeds, discount rates and yield curves. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security.

Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. The amortization of premiums and accretion of discounts, computed by the interest method over their contractual lives, are recognized as interest income.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair market value is below amortized cost, additional analysis is performed to determine whether an other than temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other than temporary impairment. The analysis considers (i) whether we have the intent to sell our securities prior to recovery and/or maturity and (ii) whether it is more likely than not that we will not have to sell our securities prior to recovery and/or maturity. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment.

If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

The Company's investment portfolio consists of traditional investments, substantially in U.S. Treasury securities, obligations of U.S. government sponsored-enterprises and agencies, mortgage pass-through securities and revenue based municipal bonds. Pricing for such securities is generally readily available and transparent in the market. The Company utilizes independent third party pricing services to value its investment securities. The Company reviews the prices supplied by the independent pricing services as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with traditional pricing matrices.

Loans Receivable

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by an allowance for loan losses. Loan origination fees are recorded as income when received and loan origination costs are recorded as expenses when incurred. However, such amounts are not material to the financial statements. Interest income is recognized based on principal amounts outstanding. The accrual of interest on a loan is discontinued on a loan when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal. Interest previously accrued but uncollected on such loans is reversed and charged against current income. Subsequent interest collected on such loans is credited to loan principal, if in the opinion of management, collectability of principal is doubtful; otherwise, the interest collected is recognized as income and resumption of interest accruals may occur. Loans are charged off as uncollectable when, in the opinion of management, collectability of principal and interest is improbable. Loans are considered past due or delinquent based on the contractual terms in the loan agreement and how recently repayments have been received.

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (Continued)

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. Agricultural loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farm land, cattle or equipment, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are generally diverse in terms of type and geographic location. The primary lending areas are in the Texas counties of Gonzales, Caldwell, Hays, Travis, and Comal. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally real estate loans are owner occupied which further reduces the Company's risk.

The Company utilizes methodical credit standards and analysis to supplement its policies and procedures in underwriting consumer loans. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimizes the Company's risk.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, and review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Certain non-homogeneous loans are included as a component of the allowance for loan losses when it is probable that all amounts due pursuant to the contractual terms of the loan will not be collected. In these situations, a reserve is recorded when the carrying amount of the loan exceeds the discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. Income on impaired loans is recognized based on the collectability of the principal amount. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loan that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

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

A loan is impaired when it is probable, based on current information and events, the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured on an individual basis based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

Company Premises and Equipment

Company premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally by the straight–line method over the following estimated useful lives:

	Estimated Lives
Buildings	25-40 years
Leasehold improvements	5-40 years
Equipment	3-20 years
Furniture and fixtures	5-10 years
Software	2-3 years

Maintenance and repairs of Company premises and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale, or other disposition of Company premises and equipment, the cost and accumulated depreciation are eliminated from the accounts, and a gain or loss is included in operations.

Goodwill and Intangible Assets

Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate impairment may have occurred. If it is determined that impairment has occurred, an impairment loss is recognized for the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and Intangible Assets (Continued)

amount by which the carrying amount of the asset exceeds its estimated fair value. Factors that could trigger an interim impairment test include, but are not limited to, underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired asses or the practice's overall business, significant negative industry or economic trends and a sustained period where market capitalization, plus an appropriate control premium, is less than net assets.

Foreclosed Assets

An asset acquired through foreclosure or other proceedings and is initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost. After foreclosure, valuations are periodically performed by management and foreclosed assets held for sale are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan and lease losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amount to fair value less estimated costs to dispose are recorded as necessary. Revenue and expenses from the operations of foreclosed assets and changes in the valuation allowance are included in other operating expenses. Foreclosed assets are included in other assets and totaled $278,017 and $0 at December 31, 2017 and 2016, respectively.

Income Taxes

The Company uses the liability method of accounting for income tax in accordance with ASC 740, *Accounting for income Taxes*. Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than not that some portion or all of the deferred tax assets will not be realized.

The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets or liabilities. As of December 31, 2017 and 2016, the Company has deferred tax assets and liabilities for difference between book and tax reporting for such items as allowance for loan losses and depreciation.

A state margin tax applies to legal entities conducting business in Texas. The margin tax is based on Texas sourced taxable margin and the tax is calculated by applying a tax rate to a base that considers both revenues and expenses and, therefore, has the characteristics of an income tax.

The Company files consolidated income tax returns with its subsidiary bank. Management has evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that are material to the financial statements. With few exceptions the Company is no longer subject to income tax examinations by the U.S. Federal, state or local tax authorities for years before 2014.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income

Comprehensive income includes all changes in shareholder equity except for those transactions with shareholders. Besides net income from operations, it includes the after tax effect of the changes in the fair value of securities available-for-sale.

Advertising Costs

The Company expenses the cost of advertising and promotions as incurred. Advertising expense was $33,265 and $34,168 in 2017 and 2016, respectively.

Stock Based Compensation

For the years ended December 31, 2017 and 2016, the Company recognized $252,385 and $73,678, respectively, in compensation costs related to the options granted.

Subsequent Events

The Company has evaluated subsequent events through February 27, 2018, the date which these financial statements were available to be issued.

