Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

AMENDED JUN 25 2018

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, Denise Reynolds
Name of the Holding Company Director and Official

Executive Vice President/Director
Title of the Holding Company Director and Official

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

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

Denise Reynolds
Signature of Holding Company Director and Official

02/01/2018
Date of Signature

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

For Federal Reserve Bank Use Only
RSSD ID 2963556
C.I.

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

None
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Charter Bancshares, Inc.
Legal Title of Holding Company

PO Box 10306
(Mailing Address of the Holding Company) Street / P.O. Box

Corpus Christi	TX	78460
City	State	Zip Code

10502 Leopard Street Corpus Christi TX 78410
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Paula Rod	Vice President
Name	Title

361-855-3701 17
Area Code / Phone Number / Extension

361-851-2068
Area Code / FAX Number

prod@charterbankcc.com
E-mail Address

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

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

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

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

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

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

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Form FR Y-6

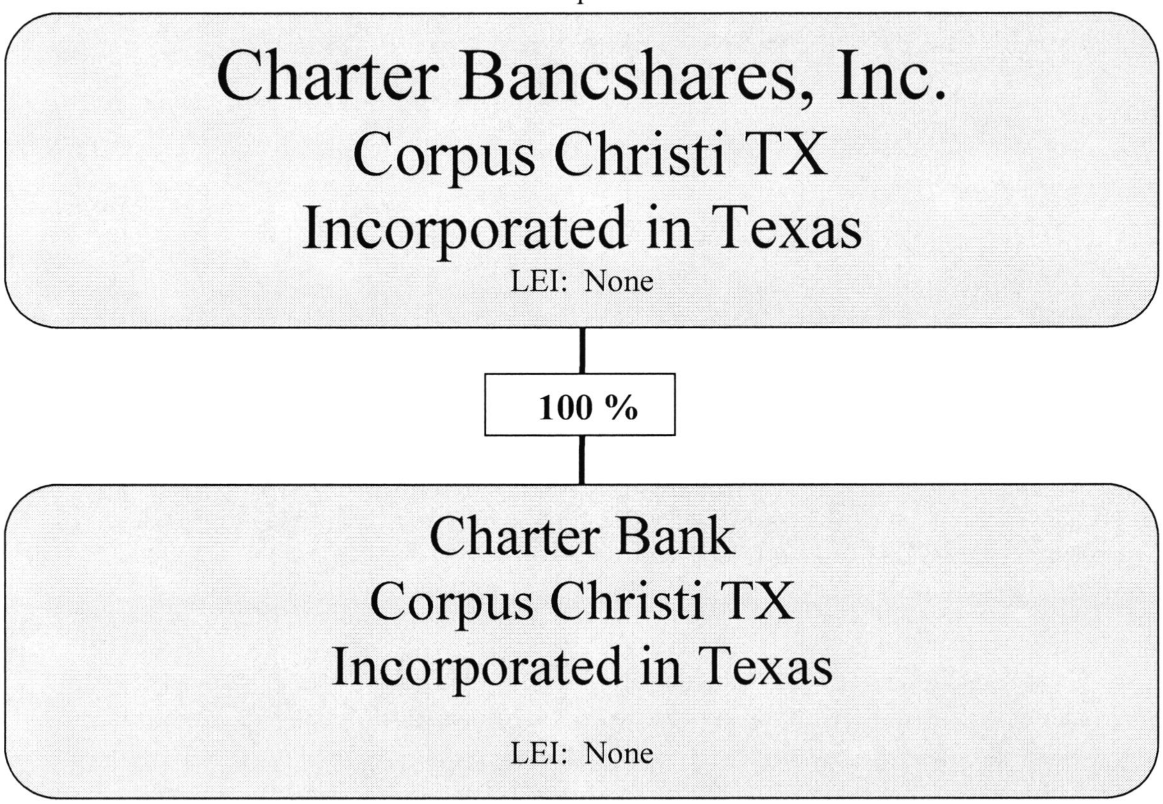
Charter Bancshares, Inc.
10502 Leopard St.
Corpus Christi TX 78410

Fiscal Year End December 31, 2017

1. The bank holding company prepares an annual report for its shareholders. Two copies are enclosed.

2.a. Organizational Chart

1



2.b. Branches – emailed to Structure.Verification@dal.frb.org on 01-30-17.

Results: A list of branches for your holding company: CHARTER BANCSHARES, INC. (2963556) of CORPUS CHRISTI, TX.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

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

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

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

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of 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)	814458	CHARTER BANK	10502 LEOPARD STREET	CORPUS CHRISTI	TX	78410-2621	NUECES	UNITED STATES	Not Required	Not Required	CHARTER BANK	814458	
OK		Full Service	3538764	NAVIGATION BRANCH	801 WEST NAVIGATION BLVD., SUITE 100	CORPUS CHRISTI	TX	78408	NUECES	UNITED STATES	Not Required	Not Required	CHARTER BANK	814458	
OK		Full Service	3595785	SARATOGA BRANCH	3701 SARATOGA BLVD.	CORPUS CHRISTI	TX	78415	NUECES	UNITED STATES	Not Required	Not Required	CHARTER BANK	814458	
OK		Full Service	3538755	ROCKPORT BRANCH	711 HIGHWAY 35 NORTH	ROCKPORT	TX	78382	ARANSAS	UNITED STATES	Not Required	Not Required	CHARTER BANK	814458	

Form FR Y-6

Charter Bancshares, Inc.
Corpus Christi, TX
Fiscal Year Ending December 31, 2017

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2017			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2017		
(1)(a) Name & Address (City, State, Country)	**(1)(b)** Country of Citizenship or Incorporation	**(1)(c)** Number and Percentage of Each Class of Voting Securities	**(2)(a)** Name & Address (City, State, Country)	**(2)(b)** Country of Citizenship or Incorporation	**(2)(c)** Number and Percentage of Each Class of Voting Securities
William G Haney Jr or Nita Haney Austin TX, USA	USA	140 shares/9.24%	None		
Esther Barbara Kane Fulshear TX, USA	USA	181 shares/11.94%			
Harold Ira Kane or Karen Kane Corpus Christi TX, USA	USA	199 shares/13.13%			
Jerry Kane Corpus Christi TX, USA	USA	174 shares/11.48%			
Sid Ridlehuber Corpus Christi TX, USA	USA	197.5 shares/13.03%			

Form FR Y-6

Charter Bancshares, Inc.
Corpus Christi TX
Fiscal Year Ending December 31, 2017

AMENDED
JUN 25 2018

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

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	**Principal Occupation if other than with Bank Holding Company**	**Title & Position with Bank Holding Company**	**Title & Position with Subsidiaries (include names of subsidiaries)**	**Title & Position with Other Businesses (include names of other businesses)**	**Percentage of Voting Securities in Bank Holding Company**	**Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)**	**List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)**
Sid Ridlehuber Corpus Christi TX USA	N/A	President Director	President/CEO Director	Member/Mgr - Ridlehuber Ranch LLC Ltd Partner - Bayfront Marina Investment Partner-Rock Resources/Wolters #1 Partner-Rock Resources/Brinkoeter #1 Partner-Lighthouse Op/Gloria Lopez #1 Partner-Lighthouse Op/Gloria Lopez #2 Ltd Partner - Shoreline Hospitality On Track Ventures LLC	13.03%	0%	51% - Ridlehuber Ranch LLC 45% - Rock Resources/Wolters #1 45% - Rock Resources/Brinkoeter #1 25% - On Track Ventures LLC
Russell Campbell Corpus Christi TX USA	N/A	Director	Executive VP Director	President/COB - Christian Revival Center	1.64%	0%	N/A
William Haney Jr * Austin TX USA	Investing	Director	Director	Vice President - Bucky's Navigation, Inc. President - J E Buckner Trucks, Inc.	9.24%	0%	50% - Bucky's Navigation Inc. 50% - J E Buckner Trucks Inc.
Robert Adler Corpus Christi TX USA	Real Estate Development	Director	Director	President - Atlas Iron & Metal Inc. President - Roan Real Estate Co. Inc. President - Laredo Scrap Materials Inc. President - South Texas Eagle Corp.	3.17%	0%	100% - Atlas Iron & Metal Inc. 36.29% - Roan Real Estate Co. Inc. 41.7% - Laredo Scrap Materials Inc. 50% - South Texas Eagle Corp.

Randy Vrana Beeville TX USA	Entrepreneur	Director	Director	Member - TX Southern Crane Services LLC Member - Southtown Pizzeria LLC Member - Burger Moran	2.64%	0%	30% - Texas Southern Crane Services LLC 50% - Southtown Pizzeria LLC 50% - Burger Moran
Harold Kane Corpus Christi TX USA	N/A	Chairman of the Board Director	Chairman of the Board Director	N/A	13.13%	0%	N/A
Firmin LePori Rockport TX USA	Ranching	Director	Director	N/A	0.66%	0%	N/A
J Patrick Moran Corpus Christi TX USA	Real Estate Development	Director	Director	N/A	1.65%	0%	N/A
Denise Reynolds Orange Grove TX USA	N/A	Exec VP, Secretary & Treasurer Director	Executive VP Director	N/A	0.96%	0%	N/A
Esther Kane Fulshear TX USA	Investing	Advisory Director Principle Shareholder	Advisory Director	Owner-Fairplay Farm	11.94%	0%	100% - Fairplay Farm
Jerry Kane Corpus Christi TX USA	Consultant	Principle Shareholder	N/A	CEO - Kane Group LLC	11.48%	0%	50% - Kane Group LLC
Alan R Wilson Corpus Christi TX USA	N/A	Director	Executive VP Director	N/A	0.13%	0%	N/A

* William G. Haney and Nita Haney 9.24% have joint ownership.
* Harold Kane and Karen Kane 13.13 % have joint ownership.

CHARTER BANCSHARES, INC.
AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

COLLIER, JOHNSON & WOODS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

555 N. Carancahua, Suite 1000
Corpus Christi, Texas 78401-0839
361-884-9347 • Fax 361-884-9422
www.cjw-cpa.com

INDEPENDENT AUDITOR'S REPORT

March 2, 2018

To the Board of Directors
Charter Bancshares, Inc. and Subsidiaries
Corpus Christi, Texas

We have audited the accompanying consolidated financial statements of Charter Bancshares, Inc., and Subsidiaries (a Texas Corporation), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Collier, Johnson & Woods

CHARTER BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2017	DECEMBER 31, 2016
ASSETS		
Cash and Due from Banks	6,289,551	6,240,064
Available-for-Sale Securities at Fair Value (Notes 2 and 17)	109,342,133	109,273,369
Loans, Net of Allowance for Loan Losses of $2,204,438 in 2017 and $2,125,113 in 2016 (Note 3)	135,762,747	121,119,173
Banking Premises and Equipment, Net (Note 4)	3,740,253	3,913,349
Accrued Interest Receivable	1,054,706	991,613
Federal Home Loan Bank Stock (Note 5)	99,000	538,700
Foreclosed Assets (Note 6)	31,850	795,138
Other Assets	149,174	133,563
TOTAL ASSETS	256,469,414	243,004,969
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	100,039,944	93,846,901
Interest-bearing (Note 7)	118,179,194	109,734,782
Total Deposits	218,219,138	203,581,683
Short-Term Borrowed Funds (Note 8)	6,325,000	12,975,000
Accrued Expenses and Other Liabilities	1,370,172	867,968
Dividends Payable	2,077,093	1,090,238
Total Liabilities	227,991,403	218,514,889
Commitments and Contingencies (Note 11 and 12)		
Stockholders' Equity:		
Common Stock $1,200 Par Value, 2,000 Shares Authorized 1,516.126 and 1,495.526 Shares Issued and Outstanding in 2017 and 2016, Respectively	1,819,351	1,794,631
Surplus	11,721,802	11,252,822
Retained Earnings (Note 9)	11,943,831	9,648,620
Accumulated Other Comprehensive Income	2,993,027	1,794,007
Total Stockholders' Equity	28,478,011	24,490,080
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	256,469,414	243,004,969

See Notes to Consolidated Financial Statements.

