AmeriBancShares, Inc.

2018 ANNUAL REPORT

Dwight Berry
President & CEO

2018 AT A GLANCE

Total assets increased
14.6%

Total deposits increased
16.9%

Loans increased
26.2%

Net income increased
20.1%

Earnings per share increased
24.3%

2018 WAS ANOTHER GREAT YEAR FOR AMERICAN NATIONAL BANK & TRUST.

To Our Shareholders

As we continue our growth strategy profitability remains very significant. As reported by the financial statements on the following pages total assets increased 14.6% during the year to an unprecedented level of $732 million. Total deposits increased 16.9% to $625 million and loans increased 26.2% to $535 million. Net income increased 20.1% to $7.3 million, resulting in a 24.3% increase to earnings per share at $3.33. The return on assets was 1.08% and the return on average equity was 10.69%. Capital levels remain very strong at $70.1 million. An opportunity to purchase $4.154 million in outstanding shares of bank holding company stock was presented in May 2018. After thorough analysis the Board approved the purchase and is designating the shares as treasury stock. This transaction increased all shareholders ownership of AmeriBancShares, Inc. proportionately.

AS REPORTED IN THE 2017

annual report Todd Davenport, Charles Gibson, Ken Hogan, and John Osborn, had served one year as Advisory Directors and were duly elected as full Directors at the 2018 annual stockholders meeting.

Mark Tucker was elected Chairman of the Board and Hank Anderson Vice Chairman at the April Board meeting. Mark, a certified public accountant, has served on the Board for several years, and brings a very high level of expertise to the management of the bank. Hank, an attorney, has also served many years on the Board and has comprehensive experience in many areas of the organization.

Mark Tucker
Chairman of the Board

Hank Anderson
Vice Chairman

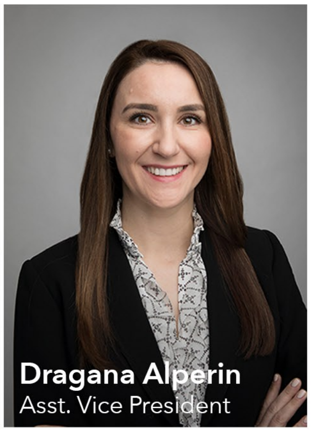
Julie Hanes, our former Chairman of the Board, announced her retirement in December. Julie was a member of our Board for over forty years and was very instrumental in the bank's growth and success. She provided endless support and direction as the bank grew over the years. She will be greatly missed. We offer our utmost gratitude for all the years of her service to the bank and wish her many years of health and happiness in retirement.

Julie Hanes
Former Chairman of the Board

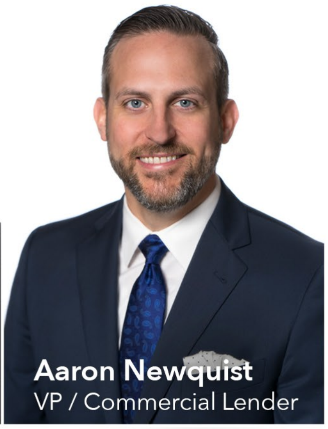
As we continue to expand our footprint in the north Texas area, it is a pleasure to announce that we opened a new loan production office at 17440 Dallas Pkwy, Suite 203, Dallas, Texas, in the spring of 2018. Richard Dopson is the Dallas market President and his staff includes Will Maberry, Vice President/Commercial Lender, and Dragana Alperin, Assistant Vice President. We are very pleased to have such an experienced and professional team in the Dallas area.

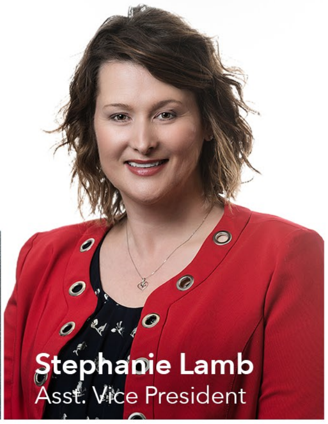
Richard Dopson
Dallas Market President

Will Maberry
VP / Commercial Lender



Dragana Alperin
Asst. Vice President





Continuing further north we have also opened a loan production office in Denton located at 100 W. Mulberry St. #200. Marty Rivers is the Denton market President and is joined by Aaron Newquist, Vice President/Commercial Lender, Matthew Morgan, Assistant Vice President in mortgage loans, and Stephanie Lamb, Assistant Vice President. The Denton extension will become a temporary full service branch within the next few months. Plans are underway to build a permanent location in the near future. Expansion into these two cities with such outstanding talent as those listed above greatly enhances the bank's potential for increased profitability.

We look forward to 2019 with much excitement. All of our branches are performing very well. Our new Fort Worth branch is exceeding expectations and we anticipate that our growth in the metroplex will continue to add extraordinary benefits for the bank. Budget projections for the year reflect a very favorable return on your investment. Management continues to focus on making prudent, conservative financial decisions for the bank as we strive to maximize stockholder value. As always, thank you for your continued trust and support.

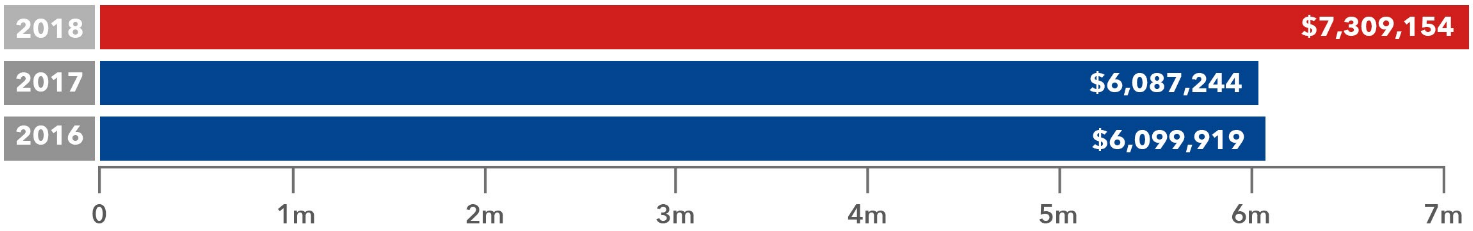
Dwight Berry, President & CEO

American National Bank & Trust
Financial Highlights

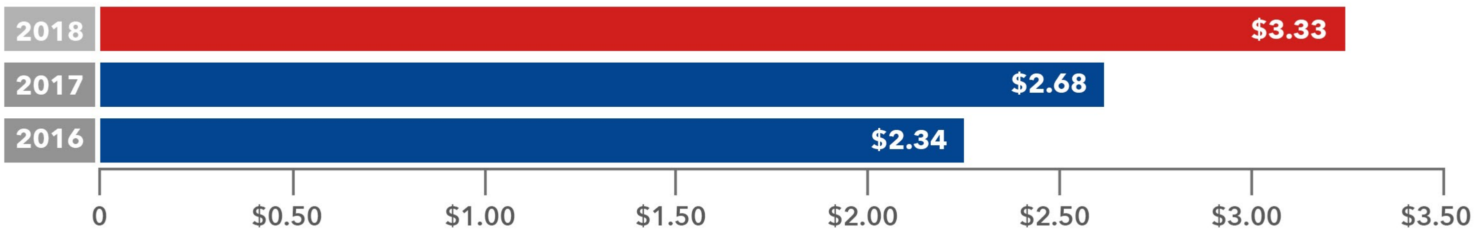
	YEAR ENDED DECEMBER 31, 2018	YEAR ENDED DECEMBER 31, 2017	%CHANGE
Demand Deposits	26,418	34,340	-23.1%
Total Deposits	625,621	535,090	16.9%
Total Assets	732,600	639,509	14.6%
Total Loans (net)	535,199	424,231	26.2%
Allowance for Loan Losses	5,597	5,075	10.3%
Return on Earning Assets	4.32%	3.94%	9.6%
Cost of Funds	1.27%	0.80%	58.8%
Average Net Spread	3.05%	3.14%	-2.9%
Growth in Capital	1,101	4,756	-76.9%
Total Capital Beginning	69,008	64,252	7.4%
Total Capital Ending	70,109	69,008	1.6%
Interest Income	27,887	23,239	20.0%
Interest Expense	5,808	3,399	70.9%
Net Interest Income	22,079	19,840	11.3%
Non-Interest Income	11,426	11,122	2.7%
Non-Interest Expense	24,261	22,091	9.8%
Profit Before Provision	9,244	8,871	4.2%
Provision for Loan Losses	550	180	205.6%
Income Taxes	1,385	2,604	-46.8%
Net Income	7,309	6,087	20.1%
Earnings Per Share	3.33	2.68	24.3%
Dividends Paid	0.55	0.50	10.0%
Book Value	32.41	30.37	6.7%
Return on Average Assets	1.08%	0.98%	10.2%
Return on Average Equity	10.69%	9.00%	18.8%