Recent Accounting Pronouncements

The following recent accounting pronouncements are being evaluated by management. The effects, if any, on the Company's financial statements have not been determined.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-15 *Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments.* This standard applies to all entities including both business entities and not-for-profit entities that are required to present a statement of cash flows. The standard provides guidance on specific cash flow issues including: debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The amendments are applicable for fiscal years beginning after December 15, 2018. Early adoption is permitted. No significant effect is expected for the financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) issued substantially converged final standards on revenue recognition. The FASB's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, was issued in three parts: (1) Section A, "Summary and Amendments That Create Revenue from Contracts with Customers and Other Assets and Deferred Costs – Contracts With Customers"; (2) Section B, "Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables"; and (3) Section C, "Background Information and Basis for Conclusions". In August 2015, *ASU 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* was issued.

ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles (GAAP). This standard will help with improved comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. With the delayed date with *ASU 2015-14,* the guidance is now effective for public business entities, certain not-for-profit entities, and certain employee benefit plans for annual reporting periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. All other entities should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2018.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

The FASB finalized the standard on leases in ASU 2016-02 *Leases* in February 2016. This update was to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle is that the lessee should recognize the assets and liabilities that arise from leases.

All leases create an asset and a liability for the lessee and therefore recognition of those lease assets and lease liabilities represent an improvement over previous GAAP. Under the guidance a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Additional guidelines for finance leases, operating leases and lessors is included in the guidance. The amendments will be effective for fiscal years beginning after December 15, 2018 for not-for-profit entities that have issued or is a conduit bond obligor. For all other entities the amendments are effective for fiscal years beginning after December 15, 2019.

The FASB issued ASU 2016-13 *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* in June 2016. Current GAAP requires an "incurred loss" methodology for recognizing credit losses that delays recognitions until is it probable a loss has been incurred. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The achieve this objective this amendment would replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not otherwise excluded. The amendment is effective for all entities other than public business entities for the fiscal years beginning after December 15, 2020. The effect of the amendment is not readily determinable, but could cause the allowance for loan and lease losses to increase upon implementation.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the American Institute of Certified Public Accountants did not or are not believed by management to have a material impact on the Bank's present or future financial statements.

2. RESTRICTIONS ON CASH AND DUE FROM BANKS

The Company is required to maintain average reserve balances through vault cash or with the Federal Reserve Bank. The average amounts of those reserve balances for 2017 and 2016 were $4,365,000 and $13,693,000, respectively.

3. BRANCH ACQUISITION

On February 17, 2017, the Company entered into an agreement to acquire certain assets and liabilities associated with the Spring Branch, Texas branch (the Branch) from Security Bank, Midland, Texas. The Branch became integrated into the Company at the close of business on May 26, 2017.

3. BRANCH ACQUISITION (CONTINUED)

The acquisition of was funded using the acquisition method with cash being received by the Company as the liabilities assumed were in excess of the assets acquired. The operations of the Branch are included with the Company's results since the date of integration. The total purchase price paid for the acquisition of the Branch was allocated based on estimated fair values of the assets acquired and liabilities assumed as set forth below.

Loans	$	2,133,370
Premises and equipment		2,350,000
Goodwill		1,465,074
Deposits		(15,792,328)
Other liabilities		(44,110)
Net proceeds received	$	(9,887,994)

The loans acquired in this transaction were recorded at fair value with no carryover of any existing allowance for loan losses. Loans that were not deemed to be credit impaired at acquisition were subsequently considered as a part of our determination of the adequacy of the allowance for loan losses.

4. INVESTMENT SECURITIES

Investment securities (all available-for-sale) at December 31, 2017 and 2016 consist of the following:

2017	**Adjusted Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Market Value**
Mortgage backed securities	$ 401,256	$ 6,785	$ -	$ 408,041
Federal agency notes/bonds	36,862,563	11,964	(226,668)	36,647,859
CMOs	15,543	53	-	15,596
Municipal securities	9,647,011	287,332	(12,057)	9,922,286
Total Debt Securities	$ 46,926,373	$ 306,134	$ (238,725)	$ 46,993,782

2016	**Adjusted Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Market Value**
Mortgage backed securities	$ 1,055,282	$ 23,961	$ -	$ 1,079,243
Federal agency notes/bonds	50,361,331	117,077	(198,231)	50,280,177
CMOs	54,759	807	-	55,566
Municipal securities	9,729,071	240,397	(59,220)	9,910,248
Total Debt Securities	$ 61,200,443	$ 382,242	$ (257,451)	$ 61,325,234

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

4. INVESTMENT SECURITIES (CONTINUED)

The contractual maturities of securities available-for-sale at December 31, 2017 were as follows:

	Adjusted Cost	Estimated Market Value
One year or less (2018)	$ 10,779,891	$ 10,743,606
Over one year to five years (2019 to 2022)	29,654,610	29,543,249
Over five years to ten years (2023 to 2027)	1,538,025	1,582,328
Over ten years	4,953,847	5,124,599
Total Debt Securities	$ 46,926,373	$ 46,993,782

For purposes of maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on actual contractual maturities of underlying collateral. The Mortgage-backed securities may mature earlier than their actual contractual maturities because of principal prepayments.