CHARTER BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31, 2017	2016
Interest Income:		
Loans, Including Fees	11,468,287	10,784,714
Debt Securities:		
Taxable	15,526	19,594
Tax-exempt	3,220,996	4,029,791
Interest on Federal Funds Sold	75,466	6,820
Total Interest Income	14,780,275	14,840,919
Interest Expense:		
Interest on Deposits	348,828	331,331
Interest on Borrowed Funds	72,865	55,586
Total Interest Expense	421,693	386,917
Net Interest Income	14,358,582	14,454,002
Increase in Provision for Loan Losses (Note 3)	200,000	950,000
Net Interest Income After Provision for Loan Losses	14,158,582	13,504,002
Noninterest Income:		
Service Fees	1,331,717	1,268,028
Other Operating Income	562,095	561,552
Gain on Sale of Securities	306,805	846,886
Gain (Loss) on Foreclosed Assets (Note 6)	46,120	(7,834)
Total Noninterest Income	2,246,737	2,668,632
Noninterest Expenses:		
Salaries and Employee Benefits	6,091,066	5,905,518
Occupancy and Equipment, Net of Rent Income of $292,496 in 2017 and $321,746 in 2016	680,414	697,960
Data Processing	391,035	353,159
General and Administrative	1,434,958	1,567,209
Total Noninterest Expenses	8,597,473	8,523,846
NET INCOME	7,807,846	7,648,788

See Notes to Consolidated Financial Statements.

CHARTER BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31,	
	2017	2016
Net Income	7,807,846	7,648,788
Available-for-Sale Securities:		
Reclassification Adjustment for Net Gain Included in Net Income	306,805	846,886
Change in Net Unrealized Gain on		
Available-for-Sale Securities	892,215	(4,710,744)
Total Available-for-Sale Securities	1,199,020	(3,863,858)
TOTAL OTHER COMPREHENSIVE INCOME	9,006,866	3,784,930

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEAR ENDED DECEMBER 31, 2017 AND 2016

	COMMON STOCK	SURPLUS	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME	TOTAL
Balance, December 31, 2015	1,759,831	10,600,422	5,443,522	5,657,865	23,461,640
Net Income	--	--	7,648,788	--	7,648,788
Other Comprehensive Income	--	--	--	(3,863,858)	(3,863,858)
Dividends	--	--	(3,443,690)	--	(3,443,690)
Stock Based Compensation Recognized in Earnings	--	22,000	--	--	22,000
Stock Options Exercised for 29 Shares	34,800	630,400	--	--	665,200
Balance, December 31, 2016	1,794,631	11,252,822	9,648,620	1,794,007	24,490,080
Net Income	--	--	7,807,846	--	7,807,846
Other Comprehensive Income	--	--	--	1,199,020	1,199,020
Dividends	--	--	(5,512,635)	--	(5,512,635)
Stock Options Exercised for 20.6 Shares	24,720	468,980	--	--	493,700
BALANCE, DECEMBER 31, 2017	1,819,351	11,721,802	11,943,831	2,993,027	28,478,011

See Notes to Consolidated Financial Statements.

CHARTER BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2017	2016
Cash Flows from Operating Activities:		
Net Income	7,807,846	7,648,788
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	222,956	237,468
Provision for Loan Losses	200,000	950,000
Write down of Other Real Estate	--	20,208
Stock Compensation Expense	--	22,000
Premium Amortization Net of Discount Accretion on Securities	(1,925,212)	(2,602,491)
Gain on Securities	(306,805)	(846,886)
(Gain) Loss on Sale of Foreclosed Assets	(46,120)	7,834
Net Change in:		
Accrued Interest Receivable	(63,093)	(56,498)
Other Assets	(15,611)	(31,354)
Accrued Expenses and Other Liabilities	502,203	12,074
Net Cash Provided by Operating Activities	6,376,164	5,361,143
Cash Flows from Investing Activities:		
Loan Originations and Principal Collections, Net	(15,743,837)	(11,114,226)
Activity in Available-for-Sale Securities:		
Maturities, Prepayments and Calls	40,102,273	44,924,307
Sales	11,879,444	28,221,123
Purchases	(48,619,443)	(41,826,228)
Purchase of Federal Home Loan Bank Stock	(804,200)	(437,600)
Sale of Federal Home Loan Bank Stock	1,243,900	--
Purchase of Bank Premises and Equipment	(49,860)	(34,255)
Proceeds from Sale of Foreclosed Assets	1,709,671	425,071
Net Cash Provided (Used) by Investing Activities	(10,282,052)	20,158,192
Cash Flows from Financing Activities:		
Net Increase (Decrease) in Noninterest Bearing Deposits	6,193,043	(25,537,609)
Net Increase (Decrease) in Interest Bearing Deposits	8,444,412	(4,814,642)
Net Increase (Decrease) in Borrowed Funds	(6,650,000)	6,650,000
Proceeds from Issuance of Common Stock	493,700	665,200
Dividends Paid	(4,525,780)	(4,553,241)
Net Cash Provided (Used) by Financing Activities	3,955,375	(27,590,292)
Increase (Decrease) in Cash and Cash Equivalents	49,487	(2,070,957)
Cash and Cash Equivalents, Beginning of Year	6,240,064	8,311,021
CASH AND CASH EQUIVALENTS, END OF YEAR	6,289,551	6,240,064
Supplementary Cash Flow Information:		
Interest Paid on Deposits and Borrowed Funds	411,190	375,713
Noncash Investing and Financing Activities:		
Foreclosure of Other Real Estate	900,263	1,248,251
Reclassification Adjustment for Net Gain Included in Net Income and Change in Unrealized Gain (Loss) on Available-for-Sale Securities	1,199,020	(3,863,858)

See Notes to Consolidated Financial Statements.

CHARTER BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting practices of Charter Bancshares, Inc. (Parent Company) and its wholly owned subsidiaries (collectively referred to as Company) conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a description of the more significant policies.

Principles of Consolidation

The consolidated financial statements include the accounts of Charter Bancshares, Inc. and its wholly owned subsidiary Charter Bank (Bank). The Bank owns 100% of North and South Padre L.L.C. which owns 7.1776% interest in a partnership which owns land on South Padre Island. All significant intercompany transactions and balances have been eliminated in consolidation.

Date of Management's Review

Subsequent events were evaluated through March 2, 2018 which is the date the financial statements were available to be issued.

Nature of Operations

The Company provides a variety of financial services to individuals and corporate customers through three branches in Corpus Christi and Rockport, Texas. The economy of Nueces County, the Company's principal market area, is diversified and consists of military, agricultural, energy, light industry, and service industry sectors. The Company's primary source of revenue is loans to commercial entities and individuals within its principal market area.

Use of Estimates

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

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located in the South Texas region. Note 2 discusses the types of securities in which the Company invests. Note 3 discusses the types of lending in which the Company engages. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the oil and gas and commercial real estate business economic sectors.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days.

Securities

Securities that may be sold in response to, or in anticipation of, changes in interest rates and resulting prepayment risk, or other factors, are classified as available-for-sale and carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Company is an S corporation and does not adjust unrealized gains and losses for taxes.

In compliance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320-10 *Investments - Debt Securities* accounting guidance related to the recognition and presentation of other-than-temporary impairment, declines in fair value of available-for-sale securities that are deemed to be other-than-temporary are reflected in earnings as realized losses. The Company recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made. In determining whether other-than-temporary impairment exists, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of these loans is to customers in South Texas. The ability of the Company's debtors to honor their contracts is dependent upon the economic conditions in this area.

The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. Commercial and residential real estate loans are subject to underwriting standards that evaluate cash flow and fair value of the collateral. The collectibility of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on collateral, geography, and risk criteria.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets and frequently include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and collect amounts due from their customers.

Consumer loans are originated after evaluation of the credit history and repayment ability of the borrower based on current personal income. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower's income.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continuation)

Loans that management has the intent and ability to hold for the foreseeable future or maturity are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for loan losses, unearned interest and any deferred fees or costs on originated loans and any premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the straight-line method, which management believes is not materially different from the interest method. The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

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

Loans are fully or partially charged down to the fair value of the collateral securing the loan when management determines the asset to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy, or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan.

In situations related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include interest rate reductions, payment forbearance, or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for Loan Losses

The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's methodology for the allowance for loan losses includes allowance allocations calculated in accordance with ASC 310 *Receivables*, and ASC 450 *Contingencies*. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools, and specific loss allocations, with adjustments for current events and conditions.

The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations, and loan quality trends, including trends in nonaccrual, past-due, and classified loans; current period loan charge-offs; and recoveries. The determination also includes qualitative aspects, such as changes in local, regional, or national economies or markets, and other factors. Such qualitative factors are highly judgmental and require constant refinement. The Company has an internal loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade, and assist senior management in maintaining an adequate allowance for loan losses account by reviewing and refining the methodology, as needed, based on changing circumstances.

The Company's allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with ASC based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with ASC based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

While management uses the best information available to make its evaluation, future additions to the allowance could be required based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less estimated cost to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operation and changes in the valuation allowance are included in net expenses from foreclosed assets.

Banking Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line and declining balance method.

Comprehensive Income

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

Federal Income Taxes

The Company, with the consent of their shareholders, elected under the Internal Revenue Code to be an S Corporation. In lieu of corporation income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for Federal income taxes has been included in net income.

The Company files income tax returns in the U.S. Federal jurisdiction. The Company is no longer subject to U.S. Federal income tax examinations by tax authorities for years after 2013.

Stock Compensation Plans

The Company has a stock based compensation Plan more fully described in Note 14. Stock compensation accounting guidance (FASB ASC 718 *Compensation – Stock Compensation*) requires that the compensation cost related to share-based payment transactions be recognized in financial statements. Compensation cost has been measured using the fair value of an award on the grant dates and is recognized over the service period, which is usually the vesting period. Compensation cost related to the non-vested portion of awards outstanding as of the transition date are based on the grant-date fair value of those awards. The standard continues to allow the Company to use the intrinsic value method, in which compensation cost is the excess, if any, of the market price of the stock at the grant date over the amount an employee must pay to acquire the stock if the Company cannot reasonably estimate fair value because it is not practicable for it to estimate the expected volatility of its share price.

Revenue Recognition

Interest income and expense is recognized on the accrual method based on the respective outstanding balances. Other revenue is recognized at the time the service is rendered or transactions occur.