American National Bank & Trust
Year End Statistics

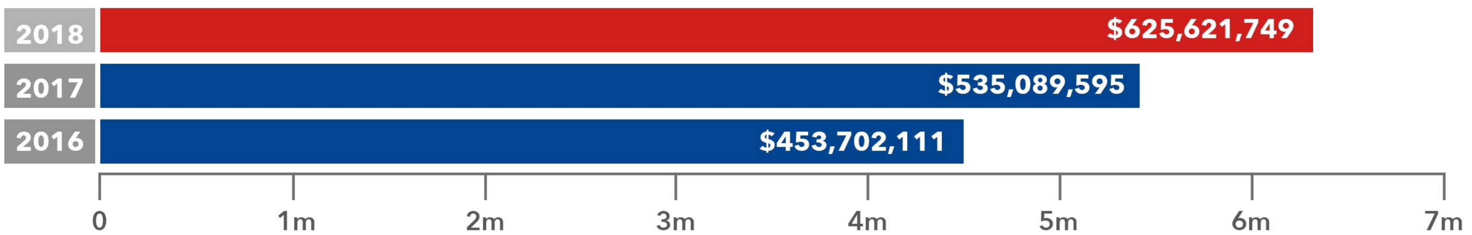
Consolidated Net Income



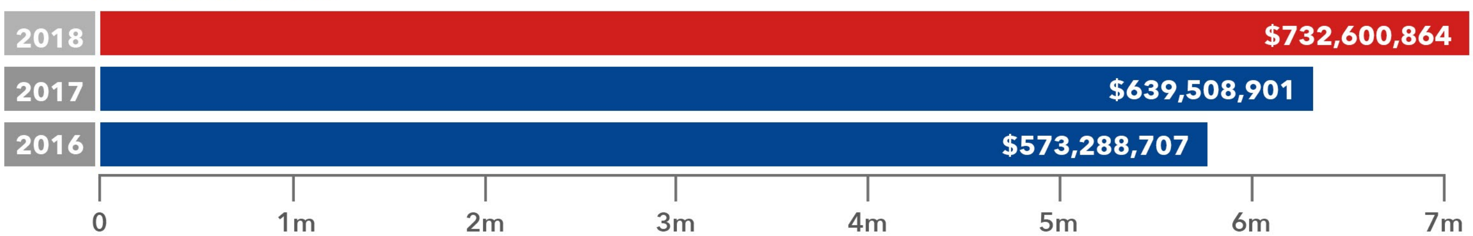
Earnings Per Share



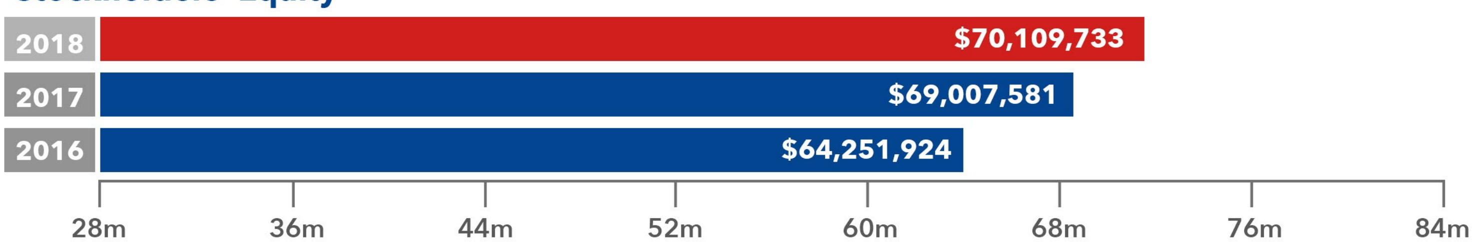
Year End Deposits



Year End Total Assets



Stockholders' Equity



AMERIBANCSHARES, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
and Additional Information

December 31, 2018 and 2017

(With Independent Auditor's Report Thereon)

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
AmeriBancShares, Inc. and Subsidiaries
Wichita Falls, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AmeriBancShares, Inc. and Subsidiaries (Company) which comprise the consolidated balance sheets as of December 31, 2018 and 2017 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 consolidated 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 upon 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 AmeriBancShares, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Payne & Smith, LLC

March 11, 2019

5952 Royal Lane • Suite 158 • Dallas, TX 75230 • 214 / 363-9927 • Fax 214 / 363-9980

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(In thousands of dollars, except share amounts)

	2018	2017
ASSETS		
Cash and due from banks	$ 12,523	$ 11,539
Interest bearing deposits in banks	12,791	21,290
Total cash and equivalents	25,314	32,829
Securities available for sale	113,116	124,607
Other securities	2,983	2,943
Mortgage loans held for sale	1,419	1,250
Loans, net	535,199	424,231
Premises and equipment, net	22,359	22,911
Accrued interest receivable	2,564	2,207
Goodwill	4,220	4,220
Cash surrender value of life insurance	19,672	19,125
Other assets	5,754	5,186
Total assets	$ 732,600	$ 639,509
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	$ 26,418	$ 34,340
Savings deposits	261,882	220,567
Money market and NOW accounts	217,391	189,043
Time certificates of deposit	119,930	91,140
Total deposits	625,621	535,090
Securities sold under agreements to repurchase	1,025	589
Other borrowings	20,000	20,000
Junior subordinated debentures	7,217	7,217
Accrued interest payable	193	114
Other liabilities	8,435	7,491
Total liabilities	662,491	570,501
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock (par value $2.50; 5,000,000, shares authorized, 2,321,360 issued at 2018 and 2017 and 2,163,710 and 2,272,360 outstanding at 2018 and 2017)	5,803	5,803
Surplus	18,473	18,473
Undivided profits	52,233	46,147
Treasury stock, at cost (157,650 and 49,000 shares at 2018 and 2017)	(5,036)	(882)
Accumulated other comprehensive loss, net of tax benefit of ($362) in 2018 and ($142) in 2017	(1,364)	(533)
Total stockholders' equity	70,109	69,008
Total liabilities and stockholders' equity	$ 732,600	$ 639,509

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the Years Ended December 31, 2018 and 2017

(In thousands of dollars, except earnings per share)

	2018	2017
Interest income:		
Interest and fees on loans	$ 24,629	$ 20,063
Interest on investment securities		
Taxable	1,536	1,209
Nontaxable	1,544	1,855
Interest on interest bearing deposits in banks	178	112
Total interest income	27,887	23,239
Interest expense:		
Interest on deposits	5,275	2,884
Interest on repurchase agreements	8	4
Interest on other borrowed funds	247	301
Interest on junior subordinated debentures	278	210
Total interest expense	5,808	3,399
Net interest income	22,079	19,840
Provision for loan losses	550	180
Net interest income after provision for loan losses	21,529	19,660
Other operating income:		
Service charges on deposit accounts	733	765
Trust fee income	5,550	5,300
Gain on sale of mortgage loans	1,016	911
Gain on sale of other real estate owned	-	18
(Loss) gain on sale of securities available for sale	(2)	276
Rent income	744	796
Other	3,385	3,056
Total other operating income	11,426	11,122
Other operating expenses:		
Salaries and employee benefits	14,997	13,500
Premises and equipment	2,343	2,173
Data processing expense	1,338	1,215
Other	5,583	5,203
Total other operating expenses	24,261	22,091
Income before income taxes	8,694	8,691
Provision for income taxes	1,385	2,604
Net income	$ 7,309	$ 6,087
Earnings per share	$ 3.33	$ 2.68

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2018 and 2017

(In thousands of dollars)

	2018	2017
Net income	$ 7,309	$ 6,087
Other comprehensive loss, net of tax:		
Change in net unrealized loss on securities available for sale, net of tax (benefit) expense of ($220) and $126 for 2018 and 2017, respectively	(832)	(13)
Less reclassification adjustment for losses (gains) on sales of securities available for sale, net of tax (benefit) expense of ($1) and $94 for 2018 and 2017, respectively	1	(182)
Total other comprehensive loss	(831)	(195)
Total comprehensive income	$ 6,478	$ 5,892

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2018 and 2017

(In thousands of dollars)

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance January 1, 2017	$ 5,803	$ 18,473	$ 41,196	$ (882)	$ (338)	$ 64,252
Net income	-	-	6,087	-	-	6,087
Other comprehensive loss	-	-	-	-	(195)	(195)
Dividends ($.50 per common share)	-	-	(1,136)	-	-	(1,136)
Balance December 31, 2017	5,803	18,473	46,147	(882)	(533)	69,008
Net income	-	-	7,309	-	-	7,309
Purchase of Treasury Stock	-	-	-	(4,154)	-	(4,154)
Other comprehensive loss	-	-	-	-	(831)	(831)
Dividends ($.55 per common share)	-	-	(1,223)	-	-	(1,223)
Balance December 31, 2018	$ 5,803	$ 18,473	$ 52,233	$ (5,036)	$ (1,364)	$ 70,109

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

(In thousands of dollars)

	2018	2017
Cash flows from operating activities:		
Net income	$ 7,309	$ 6,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,428	1,408
Provision for loan losses	550	180
(Benefit from) provision for deferred taxes	(219)	565
Loss (gain) on sale of securities available for sale	2	(276)
Gain on sale of mortgage loans	(1,016)	(911)
Gain on sale of other real estate owned	-	(18)
Gain on sale of premises and equipment	(5)	(33)
Amortization of premium on investment securities	521	599
Accretion of discount on investment securities	(118)	(100)
Increase in cash surrender of life insurance	(547)	(513)
Proceeds from sales of mortgage loans	57,222	49,562
Mortgage loans funded	(56,373)	(48,795)
Change in:		
Prepaid expenses	37	(117)
Accrued interest receivable	(357)	(162)
Income taxes receivable	66	(63)
Miscellaneous other assets	(162)	(4)
Accrued interest payable	79	28
Other taxes payable	4	(14)
Other accrued expenses	944	275
Net cash provided by operating activities	9,365	7,698
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of securities available for sale	31,257	257,389
Proceeds from sale of securities available for sale	3,691	14,018
Purchase of securities available for sale	(24,914)	(250,076)
Purchase of other securities	(39)	(54)
Purchase of cash value life insurance	-	(4,200)
Net increase in loans	(111,582)	(72,535)
Purchase of premises and equipment	(1,491)	(6,323)
Proceeds from sale of premises and equipment	608	1,371
Proceeds from sale of other real estate owned	-	625
Net cash used in investing activities	(102,470)	(59,785)
Cash flows from financing activities:		
Net increase in deposits	90,531	81,388
Net increase (decrease) in repurchase agreements	436	(197)
Net decrease in other borrowed funds	-	(20,000)
Purchase of treasury stock	(4,154)	-
Dividends paid	(1,223)	(1,136)
Net cash provided by financing activities	85,590	60,055
Net (decrease) increase in cash and cash equivalents	(7,515)	7,968
Cash and cash equivalents at beginning of year	32,829	24,861
Cash and cash equivalents at end of year	$ 25,314	$ 32,829

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

The accounting and reporting policies of AmeriBancShares, Inc. and Subsidiaries (Company) conform to generally accepted accounting principles and prevailing practices within the banking industry. The Company carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Business

The Company provides a variety of financial services to individual and business customers through its locations in Wichita Falls, Iowa Park, Chillicothe, Quanah, Archer City, Fort Worth and Flower Mound, Texas. The Company's primary deposit products are demand deposits, savings deposits, and certificate of deposit, and the primary lending products are commercial, real estate mortgages, and installment loans. The Company also provides trust services, real estate title services and vehicle and equipment leasing services to individual and business customers through its various locations.