The following table shows the gross unrealized losses and fair value of investment securities by length that individual securities in each category had been in a continuous loss position. Securities in an unrealized loss position at December 31, 2017 and 2016 are summarized below as to whether the security has been in a loss position for less than 12 months or more than 12 months:

	December 31, 2017			
	Less than 12 Months		12 Months or Longer	
	Estimated Market Value	Unrealized Loss	Estimated Market Value	Unrealized Loss
Federal agency notes/bonds	$ 26,843,779	$ (164,576)	$ 7,055,312	$ (62,092)
Municipal securities	1,610,807	(12,057)	-	-
Total Temporarily Impaired Securities	$ 28,454,586	$ (176,633)	$ 7,055,312	$ (62,092)

	December 31, 2016			
	Less than 12 Months		12 Months or Longer	
	Estimated Market Value	Unrealized Loss	Estimated Market Value	Unrealized Loss
Federal agency notes/bonds	$ -	$ -	$ 20,494,589	$ (198,231)
Municipal securities	1,424,559	(59,220)	-	-
Total Temporarily Impaired Securities	$ 1,424,559	$ (59,220)	$ 20,494,589	$ (198,231)

The above tables disclose the Company's investment securities that have been in a continuous unrealized loss position. The investment securities in the above tables are investments believed by management to be normal investments for the banking industry. The Company does not believe the unrealized loss position securities are "other than temporary" as (i) the Company has the ability to hold the investments to maturity, (ii) it is not probable that the Company will be unable to collect the amounts contractually, and (iii) no decision to dispose of the investments was made prior to the balance sheet date. The unrealized loss position noted above is due to changes in interest rates.

4. INVESTMENT SECURITIES (CONTINUED)

No credit issues were identified related to the unrealized loss position securities.

Securities available-for-sale with a carrying amount of $32,446,011 and $30,493,633 at December 31, 2017 and 2016, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

During the year ended December 31, 2017 there were no sales of available-for-sale securities. During the year ended December 31, 2016 available-for-sale securities were sold for total proceeds of $3,679,450. The gross realized gains on these sales totaled $86,877 in 2016. For purpose of determining gross realized gains, the cost of securities sold is based on specific identification. Net unrealized holding losses on available-for-sale securities in the amount of $44,103 and $555,941 for the year ended December 31, 2017 and 2016, respectively, have been included in accumulated other comprehensive income.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans at December 31, 2017 and 2016 consist of the following:

	2017	2016
Commercial and agricultural real estate	$ 184,133,992	$ 159,133,064
Residential real estate	47,354,978	42,151,095
Commercial	12,951,386	14,397,584
Agricultural	9,274,781	11,671,339
Consumer	3,575,124	3,301,595
Municipal	3,042,691	3,686,725
Overdrafts	295,321	250,262
Total Loans	260,628,273	234,591,664
Less: Allowance for loan losses	(3,087,082)	(2,777,901)
Total Loans, net	$ 257,541,191	$ 231,813,763

The Company purchased participations in loan agreements during 2017 and 2016, with a total outstanding balance at December 31, 2017 and 2016 of $1,537,220 and $1,813,561, respectively. The balances are considered to be for commercial and agriculture real estate purposes. The Company sold participations in loan agreements during 2017 and 2016, with a total outstanding balance at December 31, 2017 and 2016 of $9,401,643 and $7,537,391, respectively. The balances are considered to be for commercial and agriculture real estate, municipalities, and agriculture operating purposes.

Changes in the allowance for loans loss at December 31, 2017 and 2016 consist of the following:

	2017	2016
Beginning Balance:	$ 2,777,901	$ 2,660,416
Provision for loan losses	362,000	240,000
Charge-offs of loans	(116,778)	(139,402)
Recoveries of charged-off loans	63,959	16,887
Ending Balance	$ 3,087,082	$ 2,777,901

5. **LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

Credit risk grades are reassessed each quarter based on any recent developments potentially impacting the creditworthiness of the borrower, as well as other external statistics and factors, which may affect the risk characteristics of the respective loan.

The Bank's internally assigned grades are as follows:

Pass – Strong credit with no existing or known potential weaknesses deserving of management's close attention.

Watch – Loans that have all the characteristics of a satisfactory asset but warrants more than the normal level of supervision.

Special Mention – Loans requiring "additional attention", where the primary source of repayment has been interrupted or is under stress due to a combination of credit, collateral and/or administrative weakness. The weaknesses are apparent and if not remedied could subject the loan to further deterioration. At present, loans still have compensating features such as collateral, guarantees, and/or secondary sources of repayment that would keep the loan from being classed substandard.

Substandard – Loans which are "inadequately protected" by the current sound worth and paying capacity of the borrower. The credit has well defined credit, collateral and/or administrative weaknesses that jeopardize the liquidation of the loan. This loan is characterized by the possibility that there may be some loss in the credit if the deficiencies are not corrected.

Doubtful – A credit which has "potential for loss", and makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specified pending factors which may work to the advantage and strengthening of the asset, the loss is deferred as to actually being written off the Bank's books.

Loss – A credit which has little or no potential for collection from currently available information. Full provision is to be made for loan, if the loan has not already been charged off.

An allowance for potential losses in off-balance sheet loan commitments in the amount of $251,000 is included in Other Liabilities as of December 31, 2017 and 2016. During 2017 and 2016 no provision for loan losses is being reported on the Statements of Income, relative to the off-balance sheet exposure.