New Accounting Pronouncements

In September 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) *No. 2014-09, Revenue From Contracts with Customers.* ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 will be effective for nonpublic business entities in 2018. The Company is still evaluating the potential impact of this new ASU on its consolidated financial statements.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continuation)

In February 2016, the FASB issued (ASU) *No. 2016-02, Leases (Topic 842)* intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the potential impact of the amendment on the Company's financial statements.

In June 2016, the FASB issued (ASU) *No. 2016-13, Financial Instruments – Credit Losses (Topic 326)* intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company believes the amendments in this update will have an impact on the Company's financial statements and is working to evaluate the significance of that impact.

The FASB issued (ASU) *2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which made the following changes that may affect the Company: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities. The amendments in this ASU will be effective for entities other than public business entities for fiscal years beginning after December 15, 2018. The Company does not expect the guidance to have a material impact on its financial statements.

Note 2 – SECURITIES

The amortized cost and fair values of securities, with gross unrealized gains and losses, as of December 31, 2017 and 2016 are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2017				
Available-for-Sale Securities:				
Municipal Bonds	106,194,106	3,162,753	169,726	109,187,133
Other	155,000	--	--	155,000
TOTAL	106,349,106	3,162,753	169,726	109,342,133
December 31, 2016				
Available-for-Sale Securities:				
Municipal Bonds	107,324,362	2,743,834	949,827	109,118,369
Other	155,000	--	--	155,000
TOTAL	107,479,362	2,743,834	949,827	109,273,369

As of December 31, 2017 and 2016 securities with a fair value of $1,375,377 and $1,297,947, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

Note 2 – SECURITIES – (Continuation)

The following table shows the maturity distribution of the security portfolio at December 31, 2017:

	AVAILABLE-FOR-SALE SECURITIES	
	AMORTIZED COST	FAIR VALUE
Due from One Year to Five Years	37,483,222	39,228,535
Due from Five to Ten Years	60,212,405	61,556,213
Over Ten Years	8,648,479	8,552,385
Total	106,344,106	109,337,133
No Stated Maturity Date	5,000	5,000
TOTAL	106,349,106	109,342,133

For the year ended December 31, 2017, proceeds from sales of securities available-for-sale amounted to $11,879,444 and gross realized gains amounted to $306,805. For the year ended December 31, 2016, proceeds from sales of securities available-for-sale amounted to $28,221,123 and gross realized gains amounted to $846,886.

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

	LESS THAN 12 MONTHS		OVER 12 MONTHS		
	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	TOTAL UNREALIZED LOSSES
December 31, 2017					
Municipal Bonds	167,389	15,663,566	2,337	967,061	169,726
December 31, 2016					
Municipal Bonds	949,827	42,332,309	--	--	949,827

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Management has the ability and intent to hold the securities for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2017, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's consolidated income statement.

Note 3 – LOANS

Loans, as of December 31, 2017 and 2016, consisted of the following:

	2017	2016
Commercial	48,045,080	32,672,010
Commercial Real Estate	35,217,614	32,073,622
Construction and Land Development	38,189,863	39,128,267
Residential Real Estate	16,384,890	18,980,054
Consumer	728,717	1,144,554
Total Loans	138,566,164	123,998,507
Less:		
Allowance for Loan Losses	2,204,438	2,125,113
Unearned Loan Fees	598,979	754,221
NET LOANS	135,762,747	121,119,173

Rate sensitivity of the loan portfolio, at December 31, 2017 and 2016, are as follows:

	2017	2016
Loans at Fixed Interest Rates	126,081,671	112,339,755
Loans at Variable Interest Rates	12,484,493	11,658,752
TOTAL	138,566,164	123,998,507

Note 3 – LOANS – (Continuation)

Allowance for Loan Losses

The activity in the allowance for loan losses for the year ended December 31, 2017 is summarized below:

	YEAR ENDED DECEMBER 31, 2017					
	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	RESIDENTIAL REAL ESTATE	CONSUMER	TOTAL
Balance, Beginning of Year	691,150	568,034	565,224	282,818	17,887	2,125,113
Increase (Decrease) in-						
Provision for Loan Losses	426,178	(109,815)	(84,884)	(47,487)	16,008	200,000
Deductions:						
Loans Charged Off	(81,811)	--	(36,094)	(26,665)	(24,152)	(168,722)
Less Recoveries	26,644	2,937	13,851	275	4,340	48,047
Net Loans Charged Off	(55,167)	2,937	(22,243)	(26,390)	(19,812)	(120,675)
BALANCE, END OF YEAR	1,062,161	461,156	458,097	208,941	14,083	2,204,438

The activity in the allowance for loan losses for the year ended December 31, 2016 is summarized below:

	YEAR ENDED DECEMBER 31, 2016					
	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	RESIDENTIAL REAL ESTATE	CONSUMER	TOTAL
Balance, Beginning of Year	445,753	555,842	364,271	276,639	24,073	1,666,578
Increase in-						
Provision for Loan Losses	556,346	21,070	308,108	26,006	38,470	950,000
Deductions:						
Loans Charged Off	(310,949)	(11,811)	(149,932)	(20,000)	(51,346)	(544,038)
Less Recoveries	--	2,933	42,777	173	6,690	52,573
Net Loans Charged Off	(310,949)	(8,878)	(107,155)	(19,827)	(44,656)	(491,465)
BALANCE, END OF YEAR	691,150	568,034	565,224	282,818	17,887	2,125,113

Loans, or portions of loans, are charged off to the extent deemed uncollectible. Loan charge-offs reduce the allowance for loan losses, and recoveries of loans previously charged off are added back to the allowance. Once the fair value for a collateral dependent loan has been determined, any impaired amount is typically charged off unless the loan has other income streams to support repayment. For impaired loans, which have other income streams to support repayment, a specific reserve is established for the amount determined to be impaired.

Note 3 – LOANS – (Continuation)

The following tables provide the loan balance by impairment methodology. A loan is considered impaired, in accordance with impairment accounting guidance (FASB ASC 310-10-35 *Receivables – Subsequent Measurement*), when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans totaled $1,725,714 and $1,640,379 at December 31, 2017 and 2016 and are comprised of loans on non-accrual status and loans which have been classified as troubled debt restructurings. All other loans are collectively evaluated for impairment under FASB ASC 450-20 *Loss Contingencies*. Although the allowance for loan losses is comprised of specific and general allocations, the entire allowance is available to absorb credit losses.

As of December 31, 2017 and 2016 there was no specific allowance required for impaired loans. The following is a summary of information pertaining to impaired loans at December 31, 2017 and 2016, segregated between loans for which an allowance has been provided and loans for which no allowance has been provided:

	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	RESIDENTIAL REAL ESTATE	CONSUMER	TOTAL
December 31, 2017						
Unpaid Contractual Principal Balance	623,652	805,880	18,778	428,296	--	1,876,606
Recorded Investment With No Allowance	55,417	775,634	18,009	340,197	--	1,189,257
Recorded Investment With Allowance	536,457	--	--	--	--	536,457
Total Recorded Investment	591,874	775,634	18,009	340,197	--	1,725,714
Related Allowance	117,000	--	--	--	--	117,000
Average Recorded Investment	568,620	705,377	135,031	98,152	2,445	1,509,625
Interest Income Recognized For the Year Ended December 31, 2017	22,993	35,732	4,128	7,768	--	70,621

Note 3 – LOANS – (Continuation)

	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	RESIDENTIAL REAL ESTATE	CONSUMER	TOTAL
December 31, 2016						
Unpaid Contractual Principal Balance	929,527	686,091	42,742	480,723	5,144	2,144,227
Recorded Investment With No Allowance	557,307	620,247	42,742	415,794	4,289	1,640,379
Recorded Investment With Allowance	--	--	--	--	--	--
Total Recorded Investment	557,307	620,247	42,742	415,794	4,289	1,640,379
Average Recorded Investment	502,164	635,317	605,003	629,657	6,382	2,378,523
Interest Income Recognized For the Year Ended December 31, 2016	9,395	2,042	20,950	--	--	32,387

According to guidance provided in ASC 310-40 *Troubled Debt Restructurings by Creditors*, a loan restructuring or modification of terms is a TDR if the creditor for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. The Company's portfolio of loans classified as TDRs include concessions, such as interest rates below the current market rate, deferring principal payments, and extending maturity dates. The Company considers a loan in TDR status in default when the borrower's payment according to the modified terms is at least 90 days past due or has defaulted due to expiration of the loan's maturity date. The following table summarizes troubled debt restructurings as of December 31, 2017 and 2016:

	NUMBER OF LOANS	PRE-MODIFICATION	POST MODIFICATION
December 31, 2017			
Commercial	2	55,417	55,417
Commercial Real Estate	1	87,133	87,133
TOTAL	3	142,550	142,550

Note 3 – LOANS – (Continuation)

	NUMBER OF LOANS	PRE-MODIFICATION	POST MODIFICATION
December 31, 2016			
Commercial	7	482,397	482,397
Construction and Land Development	1	42,742	42,742
Residential Real Estate	1	1,609	1,609
TOTAL	9	526,748	526,748

During the year ended December 31, 2017, three loans were modified meeting the criteria for troubled debt restructurings. During the year ended December 31, 2016, two loans were modified meeting the criteria for troubled debt restructurings. The modifications during the years ending December 31, 2017 and 2016 primarily related to extending amortization periods. There were no TDRs that defaulted under the modified terms in either the year ending December 31, 2017 or 2016 .

The Company's policy to discontinue the accrual of interest income on loans when management believes that the borrower's financial condition, after consideration of business conditions and collection efforts, is such that the collection of interest is doubtful, or upon which principal or interest has been in default for a period of 90 days or more and the asset is not both well secured and in the process of collection. Subsequent interest payments received on such loans are applied to principal if any doubt exists as to the collectability of such principal; otherwise, such receipts are recorded as interest income on a cash basis. An agreed analysis of past due and non-accrual loans at December 31, 2017 and 2016 follows:

	CURRENT OR LESS THAN 30 DAYS PAST DUE	30-89 DAYS PAST DUE	90 DAYS PAST DUE AND STILL ACCRUING	NON ACCRUAL	TOTAL
December 31, 2017					
Commercial	46,885,884	622,739	--	536,457	48,045,080
Commercial Real Estate	34,529,113	--	--	688,501	35,217,614
Construction and Land Development	38,171,854	--	--	18,009	38,189,863
Residential Real Estate	15,051,444	964,646	28,603	340,197	16,384,890
Consumer	728,605	--	112	--	728,717
TOTAL	135,366,900	1,587,385	28,715	1,583,164	138,566,164

Note 3 – LOANS – (Continuation)

	CURRENT OR LESS THAN 30 DAYS PAST DUE	30-89 DAYS PAST DUE	90 DAYS PAST DUE AND STILL ACCRUING	NON ACCRUAL	TOTAL
December 31, 2016					
Commercial	32,100,094	210,648	1,001	360,267	32,672,010
Commercial Real Estate	30,683,143	770,232	--	620,247	32,073,622
Construction and Land Development	38,679,278	448,989	--	--	39,128,267
Residential Real Estate	18,168,725	397,144	--	414,185	18,980,054
Consumer	1,124,618	15,647	--	4,289	1,144,554
TOTAL	120,755,858	1,842,660	1,001	1,398,988	123,998,507

The following table provides information about the credit quality of the loan portfolio using our Company's internal rating system reflecting management's risk assessment. Loans are placed on watch status when (1) one or more weaknesses which could jeopardize timely liquidation exists, or (2) the margin or liquidity of an asset is sufficiently tenuous that adverse trends could result in a collection problem. Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified may have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Such loans are characterized by the distinct possibility that our Company may sustain some loss if the deficiencies are not corrected. Loans are placed on non-accrual status when (1) deterioration in the financial condition of the borrower exists such that payment of full principal and interest is not expected, or (2) payments of principal or interest has been in default for a period of 90 days or more and the asset is not both well secured and in the process of collection.