The accompanying consolidated financial statements include the accounts of AmeriBancShares, Inc. and its wholly-owned subsidiaries, ANB Realty Corp. and AmeriBancShares of Delaware, Inc. The financial statements also include American National Bank & Trust, which is a wholly-owned subsidiary of AmeriBancShares of Delaware Inc. (ABDI) and American National Leasing Company, Archer Title of Texas, Inc., and AmNat Insurance Services, Inc., which are wholly-owned subsidiaries of American National Bank & Trust (together referred to as Bank). All significant intercompany transactions have been eliminated. The consolidated statements of income, changes in stockholders' equity, and cash flows include operations for the year ended December 31, 2018 and 2017.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtor's ability to honor their contracts is dependent on local economic conditions in the real estate industry. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Cash and Cash Equivalents

For purposes of recording cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve and other banks.

Securities

Investment securities may be classified into three categories: held-to-maturity (HTM), available-for-sale (AFS) and trading.

Securities classified as held-to-maturity, which are those the Company has the positive intent and ability to hold to maturity, are reported at amortized cost. Securities classified as available-for-sale may be sold in response to changes in interest rates, liquidity needs, and for other purposes. Available-for-sale securities are reported at fair value and include securities not classified as held-to-maturity or trading. Trading securities are those held principally for the purpose of selling in the near future and are carried at fair value. The Company currently has no trading securities or held-to-maturity securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported, net of any income tax effect, as a separate component of stockholders' equity. Realized gains and losses are reported in earnings based on the adjusted cost of the specific security sold.

Mortgage Loans Held for Sale

The mortgage loans held for sale are stated at the lower of cost or market. Such mortgage loans are aggregated by type for the purpose of valuation. Allowances which are necessary to reflect a reduction of the portfolio to the lower of cost or market are charged against income in the current period.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Fees associated with originating loans, to the extent they exceed the direct origination costs are generally deferred and recognized over the life of the loan as an adjustment of yield.

Impaired loans are generally placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans is recognized only to the extent of interest payments received and are accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. A troubled debt restructured loan (TDR) is a loan which the Company, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms, which have been modified or restructured due to a borrower's financial difficulty, include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or reaging, extensions, deferrals, renewals, and rewrites. A TDR loan is considered impaired in the year of modification and will be assessed periodically for further impairment.

The allowance for loan losses is established through a provision for 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 judgment of management, is necessary to provide for estimated loan losses inherent in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with ASC Topic 310, *Receivables* and allowance allocations calculated in accordance with ASC Topic 450, *Contingencies*. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of three elements: (i) specific valuation allowances established for probable losses on specific loans; (ii) historical valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends adjusted for general economic conditions and other qualitative risk factors both internal and external to the Company; and (iii) unallocated general valuation.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated life of the underlying loan portfolio.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. At least annually or more frequently if circumstances dictate, management assesses qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that goodwill is impaired. If, after assessing the totality of events and circumstances, management concludes that it is not more likely than not that goodwill is impaired, then no further action is taken. If, however, management concludes otherwise, then the fair value of goodwill is determined and tested for impairment by comparing the fair value with the carrying amount in accordance with ASC Topic 350, Intangibles-Goodwill and Other.

Income Taxes

AmeriBancShares, Inc. files a consolidated income tax return with its subsidiaries. Federal income tax expense or benefit has been allocated on a separate return basis.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Accounting principles generally accepted in the United States of America require Company management to evaluate tax positions taken by the Company. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Therefore, no liability for tax penalties has been included in the consolidated financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2015.

Enactment of the Tax Cuts and Jobs Act of 2017

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the "Act"). The Act includes several changes which impact the Company's income taxes including the permanent reduction in the maximum U.S. corporate income tax rate from 35% to 21% for years beginning after December 31, 2017. Under generally accepted accounting principles, deferred tax assets and liabilities are required to be adjusted for the Act's effect through income from continuing operations in the reporting period that includes the enactment date. Accordingly, the Company has adjusted certain deferred tax assets and liabilities in the accompanying 2017 consolidated financial statements to record the effect of the decrease in the corporate income tax rate in the years the temporary differences are expected to reverse. The corresponding expense of approximately $535,000 has been included as a component of deferred income tax expense in the accompanying consolidated statement of income and consolidated comprehensive income for the year ended December 31, 2017.

The Act's effect on the adjustment of the deferred tax asset related to the unrealized loss on securities available for sale has been adjusted through other comprehensive income in the accompanying consolidated financial statements. Under generally accepted accounting principles, the deferred tax asset related to the unrealized loss on securities available for sale is required to be adjusted through continuing operations with an offsetting reclassification from accumulated other comprehensive income to retained earnings. For the year ending December 31, 2017, management believes that not adjusting the deferred tax asset related to the unrealized loss on securities through operations does not materially affect the financial position or results of operations of the Company.

Derivative Financial Instruments

Derivative financial instruments are recognized as assets and liabilities on the consolidated balance sheet and measured at fair value. From time to time, the Company uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notational amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and generally convert a portion of the Company's variable rate debt to a fixed rate (cash flow hedge). At December 31, 2018 and 2017, the Company had no outstanding interest rate swap agreements.

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments. Loan commitments that are derivatives are recognized at fair value on the consolidated balance sheet in other assets and other liabilities with changes in their fair values recorded in noninterest income. The fair value of those commitments was insignificant at December 31, 2018 and 2017.

Net Income Per Common Share

Net income per common share is based on the weighted average number of common shares outstanding during the period.

Comprehensive Income

Comprehensive income includes both net income and other comprehensive income (loss), which includes the change in unrealized gains and losses on securities available for sale.

Fair Values of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Subsequent Events

The Company has evaluated subsequent events and transactions for potential recognition or disclosure through March 11, 2019, the date these financial statements were available to be issued.

Accounting Pronouncement Adopted in 2018

In January 2016, the FASB issued ASU 2016-01 which eliminated the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The new standard is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company early adopted the provisions which allow for the discontinuation of the fair value disclosures for financial instruments not measured at fair value as of January 2018.

Reclassification

For comparability, certain amounts in the 2017 financial statements have been reclassified, where appropriate, to conform with the financial presentation used in 2018.

2. Investment Securities

The amortized cost and estimated market values of investments in debt and equity securities are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Available for Sale				
December 31, 2018:				
U.S. Treasury securities	$ 24,840	$ -	$ (112)	$ 24,728
U.S. Government Agency securities	25,254	-	(383)	24,871
Municipal securities	59,302	48	(1,232)	58,118
Mortgage-backed securities	5,446	-	(47)	5,399
	$ 114,842	$ 48	$ (1,774)	$ 113,116
December 31, 2017:				
U.S. Treasury securities	$ 15,010	$ -	$ (76)	$ 14,934
U.S. Government Agency securities	40,365	-	(191)	40,174
Municipal securities	68,433	346	(736)	68,043
Mortgage-backed securities	1,474	-	(18)	1,456
	$ 125,282	$ 346	$ (1,021)	$ 124,607
Other Securities				
December 31, 2018	$ 2,983	$ -	$ -	$ 2,983
December 31, 2017	$ 2,943	$ -	$ -	$ 2,943

Other securities consist of common stock in the Federal Reserve Bank, Federal Home Loan Bank, Independent Bankers Financial Corporation, Bankers Bancorp and an investment in a Special Purpose Entity (see Note 9).

The amortized cost and estimated market value of debt and equity securities at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale	
	Amortized Cost	Estimated Market Value
Due in one year or less	$ 22,429	$ 22,309
Due after one year through five years	45,746	45,180
Due after five years through ten years	28,337	27,748
Due after ten years	12,884	12,480
	109,396	107,717
Mortgage-backed securities	5,446	5,399
	$ 114,842	$ 113,116

Proceeds from sales of available for sale securities for the years ended December 31, 2018 and 2017 were approximately $3,691,000 and $14,018,000, respectively. Gross gains of approximately $9,000 and $282,000 were realized on sales of available for sale securities during 2018 and 2017, respectively. Gross losses of $11,000 were realized on sales of available for sale securities during 2018. Gross losses of $6,000 were realized on sales of available for sale securities during 2017.

Investment securities with a recorded value of approximately $89,354,000 and $88,624,000 at December 31, 2018 and 2017, respectively, were pledged to secure deposits and for other purposes as required by law.

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2018 and 2017 are summarized as follows (in thousands):

	Less than 12 Months		12 Months or More	
Securities Available for Sale	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018:				
U.S. Treasury securities	$ 4,974	$ (9)	$ 15	$ (103)
U.S. Government Agency securities	-	-	24,871	(383)
Municipal securities	23,196	(378)	26,731	(854)
Mortgage-backed securities	4,243	(25)	1,156	(22)
	$ 32,413	$ (412)	$ 52,773	$ (1,362)
December 31, 2017:				
U.S. Treasury securities	$ 9,962	$ (76)	$ -	$ -
U.S. Government Agency securities	29,769	(191)	-	-
Municipal securities	31,609	(362)	8,371	(374)
Mortgage-backed securities	1,456	(18)	-	-
	$ 72,796	$ (647)	$ 8,371	$ (374)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and 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.

As of December 31, 2018, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the 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, 2018 and 2017, management believes the impairments detailed in the table above are temporary and no impairment loss has been recorded in the Company’s consolidated income statement.