At December 31, 2017 and 2016, the following summarizes the Bank's internal rating of its loans:

2017	**Pass**	**Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial and agricultural real estate	$176,011,689	$ 7,383,410	$ 7,413	$ 731,480	$ -	$ 184,133,992
Residential real estate	46,916,341	-	123,302	315,335	-	47,354,978
Commercial	11,758,549	-	195,160	997,677	-	12,951,386
Agricultural	8,639,867	-	28,384	606,530	-	9,274,781
Consumer	3,574,841	-	283	-	-	3,575,124
Municipal	3,042,691	-	-	-	-	3,042,691
Overdrafts	295,321	-	-	-	-	295,321
Total	$250,239,299	$ 7,383,410	$ 354,542	$ 2,651,022	$ -	$ 260,628,273

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

2016	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Commercial and agricultural real estate	$ 157,260,629	$ -	$ 342,505	$ 1,352,214	$ 177,716	$ 159,133,064
Residential real estate	41,613,524	-	132,442	405,129	-	42,151,095
Commercial	13,661,739	-	-	735,845	-	14,397,584
Agricultural	11,525,814	-	32,060	1,290	112,175	11,671,339
Consumer	3,289,062	-	8,049	4,484	-	3,301,595
Municipal	3,686,725	-	-	-	-	3,686,725
Overdrafts	250,262	-	-	-	-	250,262
Total	$ 231,287,755	$ -	$ 515,056	$ 2,498,962	$ 289,891	$ 234,591,664

Impaired Loans – The following table includes the recorded investment and unpaid principal; balances for impaired loans with the associated allowance amount, if applicable. Management determined the specific rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs, was used to determine the specific allowance recorded. Also presented in the table below are the average recorded investments in the impaired loans. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The average balances are calculated based on the month-end balances of the financing receivables of the period reported.

The following are loans on nonaccrual status:

	As of December 31, 2017				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance	Average Record Investment
Agricultural	$ 606,530	$ 606,530	$ -	$ -	$ 945,648
Total	$ 606,530	$ 606,530	$ -	$ -	$ 945,648

	As of December 31, 2016				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance	Average Record Investment
Commercial and agricultural real estate	$ 289,891	$ 185,341	$ 104,550	$ 50,000	$ 289,891
Total	$ 289,891	$ 185,341	$ 104,550	$ 50,000	$ 289,891

No interest was collected and recognized as income in 2017 and 2016. The interest lost while the loans were on nonaccrual status in 2017 and 2016 were $74,372 and $890, respectively.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Changes in the allowance for loan losses by portfolio segment at December 31, 2017 and 2016 consist of the following:

2017	Beginning Balance	Provision for Loan Losses	Charge-offs of Loans	Recoveries of Charged-off Loans	Ending Balance
Commercial and agricultural real estate	$ 1,948,892	$ (652,715)	$ (5,716)	$ 5,716	$ 1,296,177
Residential real estate	386,065	(184,001)	-	-	202,064
Commercial	140,539	(117,410)	(2,102)	16,410	37,437
Agricultural	161,713	(76,313)	(37,575)	36,409	84,234
Consumer	22,719	114,649	(71,385)	5,424	71,407
Municipal	-	-	-	-	-
Unallocated	117,973	1,277,790	-	-	1,395,763
Total	$ 2,777,901	$ 362,000	$ (116,778)	$ 63,959	$ 3,087,082

2016	Beginning Balance	Provision for Loan Losses	Charge-offs of Loans	Recoveries of Charged-off Loans	Ending Balance
Commercial and agricultural real estate	$ 1,719,357	$ 229,535	$ -	$ -	$ 1,948,892
Residential real estate	385,812	253	-	-	386,065
Commercial	92,079	151,987	(113,527)	10,000	140,539
Agricultural	153,794	20,181	(12,262)	-	161,713
Consumer	29,008	437	(13,613)	6,887	22,719
Municipal	17,701	(17,701)	-	-	-
Unallocated	262,665	(144,692)	-	-	117,973
Total	$ 2,660,416	$ 240,000	$ (139,402)	$ 16,887	$ 2,777,901

The following table presents an aging analysis of the recorded investment of past due loans as of December 31, 2017 and 2016.

2017	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due
Commercial and agricultural real estate	$ 165,102	$ 60,224	$ -	$ 225,326
Residential real estate	500,335	-	-	500,335
Commercial	230,608	-	-	230,608
Agricultural	-	-	-	-
Consumer	164,254	8,368	38,307	210,929
Municipal	-	-	-	-
Overdrafts	-	-	-	-
Total	$ 1,060,299	$ 68,592	$ 38,307	$ 1,167,198

(Continued)	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Commercial and agricultural real estate	$ 183,908,666	$ 184,133,992	$ -
Residential real estate	46,854,643	47,354,978	-
Commercial	12,720,778	12,951,386	-
Agricultural	9,274,781	9,274,781	-
Consumer	3,364,195	3,575,124	38,307
Municipal	3,042,691	3,042,691	-
Overdrafts	295,321	295,321	-
Total	$ 259,461,075	$ 260,628,273	$ 38,307

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

2016	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due
Commercial and agricultural real estate	$ 258,612	$ -	$ 104,550	$ 363,162
Residential real estate	23,717	-	-	23,717
Commercial	23,501	-	-	23,501
Agricultural	631,251	-	112,175	743,426
Consumer	157,205	1,375	-	158,580
Municipal	-	-	-	-
Overdrafts	-	-	-	-
Total	$ 1,094,286	$ 1,375	$ 216,725	$ 1,312,386