	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	REAL ESTATE RESIDENTIAL	CONSUMER	TOTAL
At December 31, 2017						
Watch Status	1,993,848	705,292	--	--	--	2,699,140
Substandard	427,381	530,833	201,197	992,380	--	2,151,791
Non-accrual	536,457	688,501	18,009	340,197	--	1,583,164
TOTAL	2,957,686	1,924,626	219,206	1,332,577	--	6,434,095
At December 31, 2016						
Watch Status	2,000,000	251,040	--	--	--	2,251,040
Substandard	732,728	4,354,576	1,484,566	752,633	--	7,324,503
Non-accrual	360,267	620,247	--	414,185	4,289	1,398,988
TOTAL	3,092,995	5,225,863	1,484,566	1,166,818	4,289	10,974,531

Note 4 – BANKING PREMISES AND EQUIPMENT

A summary of property and equipment as of December 31, 2017 and 2016 follows:

	2017	2016
Land	1,021,456	1,021,456
Bank Premises	4,782,318	4,782,318
Equipment, Furniture and Fixtures	2,427,133	2,377,273
Automobiles	69,468	69,468
Total Banking Premises and Equipment	8,300,375	8,250,515
Less Accumulated Depreciation	4,560,122	4,337,166
NET BANKING PREMISES AND EQUIPMENT	3,740,253	3,913,349

Depreciation expense on the above assets was $222,956 and $237,468 for 2017 and 2016, respectively.

Note 5 – FEDERAL HOME LOAN BANK

The Bank is a member of the Federal Home Loan Bank of Dallas and owns 990 and 5,387 shares of its capital stock at December 31, 2017 and 2016 respectively, with a par value and cost of $100 per share. Ownership of Federal Home Loan Bank stock is restricted. The stock can be sold only at par and only to the Federal Home Loan Bank or to another member institution.

Note 6 – FORECLOSED ASSETS

During the years ended December 31, 2017 and 2016, the Company acquired real estate properties through foreclosure. The properties are reported at the lower of cost or fair value as follows:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Construction and Land Development	314,992	1,248,251
Residential Real Estate	585,271	--
TOTAL	900,263	1,248,251

Note 6 – FORECLOSED ASSETS – (Continuation)

Activity in real estate acquired in settlement of loans for the year ended December 31, 2017 and 2016 is as follows:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Balance at Beginning of Year	795,138	--
Additions	900,263	1,248,251
Charge-offs	--	(20,208)
Proceeds from Sales	(1,709,671)	(425,071)
Net Gain (Loss) on Sales	46,120	(7,834)
TOTAL	31,850	795,138

An analysis of the allowance for losses on foreclosed assets for the year ended December 31, 2017 and 2016 is as follows:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Balance at Beginning of Year	--	--
Provision for Losses	--	20,208
Less Property Sold	--	(20,208)
BALANCE AT END OF YEAR	--	--

Operating expenses applicable to foreclosed assets include the following:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Net Gain (Loss) on Sale of Real Estate	46,120	(7,834)
Provision for Losses	--	(20,208)
Operating Expenses, Net of Rental Income	(23,372)	(72,921)
NET GAIN (LOSS) ON FORECLOSED ASSETS	22,748	(100,963)

Note 7 – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2017 and 2016 amounted to $15,815,052 and $11,141,635, respectively.

Time deposits and their remaining maturities at December 31, 2017 are as follows:

Maturities of:	
One Year or Less	14,063,069
One to Three Years	13,103,753
Three to Five Years	6,169,162
Five to Ten Years	500,000
TOTAL	33,835,984

Note 8 – SHORT-TERM BORROWED FUNDS

At December 31, 2017 and 2016, short-term borrowed funds amounted to the following:

	YEAR ENDED DECEMBER 31,	
	2017	2016
.77% FHLB Advance Purchased December 19, 2016, Due January 3, 2017	--	10,500,000
Federal Funds Purchased from Frost Bank	5,325,000	1,475,000
Repurchase Agreement Secured by pledged Investment Securities, Interest at .20% of Charter Bank's Money Market Account Rate	1,000,000	1,000,000
TOTAL	6,325,000	12,975,000

In 2017 the highest amount the Bank advanced from the Federal Home Loan Bank of Dallas (FHLB) was $10,500,000 and the amount was outstanding for 28 days. In 2016 there the highest amount the Bank advanced from the Federal Home Loan Bank of Dallas (FHLB) was $14,800,000 and the amount was outstanding for 31 days. Under the terms of the Master Agreement with FHLB, the Company has $49,223,096 available for advances at December 31, 2017.

Under agreements with unaffiliated banks, the Bank may borrow federal funds up to $4,925,000 on an unsecured basis at December 31, 2017.

Note 9 – RETAINED EARNINGS

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

	2017	2016
Accumulated Adjustments Account:		
Balance, Beginning of Year	--	--
Taxable Income, Net of Certain Non-Taxable Items	4,979,155	4,087,418
Distributions	(4,525,780)	(4,087,418)
Balance, End of Year	453,375	--
Other Adjustments Account:		
Balance, Beginning of Year	14,807,504	11,257,261
Non-Taxable Interest	3,191,342	4,016,064
Distributions	--	(465,821)
Balance, End of Year	17,998,846	14,807,504
Other Retained Earnings:		
Balance, Beginning of Year	(5,158,884)	(5,813,739)
Differences Between Book and Tax Income	(362,653)	(454,694)
Difference Between Accrual Basis Distributions	(986,853)	1,109,549
Balance, End of Year	(6,508,390)	(5,158,884)
TOTAL RETAINED EARNINGS, END OF YEAR	11,943,831	9,648,620

Note 10 – OPERATING LEASES

The Company is a lessor of office space under an operating lease expiring December 31, 2021. Minimum future rentals to be received on non-cancelable leases as of December 31, 2017 are as follows:

Year Ending December 31,:	
2018	276,750
2019	276,750
2020	276,750
2021	276,750
TOTAL	1,107,000

Note 11 – COMMITMENTS AND OFF-BALANCE SHEET ACTIVITIES

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

Note 11 – COMMITMENTS AND OFF-BALANCE SHEET ACTIVITIES – (Continuation)

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	CONTRACT AMOUNT	
	2017	2016
Unfunded Construction and Land Development Loan Commitments	17,795,336	19,092,924
Unfunded Commitments Under Lines of Credit	17,695,512	16,110,896
Standby Letters of Credit	6,323,368	3,241,168

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Standby letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary. Commitments to extend credit and standby letters-of-credit all include exposure to some credit loss in the event of nonperformance of the customer.

Note 12 – LEGAL CONTINGENCIES

The Company is involved in various claims and suits, occurring in the normal course of business. In the opinion of management, potential liabilities arising from these matters, if any, would not have a material effect on the Company's financial condition.

Note 13 – MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the Bank is subject to various regulatory capital requirements administered by state and Federal banking agencies. Capital adequacy and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about component classification, risk weighting, and other factors.

The Basel III capital rules became effective for the Company and Bank on January 1, 2015, subject to a four-year phase-in period. Quantitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital to Risk-Weighted Assets, and of Tier 1 Capital to Average Assets. In connection with the adoption of the Basel III capital rules, the Company and Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital.

Note 13 – MINIMUM REGULATORY CAPITAL REQUIREMENTS – (Continuation)

Management believes, as of December 31, 2017 and 2016, that the Company and Bank met all capital adequacy requirements to which they are subject. As of December 31, 2017, the most recent notification from the primary regulatory agency of the Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The following tables present actual and required capital ratios as of December 31, 2017 and 2016 for the Bank under the Basel III capital rules. The minimum required capital amounts present the minimum required levels as of December 31, 2017 and 2016 based on the phase-in of the Basel III capital rules and the minimum required as of January 1, 2019, when the phase-in is complete. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

	ACTUAL		MINIMUM REQUIRED FOR CAPITAL ADEQUACY-BASEL III CURRENT PHASE-IN SCHEDULE		MINIMUM CAPITAL REQUIRED BASEL III FULLY PHASE-IN		MINIMUM REQUIRED TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
(Amounts in Thousands)	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
December 31, 2017:								
Common Equity Tier I Capital to Risk Weighted Assets	25,478	16.079%	9,111	5.750%	11,092	7.000%	10,300	6.500%
Tier I Capital to Risk Weighted Assets	25,478	16.079%	11,488	7.250%	13,469	8.500%	12,677	8.000%
Total Capital to Risk Weighted Assets	27,461	17.330%	14,657	9.250%	16,638	10.500%	15,846	10.000%
Tier I Capital to Average Assets	25,478	10.015%	10,176	4.000%	10,176	4.000%	12,720	5.000%
December 31, 2016:								
Common Equity Tier I Capital to Risk Weighted Assets	22,556	15.610%	7,405	5.125%	10,115	7.000%	9,392	6.500%
Tier I Capital to Risk Weighted Assets	22,556	15.610%	9,573	6.625%	12,282	8.500%	11,560	8.000%
Total Capital to Risk Weighted Assets	24,366	16.863%	12,463	8.625%	15,172	10.500%	14,450	10.000%
Tier I Capital to Average Assets	22,556	9.218%	9,788	4.000%	9,788	4.000%	12,234	5.000%

Note 14 – COMPENSATORY STOCK OPTION PLAN

The Company has a stock option plan which includes both incentive stock options and nonqualified stock options. The plan is for key employees designated by the Board on or before each plan year begins. Under the Plan the exercise price of each option equals the market price of the Company's stock on the date of grant as determined by the Board's compensation committee. Options may be exercised at 20% per year of service after the grant date.

The following table illustrates a summary of outstanding options at December 31, 2017 and 2016:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	TOTAL
Outstanding January 1, 2016	92.000	23,925	2,201,100
Granted	33.000	20,000	660,000
Exercised	(29.000)	22,938	(665,200)
Retired	(6.800)	24,088	(163,800)
OUTSTANDING, DECEMBER 31, 2016	89.200	22,781	2,032,100
Granted	23.000	25,000	575,000
Exercised	(20.600)	23,481	(483,700)
OUTSTANDING, DECEMBER 31, 2017	91.600	23,181	2,123,400

At December 31, 2017, all eligible options under the plan were exercised.

The Company applies FASB ASC 718 *Compensation - Stock Compensation* in accounting for the stock option plan. Accordingly, no compensation cost has been recognized for the incentive stock options because the option price was equal to fair value at date of grant. Compensation expense for the nonqualified stock options is based on the difference between fair market at the date of exercise and the amount the employee must pay to acquire the stock. For the year ended December 31, 2017, the Company recognized no compensation expense for nonqualified stock options. For the year ended December 31, 2016, the Company recognized $22,000 in compensation expense for nonqualified stock options.