3. Loans and Allowance for Loan Losses

A summary of loan categories is as follows (in thousands):

	2018	2017
Real estate:		
1-4 family construction	$ 15,944	$ 4,935
Construction, land development and other land	45,378	42,057
Revolving 1-4 family residential	320	388
1-4 family residential	69,312	65,722
Multi-family residential	21,121	12,055
Nonfarm nonresidential - owner occupied	65,081	56,624
Nonfarm nonresidential - nonowner occupied	173,597	108,975
Farmland	10,385	10,313
Total real estate	401,138	301,069
Agriculture	1,051	1,109
Commercial and industrial	50,172	51,857
Consumer	26,986	25,543
Municipal	1,061	1,130
Nondepository financial institutions	27,227	21,400
Lease financing receivables	19,058	16,670
Overdrafts	36	57
All other loans	15,272	11,418
	542,001	430,253
Unearned discount	(1,205)	(947)
Allowance for loan losses	(5,597)	(5,075)
	$ 535,199	$ 424,231

At December 31, 2018 and 2017, the Company had total commercial real estate loans of approximately $321,121,000 and $224,646,000 respectively. Included in these amounts, the Company had construction, land development, and other land loans representing 76% and 60%, respectively, of total risk-based capital at December 31, 2018 and 2017. The Company had non-owner occupied commercial real estate loans representing 318% and 215%, respectively, of total risk-based capital at December 31, 2018 and 2017. Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program (CRE). Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on CRE concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk based capital, or total non-owner occupied commercial real estate loans representing 300% or more of the institutions total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration.

The Company extends commercial and consumer credit primarily to customers in the state of Texas. At December 31, 2018 and 2017, the majority of the Company's loans were collateralized with real estate. The real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. The weakening of real estate markets may have an adverse effect on the Company's profitability and asset quality. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, earnings and capital could be adversely affected. Additionally, the Company has loans secured by inventory, accounts receivable, equipment, marketable securities, or other assets. The debtors' ability to honor their contracts on all loans is substantially dependent upon the general economic conditions of the region.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others was approximately $236,620,000 and $234,554,000 at December 31, 2018 and 2017, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $1,533,000 and $1,352,000 at December 31, 2018 and 2017, respectively.

Originated mortgage servicing rights capitalized at December 31, 2018 and 2017, are approximately $1,861,000 and $1,859,000, respectively, and are included in other assets. The fair values of these rights were approximately $2,462,000 and $2,315,000 at December 31, 2018 and 2017, respectively. The fair value of servicing rights was determined using a weighted average discount rate of 10.52% for both 2018 and 2017, respectively, and a weighted average prepayment speed of 7.75% and 7.37% for 2018 and 2017, respectively.

A summary of the changes in servicing rights is as follows (in thousands):

	2018	2017
Balance at beginning of year	$ 1,859	$ 1,894
Origination	271	261
Amortization	(269)	(296)
Impairments	-	-
Balance at end of year	$ 1,861	$ 1,859

Loan maturities and rate sensitivity of the loan portfolio at December 31, 2018 and 2017, including mortgage loans held for sale less loans on nonaccrual, are as follows (in thousands):

	2018	2017
Fixed rate loans with a remaining maturity of:		
Three months or less	$ 13,984	$ 65,478
Over three months through twelve months	41,527	32,688
Over one year through five years	286,535	149,921
Over five years	72,998	76,138
Total fixed rate loans	$ 415,044	$ 324,225
Variable rate loans with a repricing frequency of:		
Quarterly or more frequently	$ 91,282	$ 82,359
Annually or more frequently, but less frequently than quarterly	1,256	10,563
Every five years or more frequently, but less frequently than annually	30,784	9,091
Less frequently than every five years	702	4
Total variable rate loans	$ 124,024	$ 102,017

Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2018 and 2017 is as follows (in thousands):

	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
December 31, 2018:					
Real estate:					
1-4 family construction	$ 60	$ 18	$ -	$ -	$ 78
Construction, land development and other land	681	(65)	-	-	616
Revolving 1-4 family residential	1	-	-	-	1
1-4 family residential	725	124	(3)	-	846
Multi-family residential	95	65	-	-	160
Nonfarm nonresidential - owner occupied	639	82	-	-	721
Nonfarm nonresidential - nonowner occupied	1,764	158	-	-	1,922
Farmland	49	22	-	-	71
Total real estate	4,014	404	(3)	-	4,415
Agriculture	1	-	-	-	1
Commercial and industrial	616	76	-	-	692
Consumer	200	33	(32)	7	208
Municipal	1	-	-	-	1
Nondepository financial institutions	126	26	-	-	152
Lease financing receivable	78	3	-	-	81
Overdrafts	-	-	-	-	-
All other loans	39	8	-	-	47
Unallocated	-	-	-	-	-
	$ 5,075	$ 550	$ (35)	$ 7	$ 5,597
December 31, 2017:					
Real estate:					
1-4 family construction	$ 65	$ (5)	$ -	$ -	$ 60
Construction, land development and other land	776	(95)	-	-	681
Revolving 1-4 family residential	1	-	-	-	1
1-4 family residential	607	174	(56)	-	725
Multi-family residential	77	18	-	-	95
Nonfarm nonresidential - owner occupied	566	73	-	-	639
Nonfarm nonresidential - nonowner occupied	1,740	24	-	-	1,764
Farmland	51	(2)	-	-	49
Total real estate	3,883	187	(56)	-	4,014
Agriculture	2	(1)	-	-	1
Commercial and industrial	370	326	(83)	3	616
Consumer	170	129	(108)	9	200
Municipal	1	-	-	-	1
Nondepository financial institutions	91	35	-	-	126
Lease financing receivable	75	2	-	1	78
Overdrafts	-	-	-	-	-
All other loans	50	(11)	-	-	39
Unallocated	487	(487)	-	-	-
	$ 5,129	$ 180	$ (247)	$ 13	$ 5,075

The Company's individual ALLL allocations are established for probable losses on specific loans. The Company's collective ALLL allocations are established based upon historical loss experience for similar loans with similar characteristics and on economic conditions and other qualitative risk factors both internal and external to the Company. The allocation of a portion of the allowance for loan losses to one category does not preclude its availability to absorb losses in other categories. Further information pertaining to the allowance for loan losses (ALLL) at December 31, 2018 and 2017 is as follows (in thousands):

	Loan Evaluation			ALLL Allocations		
	Individually	Collectively	Total	Individually	Collectively	Total ALLL
December 31, 2018:						
Real estate:						
1-4 family construction	$ -	$ 15,944	$ 15,944	$ -	$ 78	$ 78
Construction, land development and other land	-	45,378	45,378	-	616	616
Revolving 1-4 family residential	-	320	320	-	1	1
1-4 family residential	840	68,472	69,312	-	846	846
Multi-family residential	-	21,121	21,121	-	160	160
Nonfarm nonresidential - owner occupied	-	65,081	65,081	-	721	721
Nonfarm nonresidential - nonowner occupied	-	173,597	173,597	-	1,922	1,922
Farmland	385	10,000	10,385	-	71	71
Total real estate	1,225	399,913	401,138	-	4,415	4,415
Agriculture	41	1,010	1,051	-	1	1
Commercial and industrial	2,964	47,208	50,172	134	558	692
Consumer	139	26,847	26,986	-	208	208
Municipal	-	1,061	1,061	-	1	1
Nondepository financial institutions	-	27,227	27,227	-	152	152
Lease financing receivable	-	19,058	19,058	-	81	81
Overdrafts	-	36	36	-	-	-
All other loans	-	15,272	15,272	-	47	47
Unallocated	-	-	-	-	-	-
	$ 4,369	$ 537,632	$ 542,001	$ 134	$ 5,463	$ 5,597
December 31, 2017:						
Real estate:						
1-4 family construction	$ -	$ 4,935	$ 4,935	$ -	$ 60	$ 60
Construction, land development and other land	-	42,057	42,057	-	681	681
Revolving 1-4 family residential	-	388	388	-	1	1
1-4 family residential	1,401	64,321	65,722	4	721	725
Multi-family residential	-	12,055	12,055	-	95	95
Nonfarm nonresidential - owner occupied	-	56,624	56,624	-	639	639
Nonfarm nonresidential - nonowner occupied	-	108,975	108,975	-	1,764	1,764
Farmland	396	9,917	10,313	-	49	49
Total real estate	1,797	299,272	301,069	4	4,010	4,014
Agriculture	84	1,025	1,109	-	1	1
Commercial and industrial	3,339	48,518	51,857	156	460	616
Consumer	131	25,412	25,543	-	200	200
Municipal	-	1,130	1,130	-	1	1
Nondepository financial institutions	-	21,400	21,400	-	126	126
Lease financing receivable	-	16,670	16,670	-	78	78
Overdrafts	-	57	57	-	-	-
All other loans	-	11,418	11,418	-	39	39
Unallocated	-	-	-	-	-	-
	$ 5,351	$ 424,902	$ 430,253	$ 160	$ 4,915	$ 5,075

Past Due and Nonaccrual Loans

The following is a summary of past due and non-accrual loans at December 31, 2018 and 2017 (in thousands):

	30-89 Days Past Due	Past Due 90 Days or More Still Accruing	Past Due 90 Days or More Non-accrual	Total Past Due and Non-accrual
December 31, 2018:				
Real estate:				
1-4 family construction	$ 111	$ -	$ -	$ 111
Construction, land development and other land	-	-	-	-
Revolving 1-4 family residential	-	-	-	-
1-4 family residential	1,649	-	840	2,489
Multi-family residential	-	-	-	-
Nonfarm nonresidential - owner occupied	-	-	-	-
Nonfarm nonresidential - nonowner occupied	-	-	-	-
Farmland	-	-	385	385
Total real estate	1,760	-	1,225	2,985
Agriculture	-	-	41	41
Commercial and industrial	57	7	2,947	3,011
Consumer	2,727	-	139	2,866
Municipal	-	-	-	-
Nondepository financial institutions	-	-	-	-
Lease financing receivable	35	-	-	35
Overdrafts	-	-	-	-
All other loans	-	-	-	-
	$ 4,579	$ 7	$ 4,352	$ 8,938
December 31, 2017:				
Real estate:				
1-4 family construction	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	-	-
Revolving 1-4 family residential	-	-	-	-
1-4 family residential	1,256	-	1,337	2,593
Multi-family residential	-	-	-	-
Nonfarm nonresidential - owner occupied	572	-	-	572
Nonfarm nonresidential - nonowner occupied	-	-	-	-
Farmland	-	-	396	396
Total real estate	1,828	-	1,733	3,561
Agriculture	-	-	84	84
Commercial and industrial	51	-	3,313	3,364
Consumer	2,000	-	131	2,131
Municipal	-	-	-	-
Nondepository financial institutions	-	-	-	-
Lease financing receivable	33	-	-	33
Overdrafts	-	-	-	-
All other loans	-	-	-	-
	$ 3,912	$ -	$ 5,261	$ 9,173

Approximately $251,000 and $77,000 of additional interest would have been recognized if the loans had been on accrual status during 2018 and 2017, respectively.