(Continued)	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Commercial and agricultural real estate	$ 158,769,902	$ 159,133,064	$ 216,725
Residential real estate	42,127,378	42,151,095	-
Commercial	14,374,083	14,397,584	-
Agricultural	10,927,913	11,671,339	-
Consumer	3,143,015	3,301,595	-
Municipal	3,686,725	3,686,725	-
Overdrafts	250,262	250,262	-
Total	$ 233,279,278	$ 234,591,664	$ 216,725

The Bank's recorded investment in loans as of December 31, 2017 and 2016 related to the balance in the allowance for loan losses on the basis of the Bank's impairment methodology was as follows:

2017	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Commercial and agricultural real estate	$ 8,828,551	$ 175,305,441	$ 184,133,992
Residential real estate	438,637	46,916,341	47,354,978
Commercial	1,192,837	11,758,549	12,951,386
Agricultural	634,914	8,639,867	9,274,781
Consumer	283	3,574,841	3,575,124
Municipal	-	3,042,691	3,042,691
Overdrafts	-	295,321	295,321
Total	$ 11,095,222	$ 249,533,051	$ 260,628,273

2016	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Commercial and agricultural real estate	$ 2,828,824	$ 156,304,240	$ 159,133,064
Residential real estate	537,571	41,613,524	42,151,095
Commercial	735,845	13,661,739	14,397,584
Agricultural	145,525	11,525,814	11,671,339
Consumer	12,533	3,289,062	3,301,595
Municipal	-	3,686,725	3,686,725
Overdrafts	-	250,262	250,262
Total	$ 4,260,298	$ 230,331,366	$ 234,591,664

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table details the allowance for loan loss at December 31, 2017 and 2016 by portfolio segment based on the Bank's impairment methodology. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

2017	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Commercial and agricultural real estate	$ -	$ 1,296,177	$ 1,296,177
Residential real estate	-	202,064	202,064
Commercial	-	37,437	37,437
Agricultural	-	84,234	84,234
Consumer	-	71,407	71,407
Municipal	-	-	-
Unallocated	-	1,395,763	1,395,763
Total	$ -	$ 3,087,082	$ 3,087,082

2016	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Commercial and agricultural real estate	$ -	$ 1,948,892	$ 1,948,892
Residential real estate	-	386,065	386,065
Commercial	-	140,539	140,539
Agricultural	50,000	111,713	161,713
Consumer	-	22,719	22,719
Municipal	-	-	-
Unallocated	-	117,973	117,973
Total	$ 50,000	$ 2,727,901	$ 2,777,901

6. COMPANY PREMISES AND EQUIPMENT

Company premises and equipment at December 31, 2017 and 2016 consist of the following:

	2017	2016
Land	$ 2,501,035	$ 2,067,795
Buildings	13,829,844	11,239,532
Furniture and equipment	2,782,356	2,504,065
Total Bank Premises and Equipment	19,113,235	15,811,392
Less: Accumulated depreciation and amortization	(5,710,539)	(4,923,289)
Total Bank Premises and Equipment, net	$ 13,402,696	$ 10,888,103

Depreciation expense was $815,892 and $763,874 in 2017 and 2016, respectively.

6. COMPANY PREMISES AND EQUIPMENT (CONTINUED)

In 2000, the Company purchased the Gonzales bank building from a partnership composed of Bank directors for $788,000. The Company subleases the unused space. The income from the sublease was $9,000 and $9,425 for 2017 and 2016, respectively.

7. INTANGIBLE ASSETS

In May 1998, the Company purchased a branch in Luling, Texas, and allocated a portion of the purchase price to goodwill of $1,018,450 for the net assets of Pacific Southwest Bank. In September 2000, the Company purchased a branch in Lockhart, Texas, and allocated a portion of the purchase price to goodwill of $1,293,364 for the net assets of First Commercial Bank. In February 2003, the Company purchased a branch of another bank in Gonzales, Texas, and allocated a portion of the purchase price to goodwill of $1,135,489 for the net assets of the Guaranty Bank branch. As described in Note 3, the Company purchased as branch in Spring Branch, Texas, and allocated a portion of the price of $1,465,074 to Goodwill.

The combined goodwill recognized by the Company in connection with these acquisitions was $4,912,377. Of this amount, $2,311,814 was subject to amortization through December 31, 2001, on a straight-line basis over 15 years. The Company does not consider the net book value of the remaining goodwill ($4,570,464) to be impaired at December 31, 2017. Therefore, goodwill is stated at acquisition cost less prior accumulated amortization.

8. DEPOSITS

Deposits at December 31, 2017 and 2016 consist of the following:

		2017	2016
Demand Deposits of Individuals, Partnerships, Corporations and Public Funds	$	114,614,602	$ 104,932,946
Certificates of deposit under $100,000	$	45,751,477	$ 27,774,964
Certificates of deposit $100,000 and over		27,178,722	39,001,396
Total Certificates of Deposit		72,930,199	66,776,360
Money market accounts		34,056,254	30,264,892
Super NOW accounts		49,806,105	35,725,668
NOW accounts		18,329,374	17,181,589
Savings deposits of individuals, partnerships, corporations and retirement plans		56,906,096	53,185,636
Total Time and Savings Deposits	$	232,028,028	$ 203,134,145

Certificates of maturities of time deposits at December 31, 2017 were as follows:

2018	$ 69,681,573
2019	2,098,637
2020	417,187
2021	362,696
2022	370,106
Total Certificates of Deposit	$ 72,930,199

8. DEPOSITS (CONTINUED)

Scheduled maturities of time deposits in amounts of $100,000 or more at December 31, 2017 were as follows:

Due within 3 months or less	$ 16,226,117
Due after 3 months and within 6 months	9,181,790
Due after 6 months and within 12 months	18,326,746
Due after 12 months	2,016,824
	$ 45,751,477

9. BORROWED FUNDS

The Company has available short–term borrowings for cash management and liquidity purposes. The source of short–term borrowings is Federal funds purchased from Frost National Bank, up to a maximum of $4,000,000 and from The Independent Bankers Bank, up to a maximum of $8,500,000. There were no amounts outstanding from institutions at December 31, 2017 and 2016. At December 31, 2017, the Company also had a blanket lien borrowing authorization in excess of approximately $127,005,550 from the Federal Home Loan Bank. At December 31, 2017, the Company had used $24,745,564 of this amount to collateralize customer deposits.