Note 15 – EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution savings plan that covers all employees. Participants can contribute a percentage of their compensation as permitted by the Internal Revenue Code Section 401(k). The Company will match 100% of the employee's contribution up to 3% of the employee's compensation and an additional 50% on the next 2% of the employee's compensation. The Company's contributions for both 2017 and 2016 amounted to $132,000.

Note 16 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company makes loans to officers, directors and principal stockholders. These loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. Such loans amounted to $14,428,826 and $9,387,468 at December 31, 2017 and 2016, respectively.

Deposits from related parties held by the Bank at December 31, 2017 and 2016 amounted to $33,411,446 and $25,085,249, respectively.

Note 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the provisions of the ASC, *Fair Value Measurements and Disclosures*. The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a "class" basis rather than a major category basis for assets and liabilities; and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritize the inputs used in valuation methodology in the following three levels:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.

- Level 2 – Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs.

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively-traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities generally include certain United States government and agency securities, corporate debt securities, and certain derivatives. In certain cases, where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

The following table summarizes assets measured at fair value by class on a recurring basis as reported on the consolidated balance sheets as of December 31, 2017 and 2016, segregated by level within the fair value measurement hierarchy:

Assets Measured at Fair Value on a Recurring Basis

	FAIR VALUE MEASUREMENTS USING		
	QUOTED PRICE IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	TOTAL
December 31, 2017			
Municipal Bonds	--	109,187,133	109,187,133
Other	--	155,000	155,000
TOTAL	--	109,342,133	109,342,133
December 31, 2016			
Municipal Bonds	--	109,118,369	109,118,369
Other	--	155,000	155,000
TOTAL	--	109,273,369	109,273,369

Assets Measured at Fair Value on a Nonrecurring Basis

A description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Impaired Loans

The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with FASB ASC 310 *Receivables*. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral was determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting commercial loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.

Other Real Estate Owned

Other real estate owned, upon initial recognition, is measured and reported at fair value less estimated costs of disposal though a charge-off to the allowance for loan losses based upon the fair value of the other real estate acquired. The fair value of other real estate owned is estimated based on appraisals with further adjustments made to the appraised values due to various factors, including age of the appraisal, age of comparables included in the appraisal and known changes in the market and on the collateral. Because the assumptions used to estimate the fair value of other real estate owned are not observable in the marketplace, such valuations have been classified as Level 3.

	FAIR VALUE MEASUREMENTS USING			
	QUOTED PRICE IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3	TOTAL
December 31, 2017				
Impaired Loans	--	--	1,608,714	1,608,714
Other Real Estate Owned	--	--	31,850	31,850
TOTAL	--	--	1,640,564	1,640,564
December 31, 2016				
Impaired Loans	--	--	1,640,379	1,640,379
Other Real Estate Owned	--	--	795,138	795,138
TOTAL	--	--	2,435,517	2,435,517

Note 18 – PARENT COMPANY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Charter Bancshares, Inc. (Parent Company only) at December 31, 2017 and 2016 is as follows:

Balance Sheet:

	DECEMBER 31,	
	2017	2016
ASSETS		
Cash	633,840	143,613
Investment in Subsidiaries	28,471,264	24,350,461
Dividends Receivable	1,450,000	1,086,244
TOTAL ASSETS	30,555,104	25,580,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities-		
Dividends Payable	2,077,093	1,090,238
Stockholders' Equity:		
Common Stock	1,819,351	1,794,631
Surplus	11,721,802	11,252,822
Retained Earnings	11,943,831	9,648,620
Accumulated Other Comprehensive Income	2,993,027	1,794,007
Total Stockholders Equity	28,478,011	24,490,080
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	30,555,104	25,580,318

The Statement of Income for the year ended December 31, 2017 and 2016 is as follows:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Income -		
Equity Earning from Subsidiaries	7,807,846	7,676,989
Expenses:		
Compensation Expense	--	28,200
Administrative Expense	--	1
NET INCOME	7,807,846	7,648,788

Note 18 – PARENT COMPANY CONDENSED FINANCIAL INFORMATION – (Continuation)

The Statement of Cash Flows for the year ended December 31, 2017 and 2016 is as follows:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Cash Flows from Operating Activities:		
Net Income	7,807,846	7,648,788
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Equity in Earnings of Subsidiaries	(7,807,846)	(7,676,989)
Dividends Received from Subsidiaries	4,886,063	2,920,444
Stock Compensation Expense	--	22,000
Net Change in-		
Dividend Receivable	(363,757)	1,113,756
Net Cash Provided by Operating Activities	4,522,306	4,027,999
Cash Flows from Financing Activities:		
Proceeds from Sale of Common Stock	493,700	665,200
Dividends Paid	(4,525,780)	(4,553,240)
Net Cash Used by Financing Activities	(4,032,080)	(3,888,040)
Increase in Cash	490,226	139,959
Cash, Beginning of Year	143,614	3,655
CASH, END OF YEAR	633,840	143,614

CHARTER BANCSHARES, INC.
AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

COLLIER, JOHNSON & WOODS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

555 N. Carancahua, Suite 1000
Corpus Christi, Texas 78401-0839
361-884-9347 • Fax 361-884-9422
www.cjw-cpa.com

INDEPENDENT AUDITOR'S REPORT

March 2, 2018

To the Board of Directors
Charter Bancshares, Inc. and Subsidiaries
Corpus Christi, Texas

We have audited the accompanying consolidated financial statements of Charter Bancshares, Inc., and Subsidiaries (a Texas Corporation), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Collier, Johnson & Woods

CHARTER BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2017	DECEMBER 31, 2016
ASSETS		
Cash and Due from Banks	6,289,551	6,240,064
Available-for-Sale Securities at Fair Value (Notes 2 and 17)	109,342,133	109,273,369
Loans, Net of Allowance for Loan Losses of $2,204,438 in 2017 and $2,125,113 in 2016 (Note 3)	135,762,747	121,119,173
Banking Premises and Equipment, Net (Note 4)	3,740,253	3,913,349
Accrued Interest Receivable	1,054,706	991,613
Federal Home Loan Bank Stock (Note 5)	99,000	538,700
Foreclosed Assets (Note 6)	31,850	795,138
Other Assets	149,174	133,563
TOTAL ASSETS	256,469,414	243,004,969
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	100,039,944	93,846,901
Interest-bearing (Note 7)	118,179,194	109,734,782
Total Deposits	218,219,138	203,581,683
Short-Term Borrowed Funds (Note 8)	6,325,000	12,975,000
Accrued Expenses and Other Liabilities	1,370,172	867,968
Dividends Payable	2,077,093	1,090,238
Total Liabilities	227,991,403	218,514,889
Commitments and Contingencies (Note 11 and 12)		
Stockholders' Equity:		
Common Stock $1,200 Par Value, 2,000 Shares Authorized 1,516.126 and 1,495.526 Shares Issued and Outstanding in 2017 and 2016, Respectively	1,819,351	1,794,631
Surplus	11,721,802	11,252,822
Retained Earnings (Note 9)	11,943,831	9,648,620
Accumulated Other Comprehensive Income	2,993,027	1,794,007
Total Stockholders' Equity	28,478,011	24,490,080
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	256,469,414	243,004,969

See Notes to Consolidated Financial Statements.

CHARTER BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,	
	2017	2016
Interest Income:		
Loans, Including Fees	11,468,287	10,784,714
Debt Securities:		
Taxable	15,526	19,594
Tax-exempt	3,220,996	4,029,791
Interest on Federal Funds Sold	75,466	6,820
Total Interest Income	14,780,275	14,840,919
Interest Expense:		
Interest on Deposits	348,828	331,331
Interest on Borrowed Funds	72,865	55,586
Total Interest Expense	421,693	386,917
Net Interest Income	14,358,582	14,454,002
Increase in Provision for Loan Losses (Note 3)	200,000	950,000
Net Interest Income After Provision for Loan Losses	14,158,582	13,504,002
Noninterest Income:		
Service Fees	1,331,717	1,268,028
Other Operating Income	562,095	561,552
Gain on Sale of Securities	306,805	846,886
Gain (Loss) on Foreclosed Assets (Note 6)	46,120	(7,834)
Total Noninterest Income	2,246,737	2,668,632
Noninterest Expenses:		
Salaries and Employee Benefits	6,091,066	5,905,518
Occupancy and Equipment, Net of Rent Income of $292,496 in 2017 and $321,746 in 2016	680,414	697,960
Data Processing	391,035	353,159
General and Administrative	1,434,958	1,567,209
Total Noninterest Expenses	8,597,473	8,523,846
NET INCOME	7,807,846	7,648,788

See Notes to Consolidated Financial Statements.

CHARTER BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31, 2017	2016
Net Income	7,807,846	7,648,788
Available-for-Sale Securities:		
Reclassification Adjustment for Net Gain Included in Net Income	306,805	846,886
Change in Net Unrealized Gain on		
Available-for-Sale Securities	892,215	(4,710,744)
Total Available-for-Sale Securities	1,199,020	(3,863,858)
TOTAL OTHER COMPREHENSIVE INCOME	9,006,866	3,784,930

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEAR ENDED DECEMBER 31, 2017 AND 2016

	COMMON STOCK	SURPLUS	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME	TOTAL
Balance, December 31, 2015	1,759,831	10,600,422	5,443,522	5,657,865	23,461,640
Net Income	--	--	7,648,788	--	7,648,788
Other Comprehensive Income	--	--	--	(3,863,858)	(3,863,858)
Dividends	--	--	(3,443,690)	--	(3,443,690)
Stock Based Compensation Recognized in Earnings	--	22,000	--	--	22,000
Stock Options Exercised for 29 Shares	34,800	630,400	--	--	665,200
Balance, December 31, 2016	1,794,631	11,252,822	9,648,620	1,794,007	24,490,080
Net Income	--	--	7,807,846	--	7,807,846
Other Comprehensive Income	--	--	--	1,199,020	1,199,020
Dividends	--	--	(5,512,635)	--	(5,512,635)
Stock Options Exercised for 20.6 Shares	24,720	468,980	--	--	493,700
BALANCE, DECEMBER 31, 2017	1,819,351	11,721,802	11,943,831	2,993,027	28,478,011

See Notes to Consolidated Financial Statements.