Impaired Loans

Impaired loans may include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. Average impaired loans during 2018 and 2017 were approximately $4,773,000 and $2,595,000, respectively. Approximately $17,000 and $8,000 of interest income was recognized on impaired loans in 2018 and 2017, respectively. The following is a summary of information pertaining to impaired loans at December 31, 2018 and 2017 is as follows (in thousands):

	Impaired Loans with a Valuation Allowance			Impaired Loans without a Valuation Allowance		
	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal	Related Allowance
December 31, 2018:						
Real estate:						
1-4 family construction	$ -	$ -	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	-	-	-	-
Revolving 1-4 family residential	-	-	-	-	-	-
1-4 family residential	-	-	-	840	840	-
Multi-family residential	-	-	-	-	-	-
Nonfarm nonresidential - owner occupied	-	-	-	-	-	-
Nonfarm nonresidential - nonowner occupied	-	-	-	-	-	-
Farmland	-	-	-	385	385	-
Total real estate	-	-	-	1,225	1,225	-
Agriculture	-	-	-	41	41	-
Commercial and industrial	2,684	2,684	134	280	280	-
Consumer	-	-	-	139	139	-
Municipal	-	-	-	-	-	-
Nondepository financial institutions	-	-	-	-	-	-
Lease financing receivable	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
All other loans	-	-	-	-	-	-
	$ 2,684	$ 2,684	$ 134	$ 1,685	$ 1,685	$ -
December 31, 2017:						
Real estate:						
1-4 family construction	$ -	$ -	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	-	-	-	-
Revolving 1-4 family residential	-	-	-	-	-	-
1-4 family residential	250	250	4	1,151	1,151	-
Multi-family residential	-	-	-	-	-	-
Nonfarm nonresidential - owner occupied	-	-	-	-	-	-
Nonfarm nonresidential - nonowner occupied	-	-	-	-	-	-
Farmland	-	-	-	396	396	-
Total real estate	250	250	4	1,547	1,547	-
Agriculture	-	-	-	84	84	-
Commercial and industrial	3,131	3,131	156	208	208	-
Consumer	-	-	-	131	131	-
Municipal	-	-	-	-	-	-
Nondepository financial institutions	-	-	-	-	-	-
Lease financing receivable	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
All other loans	-	-	-	-	-	-
	$ 3,381	$ 3,381	$ 160	$ 1,970	$ 1,970	$ -

Troubled Debt Restructuring

Impaired loans include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. The restructuring of a loan is considered a troubled debt restructuring if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. At December 31, 2018 and 2017, the Company had TDRs totaling approximately $2,789,000 and $213,000, respectively. The Company had approximately $17,000 and $90,000 of performing TDRs at December 31, 2018 and 2017, respectively. During the year ended December 31, 2018, the Company had two commercial loans totaling approximately $3,109,000 modified as TDRs. During the years ended December 31, 2017, the Company had one commercial loan of approximately $28,000 and one consumer loan of approximately $7,000 modified as TDRs. These restructuring in 2018 and 2017 did not significantly impact the Company's determination of the allowance for loan losses. During the years ended December 31, 2018 and 2017, the Company had no significant TDRs that subsequently defaulted within twelve months following their modification.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on an ongoing basis. The Company uses the following definitions for risk ratings:

PASS: Loans classified as pass are loans with low to average risk.

SPECIAL MENTION: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

SUBSTANDARD: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

DOUBTFUL: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The risk category of loans by class of loans at December 31, 2018 and 2017 is as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2018:					
Real estate:					
1-4 family construction	$ 15,944	$ -	$ -	$ -	$ 15,944
Construction, land development and other land	45,378	-	-	-	45,378
Revolving 1-4 family residential	320	-	-	-	320
1-4 family residential	67,954	267	1,091	-	69,312
Multi-family residential	21,121	-	-	-	21,121
Nonfarm nonresidential - owner occupied	65,081	-	-	-	65,081
Nonfarm nonresidential - nonowner occupied	173,597	-	-	-	173,597
Farmland	10,000	-	385	-	10,385
Total real estate	399,395	267	1,476	-	401,138
Agriculture	1,010	-	41	-	1,051
Commercial and industrial	47,208	-	2,964	-	50,172
Consumer	26,847	-	139	-	26,986
Municipal	1,061	-	-	-	1,061
Nondepository financial institutions	27,227	-	-	-	27,227
Lease financing receivable	19,058	-	-	-	19,058
Overdrafts	36	-	-	-	36
All other loans	15,272	-	-	-	15,272
	$ 537,114	$ 267	$ 4,620	$ -	$ 542,001
December 31, 2017:					
Real estate:					
1-4 family construction	$ 4,935	$ -	$ -	$ -	$ 4,935
Construction, land development and other land	42,057	-	-	-	42,057
Revolving 1-4 family residential	388	-	-	-	388
1-4 family residential	63,842	110	1,770	-	65,722
Multi-family residential	12,055	-	-	-	12,055
Nonfarm nonresidential - owner occupied	56,624	-	-	-	56,624
Nonfarm nonresidential - nonowner occupied	108,975	-	-	-	108,975
Farmland	9,917	-	396	-	10,313
Total real estate	298,793	110	2,166	-	301,069
Agriculture	1,025	-	84	-	1,109
Commercial and industrial	48,518	-	3,339	-	51,857
Consumer	25,397	-	146	-	25,543
Municipal	1,130	-	-	-	1,130
Nondepository financial institutions	21,400	-	-	-	21,400
Lease financing receivable	16,670	-	-	-	16,670
Overdrafts	57	-	-	-	57
All other loans	11,418	-	-	-	11,418
	$ 424,408	$ 110	$ 5,735	$ -	$ 430,253

4. Premises and Equipment

A summary of premises, equipment and land improvements and related accumulated depreciation at December 31, 2018 and 2017 is as follows (in thousands):

	Estimated Useful Lives	2018	2017
Land		$ 4,737	$ 4,737
Premises	5-40 years	17,330	17,320
Furniture, fixtures and equipment	3-10 years	9,963	9,905
Land improvements	5-20 years	635	635
Lease equipment	3-5 years	4,167	4,222
		36,832	36,819
Less accumulated depreciation		14,473	13,908
Totals		$ 22,359	$ 22,911

Depreciation expense amounted to approximately $1,428,000 and $1,408,000 in 2018 and 2017, respectively.

5. Goodwill

Goodwill in the amount of approximately $4,220,000 at December 31, 2018 and 2017, is included in the accompanying consolidated financial statements. At December 31, 2018 and 2017, management has determined that it is not more likely than not that goodwill is impaired. Prior to the year ended December 31, 2002, goodwill was amortized over its estimated useful life. Accordingly, the amounts reflected for goodwill in the accompanying financial statements have been reduced by the relating accumulated amortization of approximately $507,000.

6. Deposits

Included in time deposits are certificates of deposit in amounts of $250,000 or more. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $250,000, was approximately $16,446,000 and $6,439,000 at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, the scheduled maturities of certificates of deposit are as follows (in thousands):

	2018	2017
Less than three months	$ 14,988	$ 14,712
Four to twelve months	50,506	31,230
One to five years	54,287	45,050
Over five years	149	148
	$ 119,930	$ 91,140

During 2006, the Company entered into a program in which certain eligible transaction deposits could be reclassed to savings deposits for regulatory reporting purposes and therefore reduce its reserve requirement with the Federal Reserve Bank. At December 31, 2018 the Company has reclassed $135,183,000 demand deposits and $99,789,000 NOW and Money Market deposits to savings deposits for regulatory reporting in connection with this program. At December 31, 2017 the Company has reclassed approximately $109,999,000 demand deposits and $81,973,000 NOW and Money Market deposits to savings deposits.

7. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to approximately $1,025,000 and $589,000 at December 31, 2018 and 2017, respectively. The agreements are secured by U.S. Government Agency securities with a fair value of approximately $1,046,000 at 2018 and $602,000 at 2017. The weighted average interest rate on these agreements was 0.10% at both December 31, 2018 and 2017. The agreements of approximately $1,025,000 at December 31, 2018 mature on January 1, 2019 and are renewed daily as necessary under normal operations.

The average balances of securities sold under agreements to repurchase amounted to approximately $909,000 and $807,000, respectively, for the years ending December 31, 2018 and 2017.

8. Other Borrowings

Federal Home Loan Bank

Advances from the Federal Home Loan Bank (FHLB) amounted to approximately $20,000,000 at December 31, 2018 and 2017. The borrowings are collateralized by a security agreement, which requires the borrowing bank to maintain a certain level of qualified first mortgage collateral in relation to the amount of outstanding debt. As of December 31, 2018, the borrowing included a single advance which bears interest at a rate of 2.60% and is scheduled to mature on April 1, 2019. As of December 31, 2017, the borrowing included a single advance, which bore an interest at rate of 1.46% and was scheduled to mature on March 21, 2018. At December 31, 2018 the Bank has additional unused borrowing capacity with the FHLB of approximately $164,452,000.