10. INCOME TAXES

The net cumulative effects of the primary temporary differences are shown in the following table:

	2017	2016
Deferred tax assets	$ 818,243	$ 1,194,358
Deferred tax liabilities	(65,957)	(151,167)
Net Deferred Tax Asset (Liability)	$ 752,286	$ 1,043,191

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	2017	2016
Deferred Tax Assets:		
Allowance for doubtful accounts	$ 606,778	$ 881,777
Accrued compensation	206,113	299,061
Noncompete agreement	1,762	7,130
Organization costs	3,590	6,390
Total Deferred Tax Assets	818,243	1,194,358
Deferred Tax Liabilities:		
Difference between book and tax depreciation	(14,583)	(62,017)
Accretion on all securities	(37,218)	(46,721)
Unrealized gains on available for sale securities	(14,156)	(42,429)
Total Deferred Tax Liabilities	(65,957)	(151,167)
Total Deferred Tax Asset, net	$ 752,286	$ 1,043,191

10. INCOME TAXES (CONTINUED)

The provision for income taxes charged to operations for the years ended December 31, 2017 and 2016 consists of the following:

		2017		2016
Current - federal	$	1,462,925	$	1,325,252
Current - state		39,131		7,103
Deferred - federal		319,178		(199,306)
Total Income Tax Expense	$	1,821,234	$	1,133,049

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 2017 and 2016 due to the following:

		2017		2016
Computed "expected" tax expense	$	1,467,484	$	1,421,936
State income tax		39,131		7,103
Increase (decrease) in income taxes resulting from:				
Decrease in deferred tax assets due to change in tax rate		474,465		-
Tax-exempt interest income		(143,706)		(180,963)
Bank owned life insurance		(58,408)		(70,364)
Goodwill amortization		(45,109)		(25,738)
Effect of state income tax deduction		(13,305)		(2,415)
Stock based compensation		85,811		25,051
Other		14,871		(41,561)
Total	$	1,821,234	$	1,133,049

11. EMPLOYEE BENEFITS

Employee Stock Ownership Plan

The Company maintains a 401(k) and Employee Stock Ownership Plan (ESOP). Coverage under the plan is provided to all employees meeting minimum eligibility requirements. An annual contribution to the stock portion of this plan is made and allocated based upon the 401(k) salary deferral percentage of the participants. All ESOP assets are invested in common stock of Bancshares. Total expense recognized by the Company related to the ESOP was $200,334 and $110,506 in 2017 and 2016, respectively.

Employee Welfare Plan

The Company provides various medical, dental, vision, life, accidental death and dismemberment and long–term disability benefits to all full–time employees who elect coverage under this program (basic life, accidental death and dismemberment, and long–term disability coverage is automatic). Expense for the plan was $494,533 and $446,509 in 2017 and 2016, respectively.

11. EMPLOYEE BENEFITS (CONTINUED)

Supplemental Executive Retirement Agreements

In 2008, the Company entered into executive supplemental compensation agreements with certain executives. One of the agreements was effective January 1, 2008 while the remaining agreements became effective January 1, 2009. The agreements provide for various monthly post-retirement benefits to be paid beginning at normal retirement age for a period of ten to fifteen years. Vesting periods under each agreement varies. The agreements also provide for death benefits of the greater of accrued liability or an amount specified by the agreements. All of the obligations were unfunded as of December 31, 2017. The present value of the estimated liability under the agreements is being accrued using a discount rate of 6% ratably over the remaining dates when the executives are first eligible for benefits. The accrued liability at December 31, 2017 and 2016 was $981,492 and $879,590, respectively. The amount charged to expense was $136,906 and $142,995 for 2017 and 2016, respectively. The agreements also contain provisions for change of control, as defined, which allows the executives to retain benefits under the Plan in the event of a termination of service or the result of a change in control.

Stock Based Compensation

Under the Company's Incentive Stock Option Plan, up to 100,000 shares of common stock may be awarded to key employees. Options vest over a period fixed by the Company's Compensation Committee of the Board of Directors. The options cannot expire later than ten years from the date of grant.

The Company used the "minimum value" method to value options. As a result, no value was recognized as compensation cost in the financial statements. The Company applied the prospective transition method of adoption. Under the prospective transition method, only new options (or options modified, repurchased or cancelled after the effective date) are accounted for. The options issued prior to 2006 will continue to be recognized at no cost. The fair value of each grant issued in 2017 and 2016 were estimated using the Black-Scholes option-pricing model with the following assumptions for grants issued in 2006 through 2016, respectively: dividend rate of 0%; price volatility of 14.68%, 12.16%, (4.85)%, 0%, 14.34%, 10.70%, 13.51%, 5.39%, 9.43% 11.19%, and 31.29; risk-free interest rate of 2.42% and 1.76% and expected life of 10 years. Stock based compensation expense recognized in 2017 and 2016 was $252,385 and $73,678 respectively.