CHARTER BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2017	2016
Cash Flows from Operating Activities:		
Net Income	7,807,846	7,648,788
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	222,956	237,468
Provision for Loan Losses	200,000	950,000
Write down of Other Real Estate	--	20,208
Stock Compensation Expense	--	22,000
Premium Amortization Net of Discount Accretion on Securities	(1,925,212)	(2,602,491)
Gain on Securities	(306,805)	(846,886)
(Gain) Loss on Sale of Foreclosed Assets	(46,120)	7,834
Net Change in:		
Accrued Interest Receivable	(63,093)	(56,498)
Other Assets	(15,611)	(31,354)
Accrued Expenses and Other Liabilities	502,203	12,074
Net Cash Provided by Operating Activities	6,376,164	5,361,143
Cash Flows from Investing Activities:		
Loan Originations and Principal Collections, Net	(15,743,837)	(11,114,226)
Activity in Available-for-Sale Securities:		
Maturities, Prepayments and Calls	40,102,273	44,924,307
Sales	11,879,444	28,221,123
Purchases	(48,619,443)	(41,826,228)
Purchase of Federal Home Loan Bank Stock	(804,200)	(437,600)
Sale of Federal Home Loan Bank Stock	1,243,900	--
Purchase of Bank Premises and Equipment	(49,860)	(34,255)
Proceeds from Sale of Foreclosed Assets	1,709,671	425,071
Net Cash Provided (Used) by Investing Activities	(10,282,052)	20,158,192
Cash Flows from Financing Activities:		
Net Increase (Decrease) in Noninterest Bearing Deposits	6,193,043	(25,537,609)
Net Increase (Decrease) in Interest Bearing Deposits	8,444,412	(4,814,642)
Net Increase (Decrease) in Borrowed Funds	(6,650,000)	6,650,000
Proceeds from Issuance of Common Stock	493,700	665,200
Dividends Paid	(4,525,780)	(4,553,241)
Net Cash Provided (Used) by Financing Activities	3,955,375	(27,590,292)
Increase (Decrease) in Cash and Cash Equivalents	49,487	(2,070,957)
Cash and Cash Equivalents, Beginning of Year	6,240,064	8,311,021
CASH AND CASH EQUIVALENTS, END OF YEAR	6,289,551	6,240,064
Supplementary Cash Flow Information:		
Interest Paid on Deposits and Borrowed Funds	411,190	375,713
Noncash Investing and Financing Activities:		
Foreclosure of Other Real Estate	900,263	1,248,251
Reclassification Adjustment for Net Gain Included in Net Income and Change in Unrealized Gain (Loss) on Available-for-Sale Securities	1,199,020	(3,863,858)

See Notes to Consolidated Financial Statements.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting practices of Charter Bancshares, Inc. (Parent Company) and its wholly owned subsidiaries (collectively referred to as Company) conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a description of the more significant policies.

Principles of Consolidation

The consolidated financial statements include the accounts of Charter Bancshares, Inc. and its wholly owned subsidiary Charter Bank (Bank). The Bank owns 100% of North and South Padre L.L.C. which owns 7.1776% interest in a partnership which owns land on South Padre Island. All significant intercompany transactions and balances have been eliminated in consolidation.

Date of Management's Review

Subsequent events were evaluated through March 2, 2018 which is the date the financial statements were available to be issued.

Nature of Operations

The Company provides a variety of financial services to individuals and corporate customers through three branches in Corpus Christi and Rockport, Texas. The economy of Nueces County, the Company's principal market area, is diversified and consists of military, agricultural, energy, light industry, and service industry sectors. The Company's primary source of revenue is loans to commercial entities and individuals within its principal market area.

Use of Estimates

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

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located in the South Texas region. Note 2 discusses the types of securities in which the Company invests. Note 3 discusses the types of lending in which the Company engages. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the oil and gas and commercial real estate business economic sectors.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days.

Securities

Securities that may be sold in response to, or in anticipation of, changes in interest rates and resulting prepayment risk, or other factors, are classified as available-for-sale and carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Company is an S corporation and does not adjust unrealized gains and losses for taxes.

In compliance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320-10 *Investments - Debt Securities* accounting guidance related to the recognition and presentation of other-than-temporary impairment, declines in fair value of available-for-sale securities that are deemed to be other-than-temporary are reflected in earnings as realized losses. The Company recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made. In determining whether other-than-temporary impairment exists, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of these loans is to customers in South Texas. The ability of the Company's debtors to honor their contracts is dependent upon the economic conditions in this area.

The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. Commercial and residential real estate loans are subject to underwriting standards that evaluate cash flow and fair value of the collateral. The collectibility of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on collateral, geography, and risk criteria.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets and frequently include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and collect amounts due from their customers.

Consumer loans are originated after evaluation of the credit history and repayment ability of the borrower based on current personal income. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower's income.

Loans that management has the intent and ability to hold for the foreseeable future or maturity are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for loan losses, unearned interest and any deferred fees or costs on originated loans and any premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the straight-line method, which management believes is not materially different from the interest method. The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

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

Loans are fully or partially charged down to the fair value of the collateral securing the loan when management determines the asset to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy, or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan.

In situations related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include interest rate reductions, payment forbearance, or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for Loan Losses

The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's methodology for the allowance for loan losses includes allowance allocations calculated in accordance with ASC 310 *Receivables*, and ASC 450 *Contingencies*. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools, and specific loss allocations, with adjustments for current events and conditions.

The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations, and loan quality trends, including trends in nonaccrual, past-due, and classified loans; current period loan charge-offs; and recoveries. The determination also includes qualitative aspects, such as changes in local, regional, or national economies or markets, and other factors. Such qualitative factors are highly judgmental and require constant refinement. The Company has an internal loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade, and assist senior management in maintaining an adequate allowance for loan losses account by reviewing and refining the methodology, as needed, based on changing circumstances.

The Company's allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with ASC based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with ASC based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

While management uses the best information available to make its evaluation, future additions to the allowance could be required based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less estimated cost to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operation and changes in the valuation allowance are included in net expenses from foreclosed assets.

Banking Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line and declining balance method.

Comprehensive Income

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

Federal Income Taxes

The Company, with the consent of their shareholders, elected under the Internal Revenue Code to be an S Corporation. In lieu of corporation income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for Federal income taxes has been included in net income.

The Company files income tax returns in the U.S. Federal jurisdiction. The Company is no longer subject to U.S. Federal income tax examinations by tax authorities for years after 2013.

Stock Compensation Plans

The Company has a stock based compensation Plan more fully described in Note 14. Stock compensation accounting guidance (FASB ASC 718 *Compensation – Stock Compensation*) requires that the compensation cost related to share-based payment transactions be recognized in financial statements. Compensation cost has been measured using the fair value of an award on the grant dates and is recognized over the service period, which is usually the vesting period. Compensation cost related to the non-vested portion of awards outstanding as of the transition date are based on the grant-date fair value of those awards. The standard continues to allow the Company to use the intrinsic value method, in which compensation cost is the excess, if any, of the market price of the stock at the grant date over the amount an employee must pay to acquire the stock if the Company cannot reasonably estimate fair value because it is not practicable for it to estimate the expected volatility of its share price.

Revenue Recognition

Interest income and expense is recognized on the accrual method based on the respective outstanding balances. Other revenue is recognized at the time the service is rendered or transactions occur.

New Accounting Pronouncements

In September 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) *No. 2014-09, Revenue From Contracts with Customers.* ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 will be effective for nonpublic business entities in 2018. The Company is still evaluating the potential impact of this new ASU on its consolidated financial statements.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continuation)

In February 2016, the FASB issued (ASU) *No. 2016-02, Leases (Topic 842)* intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the potential impact of the amendment on the Company's financial statements.

In June 2016, the FASB issued (ASU) *No. 2016-13, Financial Instruments – Credit Losses (Topic 326)* intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company believes the amendments in this update will have an impact on the Company's financial statements and is working to evaluate the significance of that impact.

The FASB issued (ASU) *2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which made the following changes that may affect the Company: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities. The amendments in this ASU will be effective for entities other than public business entities for fiscal years beginning after December 15, 2018. The Company does not expect the guidance to have a material impact on its financial statements.

Note 2 – SECURITIES

The amortized cost and fair values of securities, with gross unrealized gains and losses, as of December 31, 2017 and 2016 are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2017				
Available-for-Sale Securities:				
Municipal Bonds	106,194,106	3,162,753	169,726	109,187,133
Other	155,000	--	--	155,000
TOTAL	106,349,106	3,162,753	169,726	109,342,133
December 31, 2016				
Available-for-Sale Securities:				
Municipal Bonds	107,324,362	2,743,834	949,827	109,118,369
Other	155,000	--	--	155,000
TOTAL	107,479,362	2,743,834	949,827	109,273,369

As of December 31, 2017 and 2016 securities with a fair value of $1,375,377 and $1,297,947, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

Note 2 – SECURITIES – (Continuation)

The following table shows the maturity distribution of the security portfolio at December 31, 2017:

	AVAILABLE-FOR-SALE SECURITIES	
	AMORTIZED COST	FAIR VALUE
Due from One Year to Five Years	37,483,222	39,228,535
Due from Five to Ten Years	60,212,405	61,556,213
Over Ten Years	8,648,479	8,552,385
Total	106,344,106	109,337,133
No Stated Maturity Date	5,000	5,000
TOTAL	106,349,106	109,342,133

For the year ended December 31, 2017, proceeds from sales of securities available-for-sale amounted to $11,879,444 and gross realized gains amounted to $306,805. For the year ended December 31, 2016, proceeds from sales of securities available-for-sale amounted to $28,221,123 and gross realized gains amounted to $846,886.

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

	LESS THAN 12 MONTHS		OVER 12 MONTHS		
	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	TOTAL UNREALIZED LOSSES
December 31, 2017					
Municipal Bonds	167,389	15,663,566	2,337	967,061	169,726
December 31, 2016					
Municipal Bonds	949,827	42,332,309	--	--	949,827

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Management has the ability and intent to hold the securities for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2017, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's consolidated income statement.

Note 3 – LOANS

Loans, as of December 31, 2017 and 2016, consisted of the following:

	2017	2016
Commercial	48,045,080	32,672,010
Commercial Real Estate	35,217,614	32,073,622
Construction and Land Development	38,189,863	39,128,267
Residential Real Estate	16,384,890	18,980,054
Consumer	728,717	1,144,554
Total Loans	138,566,164	123,998,507
Less:		
Allowance for Loan Losses	2,204,438	2,125,113
Unearned Loan Fees	598,979	754,221
NET LOANS	135,762,747	121,119,173

Rate sensitivity of the loan portfolio, at December 31, 2017 and 2016, are as follows:

	2017	2016
Loans at Fixed Interest Rates	126,081,671	112,339,755
Loans at Variable Interest Rates	12,484,493	11,658,752
TOTAL	138,566,164	123,998,507

Note 3 – LOANS – (Continuation)

Allowance for Loan Losses

The activity in the allowance for loan losses for the year ended December 31, 2017 is summarized below:

	YEAR ENDED DECEMBER 31, 2017					
	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	RESIDENTIAL REAL ESTATE	CONSUMER	TOTAL
Balance, Beginning of Year	691,150	568,034	565,224	282,818	17,887	2,125,113
Increase (Decrease) in- Provision for Loan Losses	426,178	(109,815)	(84,884)	(47,487)	16,008	200,000
Deductions:						
Loans Charged Off	(81,811)	--	(36,094)	(26,665)	(24,152)	(168,722)
Less Recoveries	26,644	2,937	13,851	275	4,340	48,047
Net Loans Charged Off	(55,167)	2,937	(22,243)	(26,390)	(19,812)	(120,675)
BALANCE, END OF YEAR	1,062,161	461,156	458,097	208,941	14,083	2,204,438

The activity in the allowance for loan losses for the year ended December 31, 2016 is summarized below:

	YEAR ENDED DECEMBER 31, 2016					
	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	RESIDENTIAL REAL ESTATE	CONSUMER	TOTAL
Balance, Beginning of Year	445,753	555,842	364,271	276,639	24,073	1,666,578
Increase in- Provision for Loan Losses	556,346	21,070	308,108	26,006	38,470	950,000
Deductions:						
Loans Charged Off	(310,949)	(11,811)	(149,932)	(20,000)	(51,346)	(544,038)
Less Recoveries	--	2,933	42,777	173	6,690	52,573
Net Loans Charged Off	(310,949)	(8,878)	(107,155)	(19,827)	(44,656)	(491,465)
BALANCE, END OF YEAR	691,150	568,034	565,224	282,818	17,887	2,125,113

Loans, or portions of loans, are charged off to the extent deemed uncollectible. Loan charge-offs reduce the allowance for loan losses, and recoveries of loans previously charged off are added back to the allowance. Once the fair value for a collateral dependent loan has been determined, any impaired amount is typically charged off unless the loan has other income streams to support repayment. For impaired loans, which have other income streams to support repayment, a specific reserve is established for the amount determined to be impaired.