Other

Additionally, the Bank has unused federal funds lines available from commercial banks of approximately $25,000,000 at December 31, 2018.

9. Junior Subordinated Debentures

The junior subordinated debentures of approximately $7,217,000 at December 31, 2018 and 2017 represent amounts payable to a Special Purpose Entity (SPE) in conjunction with the Company's sponsorship of the SPE. The SPE has one issuance outstanding totaling $7,000,000 in trust preferred securities and $217,000 in common stock (wholly-owned by the Company) at December 31, 2018 and 2017. Both the junior subordinated debentures and the related trust preferred securities yield an annual distribution rate of 3-month LIBOR plus l.80% (4.59% at December 31, 2018 and 3.39% at December 31, 2017), are redeemable at various dates beginning in June, 2010 and mature in June, 2035.

The trust preferred securities are tax-advantaged issues that currently qualify as Tier I capital for the Company. Distributions on these securities are included as interest expense on other borrowed funds. The underlying trust is a statutory business trust organized for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The preferred trust securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust’s obligations under the trust preferred securities issued by the trust.

The Dodd-Frank Act eliminated the use of trust preferred securities issued after May 19, 2010 as a component of Tier I capital for depository institution holding companies, such as the Company. However, because the Company had less than $15 billion of consolidated assets as June 30, 2011, the Company will be permitted to include any trust preferred securities issued before May 19, 2010 as an element of Tier I capital, but not be able to include any trust preferred securities issued after May 19, 2010 as a component of Tier I capital. Further, the Board of Governors of the Federal Reserve System (Board) has determined that trust preferred securities are restrictive core capital elements in computing Tier I capital of bank holding companies. The Board has limited restrictive core capital elements (as defined) to 25% of core capital elements. Accordingly, the Company is limited on the trust preferred securities which it can include in its Tier I capital.

10. Income Taxes

The provision for income taxes consists of the following (in thousands):

	2018	2017
Current income tax expense:		
Federal and state	$ 1,604	$ 2,039
Deferred income tax expense (benefit) arising from:		
Difference in tax and financial depreciation	103	(256)
Accounting for bad debt expense	(160)	531
Nonaccrual loan interest	(33)	29
Federal Home Loan Bank stock dividends	8	(9)
Deferred compensation benefits	(49)	803
Deferred loan fee income	(89)	7
Goodwill amortization	1	(544)
Write down of other real estate owned	-	4
Net deferred income tax (benefit) expense	(219)	565
Total income tax expense	$ 1,385	$ 2,604

The difference between the consolidated financial statement income tax expense and amounts computed by applying the statutory federal income tax rate of 21% to consolidated income before taxes for the year ended December 31, 2018 is primarily attributable to interest income on tax-exempt securities and tax-exempt increases in cash surrender value of life insurance partially offset by certain nondeductible expenses for tax purposes. The difference between the consolidated financial statement income tax expense and amounts computed by applying the statutory federal income tax rate of 34% to consolidated income before taxes for the year ended December 31, 2017 is primarily attributable to interest income on tax-exempt securities and tax-exempt increases in cash surrender value of life insurance partially offset by the additional deferred tax expense resulting from the Tax Cuts and Jobs Act previously discussed in Note 1.

A net deferred federal income tax asset of approximately $1,446,000 and $1,007,000 at December 31, 2018 and 2017, respectively, is included in other assets. The accumulated tax effect of each type of income and expense item that gave rise to deferred taxes are as follows (in thousands):

	2018	2017
Deferred tax assets		
Excess of tax over financial cost for fixed assets	$ 33	$ -
Allowance for loan and lease losses	1,123	963
Deferred compensation benefits	1,490	1,441
Deferred loan fee income	172	83
Write down of other real estate owned	-	-
Nonaccrual loan interest	64	31
Net unrealized depreciation on securities available for sale	362	142
Total deferred tax assets	3,244	2,660
Deferred tax liabilities		
Depreciation	(873)	(728)
Federal Home Loan Bank stock dividends	(44)	(36)
Amortization	(881)	(880)
Excess of tax over financial cost for fixed assets	-	(9)
Total deferred tax liabilities	(1,798)	(1,653)
Total net deferred tax asset	$ 1,446	$ 1,007

Federal income taxes currently receivable of approximately $21,000 and $87,000 at December 31, 2018 and 2017, respectively, are included in other assets.

11. Employee Benefits

KSOP Plan

The Company maintains a leveraged employee stock ownership 401(k) plan (KSOP). The KSOP periodically borrows from unrelated lenders to acquire stock for future allocation to KSOP participants. The KSOP provides for voluntary employee salary reduction contributions, voluntary employee after-tax contributions, discretionary employer salary reduction matching contributions, and additional discretionary employer contributions which the Company uses to pay interest on KSOP debt and KSOP debt principal reductions as the Company desires to release unallocated KSOP shares to the KSOP participants.

As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares. KSOP expense for 2018 and 2017 was approximately $488,000 and $446,000, respectively. Employee salary reduction contributions of approximately $632,000 and $550,000 were made in 2018 and 2017, respectively.

Deferred Compensation Plans

The Company maintains individually designed supplemental income plan agreements (agreements) with certain designated employees and directors. The agreements provide a deferred compensation benefit payable at retirement or death.

The liability under the agreements is recorded based upon the present value of the deferred compensation benefits. Other liabilities at December 31, 2018 and 2017, include the Company's accrued liability under the agreements of approximately $7,060,000 and $6,817,000, respectively.

In connection with the funding of the agreements, the Company has purchased life insurance policies that it believes will fund the benefits payable pursuant to the agreements. The Company is owner and beneficiary of the life insurance policies. At December 31, 2018 and 2017, respectively, the Company had approximately $16,753,000 and $16,286,000 in cash value of these life insurance policies.

Stock Option Plan

In December 2018, the board of directors of the Company adopted the AmeriBancshares, Inc. 2018 Stock Option Plan (Plan). Under the provisions of the Plan, the maximum aggregate number of shares that may be issued pursuant to all awards shall not exceed 96,000 shares. The Company had not issued any options under the Plan at December 31, 2018.

On February 19, 2019, the Board of Directors issued 48,000 stock options to various members of management as provided under the terms of the Plan. The options issued have an exercise price per share of $41.00 and vest over a 2 year period.

12. Related Party Transactions

At December 31, 2018 and 2017, certain officers and directors, and companies in which they have a 10 percent or more beneficial ownership, were indebted to the Company in the aggregate amount of approximately $22,362,000 and $9,641,000, respectively. During 2018, $25,005,000 of new loans were originated and repayments totaled approximately $12,284,000. All such loans were made in the ordinary course of business. All loans included in such transactions were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of loss or present other unfavorable features.

13. Commitments and Contingent Liabilities

The Company's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. A summary of the Company's commitments and contingent liabilities at December 31, 2018 and 2017, are as follows (in thousands):

	2018	2017
Commitments to extend credit	$ 77,784	$ 50,412
Standby letters of credit	2,529	3,229
Total	$ 80,313	$ 53,641

Commitments to extend credit, and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. The Company has not incurred any significant losses on its commitments in either 2018 or 2017.

The Company is a party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

14. Concentrations of Credit

Substantially all of the Company's loans, commitments, credit card arrangements and standby letters of credit have been granted to customers in the Company's market area. Most customers are depositors of the Company. Investments in state and municipal securities also involve governmental entities within the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The Company occasionally maintains deposits and federal funds sold in excess of federally insured limits.

At December 31, 2018 and 2017, the Company had approximately $628,000 and $16,653,000, respectively, in due from banks and federal funds sold in excess of federally insured amounts. The risk is managed by maintaining all deposits in high quality financial institutions.

At December 31, 2018 and 2017, total deposits include approximately $78,101,000 and $62,424,000, respectively, from the five largest deposit customers. The customers' deposits are under no contractual obligation to the Company other than the maturity durations for various time certificates of deposit.

15. Fair Value Disclosure

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Bank utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Bank's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Bank's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and 2017 were as follows (in thousands):

	Level 1	Level 2	Level 3
December 31, 2018:			
Available for sale securities	$ -	$ 113,116	$ -
December 31, 2017:			
Available for sale securities	$ -	$ 124,607	$ -

(1) Securities are measured at fair value on a recurring basis, generally monthly.

Certain financial and non-financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table summarizes financial assets and non-financial assets, measured at fair value on a non-recurring basis as of December 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2018:				
Financial assets - impaired loans	$ -	$ -	$ 4,235	$ 4,235
Other real estate owned	-	1,190	-	1,190
December 31, 2017:				
Financial assets - impaired loans	$ -	$ -	$ 5,191	$ 5,191
Other real estate owned	-	1,128	-	1,128

During the years ended December 31, 2018 and 2017, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. For the years ended December 31, 2018 and 2017, impaired loans with a carrying value of approximately $4,369,000 and $5,351,000, respectively, were reduced by specific valuation allowance allocations totaling approximately $134,000 and $160,000, respectively, to a total reported fair value of approximately $4,235,000 and $5,191,000, respectively, based on collateral valuations utilizing Level 3 valuation inputs.

Foreclosed assets are valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third-party appraisals, less estimated costs to sell. Appraisals based upon comparable sales result in a Level 2 classification while appraisals based upon expected cash flows of the property result in a Level 3 classification. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the customer and customer's business. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above. The Company had no write-downs of other real estate owned for the years ended December 31, 2018 and 2017.

16. Stockholders' Equity and Regulatory Matters

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2018 and 2017, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations for banking institutions provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2018, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Additionally, Basel III added a 2.5% "capital conservation buffer" which was designed for banking institutions to absorb losses during periods of economic stress. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). Banking institutions with capital ratios below the minimum for capital adequacy purposes plus the capital conservation buffer will face constraints on dividends, equity repurchases and executive compensation relative to the amount of the shortfall.