A summary of the status of the plan at December 31, 2017 is as follows:

	2017		2016	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	68,785	$ 24.63	72,090	$ 22.00
Granted	17,500	33.60	12,500	31.17
Exercised	(9,790)	16.91	(15,805)	17.82
Forfeited	-	-	-	-
Outstanding at End of Year	76,495	$ 27.67	68,785	$ 24.63
Exercisable at end of year	76,495		68,785	
Weighted-average fair value of options granted during the year	$ 14.42		$ 5.89	

11. EMPLOYEE BENEFITS (CONTINUED)

A further summary of fixed options outstanding at December 31, 2017 is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$17.27	6,725	0 yrs	17.27
$19.05	4,165	1 yrs	19.05
$20.69	4,795	3 yrs	20.69
$22.61	5,475	4 yrs	22.61
$24.36	8,600	5.17 yrs	24.36
$26.25	8,600	6.15	26.25
$28.30	8,835	7 yrs	28.30
$31.17	11,800	8.17 yrs	31.17
$33.60	17,500	9.17 yrs	33.60

All of the above options are exercisable at December 31, 2017.

12. OFF-BALANCE SHEET RISK, COMMITMENTS AND CONTINGENCIES

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The same credit policies are used in making commitments and conditional obligations as are used for on–balance sheet instruments. A summary of commitments is as follows at December 31, 2017 and 2016:

	2017	2016
Commitments to extend credit	$ 29,736,653	$ 26,563,693
Standby letters of credit	2,639,457	2,640,861
Total Commitments	$ 32,376,110	$ 29,204,554

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's credit worthiness is evaluated on a case–by–case basis.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit inventory, property and equipment, residential real estate and income–producing commercial properties. The Company's policy is not to extend credit to any single borrower or group of related borrowers in excess of the legal lending limit, which was $9,089,936 as of December 31, 2017.

12. OFF-BALANCE SHEET RISK, COMMITMENTS AND CONTINGENCIES (CONTINUED)

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances where the Company deems it necessary. At December 31, 2017, approximately 86% of the standby letters of credit were collateralized.

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial statements, and in many cases would be covered by insurance.

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

13. CONCENTRATIONS OF CREDIT

The Company makes commercial, residential and consumer loans to customers primarily in Gonzales, Caldwell, Hays, and Comal counties, Texas. A substantial portion of the Company's customers' abilities to honor their contracts is dependent on the business economy of those counties.

The nature of the Company's business requires that it maintain amounts due from banks, which, at times, may exceed federally insured limits. No losses have been experienced in these accounts. Amounts in excess of federally insured limits at December 31 are as follows:

	2017	2016
Non-interest-bearing accounts	$ 20,968,563	$ 14,660,058
Federal funds sold	31,875,000	16,650,000
Total Cash in Excess of Federally Insured Limits	$ 52,843,563	$ 31,310,058

The loan portfolio has a concentration of loans secured by livestock, poultry, agricultural equipment and real estate (including hotels). At December 31, 2017 and 2016, these concentrations are as follows:

	2017	2016
Farm and ranch land	$ 44,068,951	$ 36,271,154
Livestock, poultry, and agricultural equipment	9,096,538	11,708,911
Hotels	19,300,218	19,222,847
Total Loan Concentrations	$ 72,465,707	$ 67,202,912

14. RELATED PARTY TRANSACTIONS

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, significant shareholders, principal officers, their immediate families and affiliated companies in which they are principal shareholders (related parties).

14. RELATED PARTY TRANSACTIONS (CONTINUED)

Aggregate loan transactions with related parties for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Beginning Balance	$ 967,982	$ 1,494,576
New loans and/or advances	1,217,103	75,150
Repayments	(629,211)	(601,744)
Ending Balance	$ 1,555,874	$ 967,982
Average Balance During the Year	$ 1,261,928	$ 1,231,279

15. REGULATORY MATTERS

The Company 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 material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1, and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, and December 31, 2016, the most recent notification from the Office of the Comptroller of the Currency categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table.

There are no conditions or events since that notification that management believes have changed the institution's category.

15. REGULATORY MATTERS (CONTINUED)

Actual capital amounts and ratios are presented in the following tables:

As of December 31, 2017:

	Amount		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital Ratio	$ 39,642,000	13.89%	$22,836,880	8.0%	$28,546,100	10.0%
Tier 1 Capital Ratio	$ 36,360,000	12.74%	$17,127,660	6.0%	$22,836,880	8.0%
Common Equity Tier 1 Capital Ratio	$ 36,360,000	12.74%	$12,845,745	4.5%	$18,554,965	6.5%
Tier 1 Leverage Ratio	$ 36,360,000	9.83%	$11,418,440	4.0%	$14,273,050	5.0%

As of December 31, 2016:

	Amount		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital Ratio	$ 37,993,000	14.75%	$20,611,200	8.0%	$25,764,000	10.0%
Tier 1 Capital Ratio	$ 34,964,000	13.57%	$15,458,400	6.0%	$20,611,200	8.0%
Common Equity Tier 1 Capital Ratio	$ 34,964,000	13.57%	$11,593,800	4.5%	$16,746,600	6.5%
Tier 1 Leverage Ratio	$ 34,964,000	10.11%	$10,305,600	4.0%	$12,882,000	5.0%

16. FAIR VALUES DISCLOSURES

Fair value is defined as the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

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

Valuation techniques must be consistent with either the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transaction involving identical or comparable assets and liabilities. The income approach uses

16. FAIR VALUES DISCLOSURES (CONTINUED)

valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning that those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is as follows:

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

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

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

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

Investment Securities Available-for-Sale – Securities classified as available-for-sale are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans – Impaired loans are reported at fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimates using Level 3 inputs based upon internally discounted criteria.