Note 3 – LOANS – (Continuation)

The following tables provide the loan balance by impairment methodology. A loan is considered impaired, in accordance with impairment accounting guidance (FASB ASC 310-10-35 *Receivables – Subsequent Measurement*), when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans totaled $1,725,714 and $1,640,379 at December 31, 2017 and 2016 and are comprised of loans on non-accrual status and loans which have been classified as troubled debt restructurings. All other loans are collectively evaluated for impairment under FASB ASC 450-20 *Loss Contingencies*. Although the allowance for loan losses is comprised of specific and general allocations, the entire allowance is available to absorb credit losses.

As of December 31, 2017 and 2016 there was no specific allowance required for impaired loans. The following is a summary of information pertaining to impaired loans at December 31, 2017 and 2016, segregated between loans for which an allowance has been provided and loans for which no allowance has been provided:

	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	RESIDENTIAL REAL ESTATE	CONSUMER	TOTAL
December 31, 2017						
Unpaid Contractual Principal Balance	623,652	805,880	18,778	428,296	--	1,876,606
Recorded Investment With No Allowance	55,417	775,634	18,009	340,197	--	1,189,257
Recorded Investment With Allowance	536,457	--	--	--	--	536,457
Total Recorded Investment	591,874	775,634	18,009	340,197	--	1,725,714
Related Allowance	117,000	--	--	--	--	117,000
Average Recorded Investment	568,620	705,377	135,031	98,152	2,445	1,509,625
Interest Income Recognized For the Year Ended December 31, 2017	22,993	35,732	4,128	7,768	--	70,621

Note 3 – LOANS – (Continuation)

	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	RESIDENTIAL REAL ESTATE	CONSUMER	TOTAL
December 31, 2016						
Unpaid Contractual Principal Balance	929,527	686,091	42,742	480,723	5,144	2,144,227
Recorded Investment With No Allowance	557,307	620,247	42,742	415,794	4,289	1,640,379
Recorded Investment With Allowance	--	--	--	--	--	--
Total Recorded Investment	557,307	620,247	42,742	415,794	4,289	1,640,379
Average Recorded Investment	502,164	635,317	605,003	629,657	6,382	2,378,523
Interest Income Recognized For the Year Ended December 31, 2016	9,395	2,042	20,950	--	--	32,387

According to guidance provided in ASC 310-40 *Troubled Debt Restructurings by Creditors*, a loan restructuring or modification of terms is a TDR if the creditor for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. The Company's portfolio of loans classified as TDRs include concessions, such as interest rates below the current market rate, deferring principal payments, and extending maturity dates. The Company considers a loan in TDR status in default when the borrower's payment according to the modified terms is at least 90 days past due or has defaulted due to expiration of the loan's maturity date. The following table summarizes troubled debt restructurings as of December 31, 2017 and 2016:

	NUMBER OF LOANS	PRE-MODIFICATION	POST MODIFICATION
December 31, 2017			
Commercial	2	55,417	55,417
Commercial Real Estate	1	87,133	87,133
TOTAL	3	142,550	142,550

Note 3 – LOANS – (Continuation)

	NUMBER OF LOANS	PRE-MODIFICATION	POST MODIFICATION
December 31, 2016			
Commercial	7	482,397	482,397
Construction and Land Development	1	42,742	42,742
Residential Real Estate	1	1,609	1,609
TOTAL	9	526,748	526,748

During the year ended December 31, 2017, three loans were modified meeting the criteria for troubled debt restructurings. During the year ended December 31, 2016, two loans were modified meeting the criteria for troubled debt restructurings. The modifications during the years ending December 31, 2017 and 2016 primarily related to extending amortization periods. There were no TDRs that defaulted under the modified terms in either the year ending December 31, 2017 or 2016 .

The Company's policy to discontinue the accrual of interest income on loans when management believes that the borrower's financial condition, after consideration of business conditions and collection efforts, is such that the collection of interest is doubtful, or upon which principal or interest has been in default for a period of 90 days or more and the asset is not both well secured and in the process of collection. Subsequent interest payments received on such loans are applied to principal if any doubt exists as to the collectability of such principal; otherwise, such receipts are recorded as interest income on a cash basis. An agreed analysis of past due and non-accrual loans at December 31, 2017 and 2016 follows:

	CURRENT OR LESS THAN 30 DAYS PAST DUE	30-89 DAYS PAST DUE	90 DAYS PAST DUE AND STILL ACCRUING	NON ACCRUAL	TOTAL
December 31, 2017					
Commercial	46,885,884	622,739	--	536,457	48,045,080
Commercial Real Estate	34,529,113	--	--	688,501	35,217,614
Construction and Land Development	38,171,854	--	--	18,009	38,189,863
Residential Real Estate	15,051,444	964,646	28,603	340,197	16,384,890
Consumer	728,605	--	112	--	728,717
TOTAL	135,366,900	1,587,385	28,715	1,583,164	138,566,164

Note 3 – LOANS – (Continuation)

	CURRENT OR LESS THAN 30 DAYS PAST DUE	30-89 DAYS PAST DUE	90 DAYS PAST DUE AND STILL ACCRUING	NON ACCRUAL	TOTAL
December 31, 2016					
Commercial	32,100,094	210,648	1,001	360,267	32,672,010
Commercial Real Estate	30,683,143	770,232	--	620,247	32,073,622
Construction and Land Development	38,679,278	448,989	--	--	39,128,267
Residential Real Estate	18,168,725	397,144	--	414,185	18,980,054
Consumer	1,124,618	15,647	--	4,289	1,144,554
TOTAL	120,755,858	1,842,660	1,001	1,398,988	123,998,507

The following table provides information about the credit quality of the loan portfolio using our Company's internal rating system reflecting management's risk assessment. Loans are placed on watch status when (1) one or more weaknesses which could jeopardize timely liquidation exists, or (2) the margin or liquidity of an asset is sufficiently tenuous that adverse trends could result in a collection problem. Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified may have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Such loans are characterized by the distinct possibility that our Company may sustain some loss if the deficiencies are not corrected. Loans are placed on non-accrual status when (1) deterioration in the financial condition of the borrower exists such that payment of full principal and interest is not expected, or (2) payments of principal or interest has been in default for a period of 90 days or more and the asset is not both well secured and in the process of collection.

	COMMERCIAL	COMMERCIAL REAL ESTATE	CONSTRUCTION AND LAND DEVELOPMENT	REAL ESTATE RESIDENTIAL	CONSUMER	TOTAL
At December 31, 2017						
Watch Status	1,993,848	705,292	--	--	--	2,699,140
Substandard	427,381	530,833	201,197	992,380	--	2,151,791
Non-accrual	536,457	688,501	18,009	340,197	--	1,583,164
TOTAL	2,957,686	1,924,626	219,206	1,332,577	--	6,434,095
At December 31, 2016						
Watch Status	2,000,000	251,040	--	--	--	2,251,040
Substandard	732,728	4,354,576	1,484,566	752,633	--	7,324,503
Non-accrual	360,267	620,247	--	414,185	4,289	1,398,988
TOTAL	3,092,995	5,225,863	1,484,566	1,166,818	4,289	10,974,531

Note 4 – BANKING PREMISES AND EQUIPMENT

A summary of property and equipment as of December 31, 2017 and 2016 follows:

	2017	2016
Land	1,021,456	1,021,456
Bank Premises	4,782,318	4,782,318
Equipment, Furniture and Fixtures	2,427,133	2,377,273
Automobiles	69,468	69,468
Total Banking Premises and Equipment	8,300,375	8,250,515
Less Accumulated Depreciation	4,560,122	4,337,166
NET BANKING PREMISES AND EQUIPMENT	3,740,253	3,913,349

Depreciation expense on the above assets was $222,956 and $237,468 for 2017 and 2016, respectively.

Note 5 – FEDERAL HOME LOAN BANK

The Bank is a member of the Federal Home Loan Bank of Dallas and owns 990 and 5,387 shares of its capital stock at December 31, 2017 and 2016 respectively, with a par value and cost of $100 per share. Ownership of Federal Home Loan Bank stock is restricted. The stock can be sold only at par and only to the Federal Home Loan Bank or to another member institution.

Note 6 – FORECLOSED ASSETS

During the years ended December 31, 2017 and 2016, the Company acquired real estate properties through foreclosure. The properties are reported at the lower of cost or fair value as follows:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Construction and Land Development	314,992	1,248,251
Residential Real Estate	585,271	--
TOTAL	900,263	1,248,251

Note 6 – FORECLOSED ASSETS – (Continuation)

Activity in real estate acquired in settlement of loans for the year ended December 31, 2017 and 2016 is as follows:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Balance at Beginning of Year	795,138	--
Additions	900,263	1,248,251
Charge-offs	--	(20,208)
Proceeds from Sales	(1,709,671)	(425,071)
Net Gain (Loss) on Sales	46,120	(7,834)
TOTAL	31,850	795,138

An analysis of the allowance for losses on foreclosed assets for the year ended December 31, 2017 and 2016 is as follows:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Balance at Beginning of Year	--	--
Provision for Losses	--	20,208
Less Property Sold	--	(20,208)
BALANCE AT END OF YEAR	--	--

Operating expenses applicable to foreclosed assets include the following:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Net Gain (Loss) on Sale of Real Estate	46,120	(7,834)
Provision for Losses	--	(20,208)
Operating Expenses, Net of Rental Income	(23,372)	(72,921)
NET GAIN (LOSS) ON FORECLOSED ASSETS	22,748	(100,963)

Note 7 – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2017 and 2016 amounted to $15,815,052 and $11,141,635, respectively.

Time deposits and their remaining maturities at December 31, 2017 are as follows:

Maturities of:	
One Year or Less	14,063,069
One to Three Years	13,103,753
Three to Five Years	6,169,162
Five to Ten Years	500,000
TOTAL	33,835,984

Note 8 – SHORT-TERM BORROWED FUNDS

At December 31, 2017 and 2016, short-term borrowed funds amounted to the following:

	YEAR ENDED DECEMBER 31,	
	2017	2016
.77% FHLB Advance Purchased December 19, 2016, Due January 3, 2017	--	10,500,000
Federal Funds Purchased from Frost Bank	5,325,000	1,475,000
Repurchase Agreement Secured by pledged Investment Securities, Interest at .20% of Charter Bank's Money Market Account Rate	1,000,000	1,000,000
TOTAL	6,325,000	12,975,000

In 2017 the highest amount the Bank advanced from the Federal Home Loan Bank of Dallas (FHLB) was $10,500,000 and the amount was outstanding for 28 days. In 2016 there the highest amount the Bank advanced from the Federal Home Loan Bank of Dallas (FHLB) was $14,800,000 and the amount was outstanding for 31 days. Under the terms of the Master Agreement with FHLB, the Company has $49,223,096 available for advances at December 31, 2017.