Actual and required capital amounts and ratios of the Bank at December 31, 2018 and 2017 are presented below (in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum for Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum to be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018:								
Total capital to risk weighted assets	$ 80,624	13.289%	$ 48,536	8.000%	$ 59,912	9.875%	$ 60,671	10.000%
Tier 1 (core) capital to risk weighted assets	75,017	12.365%	36,402	6.000%	47,778	7.875%	48,536	8.000%
Common Tier 1 (CET1)	75,017	12.365%	27,302	4.500%	38,678	6.375%	39,436	6.500%
Tier 1 (core) capital to average assets	75,017	10.596%	28,318	4.000%	28,318	4.000%	35,397	5.000%
December 31, 2017:								
Total capital to risk weighted assets	$ 78,252	15.850%	$ 39,506	8.000%	$ 45,678	9.250%	$ 49,382	10.000%
Tier 1 (core) capital to risk weighted assets	73,167	14.820%	29,629	6.000%	35,802	7.250%	39,506	8.000%
Common Tier 1 (CET1)	73,167	14.820%	22,222	4.500%	28,395	5.750%	32,098	6.500%
Tier 1 (core) capital to average assets	73,167	11.200%	26,123	4.000%	26,123	4.000%	32,653	5.000%

17. Statement of Cash Flows

The Company reports on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, loans made to customers and principal collections on those loans.

The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information for the years ended December 31, 2018 and 2017 is presented as follows (in thousands):

	2018	2017
Cash transactions:		
Interest expense paid	$ 5,729	$ 3,371
Federal income taxes paid	$ 1,539	$ 2,100
Noncash transactions:		
Net unrealized depreciation on securities available for sale	$ (1,051)	$ (163)

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

On Additional Information

The Board of Directors
AmeriBancShares, Inc. and Subsidiaries

We have audited the consolidated financial statements of AmeriBancShares, Inc. and Subsidiaries as of and for the year ended December 31, 2018, and have issued our report thereon dated March 11, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 31, 32 and 33 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Payne & Smith, LLC

March 11, 2019

5952 Royal Lane • Suite 158 • Dallas, TX 75230 • 214 / 363-9927 • Fax 214 / 363-9980

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

December 31, 2018

(In thousands of dollars)

	American National Leasing Co	Archer Title of Texas	AMNAT Insurance Services	American National Bank & Trust	Ameri-BancShares of Delaware, Inc.	ANB Realty Corp.	Ameri-BancShares Inc.	Reclassification and Eliminations Entries	Consolidated
ASSETS									
Cash and due from banks	$ 251	$ 468	$ 34	$ 12,523	$ 1	$ 1	$ 112	$ (867)	$ 12,523
Interest bearing deposits in banks	-	-	-	12,791	-	-	-	-	12,791
Total cash and equivalents	251	468	34	25,314	1	1	112	(867)	25,314
Securities available for sale	-	-	-	113,116	-	-	-	-	113,116
Other securities	-	-	-	7,616	76,992	-	77,211	(158,836)	2,983
Mortgage loans held for sale	-	-	-	1,419	-	-	-	-	1,419
Loans, net	17,736	-	-	532,803	-	-	-	(15,340)	535,199
Premises and equipment, net	3,139	1,356	-	17,864	-	-	-	-	22,359
Accrued interest receivable	-	-	-	4,984	-	-	-	(2,420)	2,564
Goodwill	-	20	-	4,200	-	-	-	-	4,220
Cash value of life insurance	-	-	-	19,672	-	-	-	-	19,672
Other assets	176	23	-	4,089	-	-	3	1,463	5,754
Total assets	$ 21,302	$ 1,867	$ 34	$ 731,077	$ 76,993	$ 1	$ 77,326	$ (176,000)	$ 732,600
LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	$ -	$ -	$ -	$ 27,285	$ -	$ -	$ -	$ (867)	$ 26,418
Savings deposits	-	-	-	261,882	-	-	-	-	261,882
Money market and NOW accounts	-	-	-	217,391	-	-	-	-	217,391
Time certificates of deposit	-	-	-	119,930	-	-	-	-	119,930
Total deposits	-	-	-	626,488	-	-	-	(867)	625,621
Securities sold under agreements to repurchase	-	-	-	1,025	-	-	-	-	1,025
Other borrowings	15,300	-	40	20,000	-	-	-	(15,340)	20,000
Junior subordinated debentures	-	-	-	-	-	-	7,217	-	7,217
Accrued interest payable	2,290	129	1	193	-	-	-	(2,420)	193
Other liabilities	565	28	-	6,379	-	-	-	1,463	8,435
Total liabilities	18,155	157	41	654,085	-	-	7,217	(17,164)	662,491
Commitments and contingencies	-	-	-	-	-	-	-	-	-
Stockholders' equity:									
Common stock	1	1	1	1,680	8	1	5,803	(1,692)	5,803
Surplus	-	-	-	12,995	26,815	256	18,473	(40,066)	18,473
Undivided profits	3,146	1,709	(8)	63,681	51,534	(256)	52,233	(119,806)	52,233
Treasury stock	-	-	-	-	-	-	(5,036)	-	(5,036)
Accumulated other comprehensive loss, net of tax benefit	-	-	-	(1,364)	(1,364)	-	(1,364)	2,728	(1,364)
Total stockholders' equity	3,147	1,710	(7)	76,992	76,993	1	70,109	(158,836)	70,109
Total liabilities and stockholders' equity	$ 21,302	$ 1,867	$ 34	$ 731,077	$ 76,993	$ 1	$ 77,326	$ (176,000)	$ 732,600

See accompanying independent auditor’s report on additional information.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Income and Comprehensive Income

For the Year ended December 31, 2018

(In thousands of dollars)

	American National Leasing Co	Archer Title of Texas	AMNAT Insurance Services	American National Bank & Trust	Ameri-BancShares of Delaware, Inc.	ANB Realty Corp.	Ameri-BancShares Inc.	Reclassification and Eliminations Entries	Consolidated
Interest income:									
Interest and fees on loans	$ 612	$ -	$ -	$ 24,207	$ -	$ -	$ -	$ (190)	$ 24,629
Interest on investment securities									
Taxable	-	-	-	1,536	-	-	-	-	1,536
Nontaxable	-	-	-	1,544	-	-	-	-	1,544
Interest on interest bearing deposits in banks	-	-	-	178	-	-	-	-	178
Total interest income	612	-	-	27,465	-	-	-	(190)	27,887
Interest expense:									
Interest on deposits	-	-	-	5,275	-	-	-	-	5,275
Interest on repurchase agreements	-	-	-	8	-	-	-	-	8
Interest on other borrowed funds	187	2	1	247	-	-	-	(190)	247
Interest on junior subordinated debentures	-	-	-	-	-	-	278	-	278
Total interest expense	187	2	1	5,530	-	-	278	(190)	5,808
Net interest income	425	(2)	(1)	21,935	-	-	(278)	-	22,079
Provision for loan losses	-	-	-	550	-	-	-	-	550
Net interest income after provision for loan losses	425	(2)	(1)	21,385	-	-	(278)	-	21,529
Other operating income:									
Service charges on deposit accounts	-	-	-	733	-	-	-	-	733
Trust fee income	-	-	-	5,550	-	-	-	-	5,550
Gain on sale of mortgage loans	-	-	-	1,016	-	-	-	-	1,016
Gain on sale of other real estate owned	-	-	-	-	-	-	-	-	-
Loss on sale of securities	-	-	-	(2)	-	-	-	-	(2)
Rent income	744	-	-	-	-	-	-	-	744
Earning from subsidiary	-	-	-	550	7,530	-	7,529	(15,609)	-
Other	59	1,550	3	1,845	-	-	-	(72)	3,385
Total other operating income	803	1,550	3	9,692	7,530	-	7,529	(15,681)	11,426
Other operating expenses									
Salaries and employee benefits	354	663	-	13,980	-	-	-	-	14,997
Premises and equipment	26	70	-	2,319	-	-	-	(72)	2,343
Data processing expense	-	-	-	1,338	-	-	-	-	1,338
Other	669	416	-	4,497	1	-	-	-	5,583
Total other operating expenses	1,049	1,149	-	22,134	1	-	-	(72)	24,261
Income before income taxes	179	399	2	8,943	7,529	-	7,251	(15,609)	8,694
Provision for (benefit from) income taxes	(53)	83	-	1,413	-	-	(58)	-	1,385
Net income	232	316	2	7,530	7,529	-	7,309	(15,609)	7,309
Other comprehensive loss:									
Change in net unrealized gain (loss) on securities available for sale, net of taxes	-	-	-	(832)	(832)	-	(832)	1,664	(832)
Less reclassification adjustment for loss on sales of securities available for sale, net of taxes	-	-	-	1	1	-	1	(2)	1
Total other comprehensive loss	-	-	-	(831)	(831)	-	(831)	1,662	(831)
Total comprehensive (loss) income	$ 232	$ 316	$ 2	$ 6,699	$ 6,698	$ -	$ 6,478	$ (13,947)	$ 6,478

See accompanying independent auditor’s report on additional information.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Cash Flows

For the Year ended December 31, 2018

(In thousands of dollars)