Foreclosed and Repossessed Assets- Foreclosed and repossessed assets are reported at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost. After foreclosure, valuations are periodically performed by management and foreclosed assets held for sale are carried at the lower of cost or fair value less estimated costs of disposal.

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

16. FAIR VALUES DISCLOSURES (CONTINUED)

2017	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Recurring fair value measurements:				
Available-for-sale securities:				
Mortgage Backed Securities	$ -	$ 408,041	$ -	$ 408,041
Federal Agency Notes/Bonds	-	36,647,859	-	36,647,859
Commercial Mortgage Obligations	-	15,596	-	15,596
Municipal securities	-	9,922,286	-	9,922,286
Non-recurring fair value measurements:				
Foreclosed and repossessed assets	-	-	160,680	160,680
Impaired loans, net	-	-	606,530	606,530
Total	$ -	$ 46,993,782	$ 767,210	$ 47,760,992

2016	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Recurring fair value measurements:				
Available-for-sale securities:				
Mortgage Backed Securities	$ -	$ 1,079,243	$ -	$ 1,079,243
Federal Agency Notes/Bonds	-	50,280,177	-	50,280,177
Commercial Mortgage Obligations	-	55,566	-	55,566
Municipal securities	-	9,910,248	-	9,910,248
Non-recurring fair value measurements:				
Impaired loans, net	-	-	239,891	239,891
Total	$ -	$ 61,325,234	$ 239,891	$ 61,565,125

The changes in level 3 assets measured at fair value on a non-recurring basis are as follows for the years ending December 31, 2017 and 2016:

	Impaired Loans	Foreclosed and Repossessed Assets	Total
Balance at December 31, 2015	$ -	$ -	$ -
Loans taken into impairment	289,891	-	289,891
Specific valuation allowance	(50,000)	-	(50,000)
Balance at December 31, 2016	239,891	-	239,891
Loans taken into impairment	606,530	-	606,530
Net charge offs to ALLL	(33,427)	-	(33,427)
Loan payments	(34,464)	-	(34,464)
Foreclosure of real estate	(172,000)	172,000	-
Charge offs subsequent to foreclosure	-	(11,320)	(11,320)
Balance at December 31, 2017	$ 606,530	$ 160,680	$ 767,210

16. FAIR VALUES DISCLOSURES (CONTINUED)

Certain nonfinancial assets and nonfinancial liabilities are measured at fair value on a non-recurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Foreclosed real estate is considered a nonfinancial asset measured at fair value. All other nonfinancial assets and liabilities measured at fair value on a non-recurring basis were not significant at December 31, 2017 and 2016, respectively.

There were no transfers between levels during the year ended December 31, 2017 or 2016.

The estimated fair value amounts of the financial instruments have been determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

The estimated fair values and carrying values of all financial instruments under current authoritative guidance at December 31, 2017, were as follows:

	Carrying Value	Fair Value
Financial Assets:		
Cash and due from banks	$ 25,816,953	$ 25,816,953
Federal funds sold	31,875,000	31,876,000
Other assets	1,323,420	1,323,420
Loans receivable	257,541,191	257,708,611
Accrued interest receivable	1,499,134	1,499,134
Bank owned life insurance	6,990,672	6,990,672
Financial Liabilities:		
Deposits	346,642,630	341,679,236
Accrued interest payable	74,589	74,589

The carrying value and the estimated fair value of the Company's contractual off-balance-sheet unfunded lines of credit, loan commitments and letter of credit, which are generally priced at market at the time of funding, are not material.

The following methods and assumptions were used by the Company in estimating the fair value of the following classes of financial instruments:

Cash and Due from Banks and Federal Funds Sold – The carrying amounts reported in the balance sheets for cash and due from banks, interest–bearing deposits, and federal funds sold approximate their fair values.

16. FAIR VALUES DISCLOSURES (CONTINUED)

Other Assets – The carrying amount reported in the balance sheets include investments in the stocks of the Federal Reserve Bank, FHLB, and Federal Agriculture Mortgage Corporation and prepaid assets. The fair value of these securities approximates their cost. Foreclosed and repossessed assets are also included in other assets and are based on the lower of cost or fair value less estimated costs of disposal.

Loans Receivable – For variable–rate loans that re–price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values of certain mortgage loans (primarily one–to–four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values of all other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Cash Surrender Value of Life Insurance – The carrying amount of cash surrender value of life insurance approximates fair value as policies are recorded at redemption value.

Deposit Liabilities – The fair values disclosed for deposits with no defined maturities are equal to their carrying amounts which represent the amount payable on demand. The carrying amounts of variable–rate, fixed–term money market accounts and certificates of deposit approximate their fair value at the reporting date. Fair values of fixed–rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Accrued Interest – The carrying amounts of accrued interest approximate their fair values.