Under agreements with unaffiliated banks, the Bank may borrow federal funds up to $4,925,000 on an unsecured basis at December 31, 2017.

Note 9 – RETAINED EARNINGS

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

	2017	2016
Accumulated Adjustments Account:		
Balance, Beginning of Year	--	--
Taxable Income, Net of Certain Non-Taxable Items	4,979,155	4,087,418
Distributions	(4,525,780)	(4,087,418)
Balance, End of Year	453,375	--
Other Adjustments Account:		
Balance, Beginning of Year	14,807,504	11,257,261
Non-Taxable Interest	3,191,342	4,016,064
Distributions	--	(465,821)
Balance, End of Year	17,998,846	14,807,504
Other Retained Earnings:		
Balance, Beginning of Year	(5,158,884)	(5,813,739)
Differences Between Book and Tax Income	(362,653)	(454,694)
Difference Between Accrual Basis Distributions	(986,853)	1,109,549
Balance, End of Year	(6,508,390)	(5,158,884)
TOTAL RETAINED EARNINGS, END OF YEAR	11,943,831	9,648,620

Note 10 – OPERATING LEASES

The Company is a lessor of office space under an operating lease expiring December 31, 2021. Minimum future rentals to be received on non-cancelable leases as of December 31, 2017 are as follows:

Year Ending December 31,:	
2018	276,750
2019	276,750
2020	276,750
2021	276,750
TOTAL	1,107,000

Note 11 – COMMITMENTS AND OFF-BALANCE SHEET ACTIVITIES

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

Note 11 – COMMITMENTS AND OFF-BALANCE SHEET ACTIVITIES – (Continuation)

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	CONTRACT AMOUNT	
	2017	2016
Unfunded Construction and Land Development Loan Commitments	17,795,336	19,092,924
Unfunded Commitments Under Lines of Credit	17,695,512	16,110,896
Standby Letters of Credit	6,323,368	3,241,168

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Standby letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary. Commitments to extend credit and standby letters-of-credit all include exposure to some credit loss in the event of nonperformance of the customer.

Note 12 – LEGAL CONTINGENCIES

The Company is involved in various claims and suits, occurring in the normal course of business. In the opinion of management, potential liabilities arising from these matters, if any, would not have a material effect on the Company's financial condition.

Note 13 – MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the Bank is subject to various regulatory capital requirements administered by state and Federal banking agencies. Capital adequacy and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about component classification, risk weighting, and other factors.

The Basel III capital rules became effective for the Company and Bank on January 1, 2015, subject to a four-year phase-in period. Quantitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital to Risk-Weighted Assets, and of Tier 1 Capital to Average Assets. In connection with the adoption of the Basel III capital rules, the Company and Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital.

Note 13 – MINIMUM REGULATORY CAPITAL REQUIREMENTS – (Continuation)

Management believes, as of December 31, 2017 and 2016, that the Company and Bank met all capital adequacy requirements to which they are subject. As of December 31, 2017, the most recent notification from the primary regulatory agency of the Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The following tables present actual and required capital ratios as of December 31, 2017 and 2016 for the Bank under the Basel III capital rules. The minimum required capital amounts present the minimum required levels as of December 31, 2017 and 2016 based on the phase-in of the Basel III capital rules and the minimum required as of January 1, 2019, when the phase-in is complete. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

	ACTUAL		MINIMUM REQUIRED FOR CAPITAL ADEQUACY-BASEL III CURRENT PHASE-IN SCHEDULE		MINIMUM CAPITAL REQUIRED BASEL III FULLY PHASE-IN		MINIMUM REQUIRED TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
(Amounts in Thousands)	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
December 31, 2017:								
Common Equity Tier I Capital to Risk Weighted Assets	25,478	16.079%	9,111	5.750%	11,092	7.000%	10,300	6.500%
Tier I Capital to Risk Weighted Assets	25,478	16.079%	11,488	7.250%	13,469	8.500%	12,677	8.000%
Total Capital to Risk Weighted Assets	27,461	17.330%	14,657	9.250%	16,638	10.500%	15,846	10.000%
Tier I Capital to Average Assets	25,478	10.015%	10,176	4.000%	10,176	4.000%	12,720	5.000%
December 31, 2016:								
Common Equity Tier I Capital to Risk Weighted Assets	22,556	15.610%	7,405	5.125%	10,115	7.000%	9,392	6.500%
Tier I Capital to Risk Weighted Assets	22,556	15.610%	9,573	6.625%	12,282	8.500%	11,560	8.000%
Total Capital to Risk Weighted Assets	24,366	16.863%	12,463	8.625%	15,172	10.500%	14,450	10.000%
Tier I Capital to Average Assets	22,556	9.218%	9,788	4.000%	9,788	4.000%	12,234	5.000%

Note 14 – COMPENSATORY STOCK OPTION PLAN

The Company has a stock option plan which includes both incentive stock options and nonqualified stock options. The plan is for key employees designated by the Board on or before each plan year begins. Under the Plan the exercise price of each option equals the market price of the Company's stock on the date of grant as determined by the Board's compensation committee. Options may be exercised at 20% per year of service after the grant date.

The following table illustrates a summary of outstanding options at December 31, 2017 and 2016:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	TOTAL
Outstanding January 1, 2016	92.000	23,925	2,201,100
Granted	33.000	20,000	660,000
Exercised	(29.000)	22,938	(665,200)
Retired	(6.800)	24,088	(163,800)
OUTSTANDING, DECEMBER 31, 2016	89.200	22,781	2,032,100
Granted	23.000	25,000	575,000
Exercised	(20.600)	23,481	(483,700)
OUTSTANDING, DECEMBER 31, 2017	91.600	23,181	2,123,400

At December 31, 2017, all eligible options under the plan were exercised.

The Company applies FASB ASC 718 *Compensation - Stock Compensation* in accounting for the stock option plan. Accordingly, no compensation cost has been recognized for the incentive stock options because the option price was equal to fair value at date of grant. Compensation expense for the nonqualified stock options is based on the difference between fair market at the date of exercise and the amount the employee must pay to acquire the stock. For the year ended December 31, 2017, the Company recognized no compensation expense for nonqualified stock options. For the year ended December 31, 2016, the Company recognized $22,000 in compensation expense for nonqualified stock options.

Note 15 – EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution savings plan that covers all employees. Participants can contribute a percentage of their compensation as permitted by the Internal Revenue Code Section 401(k). The Company will match 100% of the employee's contribution up to 3% of the employee's compensation and an additional 50% on the next 2% of the employee's compensation. The Company's contributions for both 2017 and 2016 amounted to $132,000.

Note 16 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company makes loans to officers, directors and principal stockholders. These loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. Such loans amounted to $14,428,826 and $9,387,468 at December 31, 2017 and 2016, respectively.

Deposits from related parties held by the Bank at December 31, 2017 and 2016 amounted to $33,411,446 and $25,085,249, respectively.

Note 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the provisions of the ASC, *Fair Value Measurements and Disclosures*. The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a "class" basis rather than a major category basis for assets and liabilities; and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritize the inputs used in valuation methodology in the following three levels:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.
- Level 2 – Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs.

Note 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS – (Continuation)

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively-traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities generally include certain United States government and agency securities, corporate debt securities, and certain derivatives. In certain cases, where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

The following table summarizes assets measured at fair value by class on a recurring basis as reported on the consolidated balance sheets as of December 31, 2017 and 2016, segregated by level within the fair value measurement hierarchy:

Assets Measured at Fair Value on a Recurring Basis

	FAIR VALUE MEASUREMENTS USING		
	QUOTED PRICE IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	TOTAL
December 31, 2017			
Municipal Bonds	--	109,187,133	109,187,133
Other	--	155,000	155,000
TOTAL	--	109,342,133	109,342,133
December 31, 2016			
Municipal Bonds	--	109,118,369	109,118,369
Other	--	155,000	155,000
TOTAL	--	109,273,369	109,273,369

Assets Measured at Fair Value on a Nonrecurring Basis

A description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Impaired Loans

The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with FASB ASC 310 *Receivables*. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral was determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting commercial loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.

Other Real Estate Owned

Other real estate owned, upon initial recognition, is measured and reported at fair value less estimated costs of disposal though a charge-off to the allowance for loan losses based upon the fair value of the other real estate acquired. The fair value of other real estate owned is estimated based on appraisals with further adjustments made to the appraised values due to various factors, including age of the appraisal, age of comparables included in the appraisal and known changes in the market and on the collateral. Because the assumptions used to estimate the fair value of other real estate owned are not observable in the marketplace, such valuations have been classified as Level 3.

	FAIR VALUE MEASUREMENTS USING			
	QUOTED PRICE IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3	TOTAL
December 31, 2017				
Impaired Loans	--	--	1,608,714	1,608,714
Other Real Estate Owned	--	--	31,850	31,850
TOTAL	--	--	1,640,564	1,640,564
December 31, 2016				
Impaired Loans	--	--	1,640,379	1,640,379
Other Real Estate Owned	--	--	795,138	795,138
TOTAL	--	--	2,435,517	2,435,517

Note 18 – PARENT COMPANY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Charter Bancshares, Inc. (Parent Company only) at December 31, 2017 and 2016 is as follows:

Balance Sheet:

	DECEMBER 31, 2017	DECEMBER 31, 2016
ASSETS		
Cash	633,840	143,613
Investment in Subsidiaries	28,471,264	24,350,461
Dividends Receivable	1,450,000	1,086,244
TOTAL ASSETS	30,555,104	25,580,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities-		
Dividends Payable	2,077,093	1,090,238
Stockholders' Equity:		
Common Stock	1,819,351	1,794,631
Surplus	11,721,802	11,252,822
Retained Earnings	11,943,831	9,648,620
Accumulated Other Comprehensive Income	2,993,027	1,794,007
Total Stockholders Equity	28,478,011	24,490,080
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	30,555,104	25,580,318

The Statement of Income for the year ended December 31, 2017 and 2016 is as follows:

	YEAR ENDED DECEMBER 31, 2017	YEAR ENDED DECEMBER 31, 2016
Income -		
Equity Earning from Subsidiaries	7,807,846	7,676,989
Expenses:		
Compensation Expense	--	28,200
Administrative Expense	--	1
NET INCOME	7,807,846	7,648,788

Note 18 – PARENT COMPANY CONDENSED FINANCIAL INFORMATION – (Continuation)

The Statement of Cash Flows for the year ended December 31, 2017 and 2016 is as follows:

	YEAR ENDED DECEMBER 31,	
	2017	2016
Cash Flows from Operating Activities:		
Net Income	7,807,846	7,648,788
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Equity in Earnings of Subsidiaries	(7,807,846)	(7,676,989)
Dividends Received from Subsidiaries	4,886,063	2,920,444
Stock Compensation Expense	--	22,000
Net Change in-		
Dividend Receivable	(363,757)	1,113,756
Net Cash Provided by Operating Activities	4,522,306	4,027,999
Cash Flows from Financing Activities:		
Proceeds from Sale of Common Stock	493,700	665,200
Dividends Paid	(4,525,780)	(4,553,240)
Net Cash Used by Financing Activities	(4,032,080)	(3,888,040)
Increase in Cash	490,226	139,959
Cash, Beginning of Year	143,614	3,655
CASH, END OF YEAR	633,840	143,614