	American National Leasing Co	Archer Title of Texas	AMNAT Insurance Services	American National Bank & Trust	Ameri-BancShares of Delaware, Inc.	ANB Realty Corp.	Ameri-BancShares Inc.	Reclassification and Eliminations Entries	Consolidated
Cash flows from operating activities:									
Net income	$ 232	$ 316	$ 2	$ 7,530	$ 7,529	$ -	$ 7,309	$ (15,609)	$ 7,309
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation	594	6	-	828	-	-	-	-	1,428
Provision for loan losses	-	-	-	550	-	-	-	-	550
Benefit from deferred taxes	93	2	-	(314)	-	-	-	-	(219)
Loss on sale of securities available for sale	-	-	-	2	-	-	-	-	2
Gain on sale of mortgage loans	-	-	-	(1,016)	-	-	-	-	(1,016)
Gain on sale of other real estate owned	-	-	-	-	-	-	-	-	-
Gain on sale of premises and equipment	(4)	-	-	(1)	-	-	-	-	(5)
Amortization of premium on investment securities	-	-	-	521	-	-	-	-	521
Accretion of discount on investment securities	-	-	-	(118)	-	-	-	-	(118)
Increase in cash surrender value	-	-	-	(547)	-	-	-	-	(547)
Proceeds from sales of mortgage loans	-	-	-	57,222	-	-	-	-	57,222
Mortgage loans funded	-	-	-	(56,373)	-	-	-	-	(56,373)
Unconsolidated earnings from subsidiary	-	-	-	(550)	(7,530)	-	(7,529)	15,609	-
Change in:									
Prepaid expenses	18	(6)	-	25	-	-	-	-	37
Accrued interest receivable	-	-	-	(546)	-	-	-	189	(357)
Income taxes receivable	-	-	-	68	-	-	(2)	-	66
Miscellaneous other assets	(10)	(2)	-	(147)	1	-	(4)	-	(162)
Accrued interest payable	187	2	-	79	-	-	-	(189)	79
Other taxes payable	-	-	-	4	-	-	-	-	4
Other accrued expenses	(175)	(6)	-	1,125	-	-	-	-	944
Net cash provided by (used in) operating activities	935	312	2	8,342	-	-	(226)	-	9,365
Cash flows from investing activities:									
Proceeds from maturities, calls and paydowns of securities available for sale	-	-	-	31,257	-	-	-	-	31,257
Proceeds from sale of securities available for sale	-	-	-	3,691	-	-	-	-	3,691
Purchase of securities available for sale	-	-	-	(24,914)	-	-	-	-	(24,914)
Purchase of other securities	-	-	-	(39)	-	-	-	-	(39)
Purchase of cash value life insurance	-	-	-	-	-	-	-	-	-
Dividends received from subsidiaries	-	-	-	-	5,681	-	5,681	(11,362)	-
Net increase in loans	(2,131)	-	-	(110,736)	-	-	-	1,285	(111,582)
Purchase of premises and equipment	(1,114)	(2)	-	(375)	-	-	-	-	(1,491)
Proceeds from sale of premises and equipment	569	-	-	39	-	-	-	-	608
Proceeds from sale of other real estate owned	-	-	-	-	-	-	-	-	-
Net cash provided by (used in) investing activities	(2,676)	(2)	-	(101,077)	5,681	-	5,681	(10,077)	(102,470)
Cash flows from financing activities:									
Net increase in deposits	-	-	-	90,466	-	-	-	65	90,531
Net increase in repurchase agreements	-	-	-	436	-	-	-	-	436
Net increase (decrease) in other borrowed funds	1,600	(315)	-	-	-	-	-	(1,285)	-
Purchase of treasury stock	-	-	-	-	-	-	(4,154)	-	(4,154)
Dividends paid	-	-	-	(5,681)	(5,681)	-	(1,223)	11,362	(1,223)
Net cash provided by (used in) financing activities	1,600	(315)	-	85,221	(5,681)	-	(5,377)	10,142	85,590
Net increase (decrease) in cash and cash equivalents	(141)	(5)	2	(7,514)	-	-	78	65	(7,515)
Cash and cash equivalents at beginning of period	392	473	32	32,828	1	1	34	(932)	32,829
Cash and cash equivalents at end of period	$ 251	$ 468	$ 34	$ 25,314	$ 1	$ 1	$ 112	$ (867)	$ 25,314

See accompanying independent auditor's report on additional information.

American National Bank & Trust
Officers & Directors

Officers Administration

Dwight L. Berry
President & CEO
Blake Andrews
Wichita Falls Market President / CFO
Meagan Swenson
Assistant VP / Marketing
Coordinator / Merchant Services

Loan Department

Don Whatley
Executive Vice President / Chief Lending Officer
Bob Elmore
Senior Vice President / Loans
Kevin Goldstein
Senior Vice President / Loans / Marketing President
Damon Whatley
Senior Vice President / Loans
Lacey Slack
Vice President / Credit Officer
Karyn Wainscott
Vice President / Loan Operations
Rhona Kelton
Assistant Vice President
Bryan Hines
Collections Officer
Jennifer "Nikki" Morrison
Banking Officer
Toni Neal
Banking Officer
Vera Simons
Banking Officer

Operations and Support Personnel

Roy T. Olsen
Executive Vice President / Cashier /
Human Resources Director
Nancy Vannucci
Senior Vice President/Internal Auditor
Kyle Turnipseede
Vice President / Director of Treasury Management
Candace Stroud
Vice President / Teller Services
Andrew Walmer
Vice President / Information Security Officer
Patrick Martin
Vice President / Assistant Cashier
Kimberly Box
Vice President / Internal Auditor
Gloria Garcia
Assistant Vice President / Account Services
Raquel Gutierrez
Assistant Vice President / HR Assistant
Cheyenne Patnode
Assistant Vice President / Compliance
Officer
Camilo Canales
Information Technology Officer
Francis Ortiz
Banking Officer / CSR Manager
Ashley Wylie
Banking Officer / Training Officer
Jennifer Duncan
Assistant Vice President / BSA Officer

Trust & Investment Services

Jeffrey Schultz, CFA, CTFA
Executive Vice President / Chief
Investment Officer / Managing Director
Randy R. Martin, JD
Executive Vice President / Director
of Fiduciary Services
Michael W. Boyle, CFIRS
Senior Vice President / Director
of Fiduciary Operations & Compliance
Kelly J. Smith, CTFA
Senior Vice President / Trust Officer
J. Scott Tucker, CTFA
Senior Vice President / Trust Officer
Linda Wilson
Senior Vice President / Trust Officer
Kristin Morris, CTFA
Senior Vice President / Trust Officer
Paula Walmer
Vice President / Operations Manager
Eric M. Reed
Assistant Vice President / Investment
Services
Belinda Blackwell
Trust Officer
Nancy Bukowski
Trust Officer
Melissa Miller
Trust Officer
Connie Shaw
Trust Officer
Jennifer Rea
Trust Compliance Officer
Curt Knobloch
Trust Officer
Donna Brumbalow
Trust Officer
Melody Taylor
Trust Officer

Mortgage Loan Division Elmwood Office

J. Bradley Davidson
Executive Vice President /
Division Manager
Natalie Eubanks
Senior Vice President
Caroline Groves
Vice President / Loan Officer
Kathleen Roberts
Vice President / Loan Officer
Chris Rogers
Vice President / Loan Officer
Kenda Wolf
Asst. Vice President / Underwriter
Benjamin Young
Asst. Vice President / Loan Officer
Karen Hill
Banking Officer
Ashley Gonzales
Administrative Officer / Closing

Platinum Circle

Donna Adams
Adm. Officer/Coordinator

Downtown Office

Marva Pieratt
Vice President / Loans
Mark Veitenheimer
Vice President / Loans
Amy Collier
Banking Officer

Iowa Park Office

Christy Potter
Banking Officer / Branch Manager

Archer City Office

Patrick Martin
Vice President / Branch Manager

Flower Mound Office

Sam Wilson
Market President / Loans / Branch Manager
Joe D. Willard
Senior Vice President / Loans
Ryan Schroer
Senior Vice President / Loans
Olivia Bajaj
Vice President / Credit Officer
Barb Hoffman
Banking Officer

Flower Mound Trust & Investment Services

Sheryl L. Kiser
Senior Vice President / Trust Officer

Flower Mound Mortgage Division

Steve Dixon
Vice President / Loan Officer

Chillicothe Office

Susan Madl
Vice President / Branch Manager
Cathy Young
Vice President / Assistant Cashier

Quanah Office

Niki Converse
Vice President / Branch Manager
Sandy McAllister
Banking Officer
Debra O'Neal
Banking Officer / Loan Officer

Fort Worth Office

Michael Winfrey
Market President / Fort Worth
Ann Morris
Vice President / Loans
Christie Johnson
Credit Officer
Adella Dunn
Banking Officer

Fort Worth Trust & Investment Services

Darrin Salge, CFP, CTFA
Senior Vice President / Trust Officer
Shelly Cox
Trust Officer

Fort Worth Mortgage Division

Jill Winfrey
Vice President / Loan Officer
Kara Crumb
Administrative Officer / Closing

Fort Worth Correspondent Banking

Craig Berry
Executive Vice President
Paul Scheurer
Senior Vice President

Dallas LPO

Richard Dopson
President / Dallas Region
William Maberry
Vice President / Loans
Dragana Alperin
Assistant Vice President / Credit Administration

Denton LPO

Marty Rivers
Market President / Denton
Aaron Newquist
Vice President / Loans
Stephanie Lamb
Assistant Vice President

Denton Mortgage Division

Matthew Morgan
Assistant Vice President / Loan Officer

American National Leasing Company

Mike Cuba
President
Alisha Bowers
Vice President / Leasing Officer
Billy Hughes
Vice President / Leasing Officer

Archer Title of Texas Inc.

Zachary Beck
President
Jean Taylor
Vice President

Directors

Mark Tucker
Chairman of the Board
Hank Anderson
Vice Chairman of the Board
Dwight Berry
President and CEO
Blake Andrews*
Craig Berry*
Kenny Bryant
Mike Cuba*
Todd Davenport
Richard Dopson*
J. Bradley Davidson*
Charlie Gibson
Ken Hogan
Tommy Isbell
Randy R. Martin*
Richard Naylor
John Osborne
Marty Rivers*
Jeffrey Schultz*
Ty Thacker
Max Vordenbaum
Don Whatley
Michael Winfrey*
Sam Wilson*

Roy T. Olsen
Board Secretary

*Advisory Director

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