

A DECADE OF ELEVATING THE CHAMPIONS OF FREE ENTERPRISE



TEXAS SECURITY

BANK

CELEBRATING 10 YEARS

2017 ANNUAL REPORT

CUSTOMER PROFILE

A glass artist crafting success

Carlyn Ray, Carlyn Ray Designs, is a glass artist who creates custom pieces for residential and commercial installation, including chandeliers, weavings, vessels, glass panels and more. Clearly passion and inspiration fuel her creative energy – “The process of glass design is as beautiful as the product,” she says. But she’s learned much about creating and growing a business at Texas Security Bank, both through the Business Institute (now the TSB Business Speaker Series) and the personal guidance from her bank officer.

“They know who I am,” Carlyn says. “It means so much to me to have a personal banking relationship with educated answers and support.”

Carlyn Ray
President
Carlyn Ray Designs

Mastering the art of business for ten years

At Texas Security Bank, we help business owners create extraordinary enterprises. Whatever their passion may be, whether it’s shaping a work of art or moving trucks, we offer the tools, guidance and support they need to turn dreams into reality.

We understand entrepreneurs because we ourselves are entrepreneurial. We created our bank from scratch. Our vision was to be the banking partner for owner-managed businesses. Ten years later, our reputation as the business owner’s bank has grown exponentially.

Envisioning and creating our bank has been like developing a work of art. Our client Carlyn Ray, a glass designer, takes the elements of earth, air, fire and water and transforms them into stunning works of glass. We took a unique concept and, with grit, passion, knowledge and hard work, formed it into the successful bank we have become.

We are constantly refining our talents and offerings to better serve business owners. But an artist’s work is never done, and neither is ours. We know that what we have created is both a role model for owner-managed businesses and a crystal clear example of free enterprise at its best. Few things are more beautiful than that.

The images on the cover and the financial pages 14-20 are examples of hand-blown glass weavings from Carlyn Ray Designs.

Dear fellow shareholders,



It may be hard to believe, but 2018 marks our tenth year of Elevating the Champions of Free Enterprise. It wouldn't have been possible without you – our clients, shareholders, employees and friends. We treasure the relationships that have grown with each of you over the years. As a tribute to this significant decade milestone, this annual report revisits many important events and achievements of Texas Security Bank – how we started, the winding road, and where we are today.

The Company had a successful capital raise in the spring of 2017 and a private placement at year end which totaled \$10.3 million in new capital. It was also successful in obtaining a first lien bank stock loan with its correspondent bank in January, totaling \$13 million. The proceeds were used to pay off an existing loan of \$3.2 million and to provide a capital contribution to the subsidiary bank. This is an important development in the Company as the additional capital increased our lending limit to better assist our client's borrowing needs.

This was a record-breaking year for your Bank! Pre-tax income increased \$1.1 million, or 20%, to a record level of \$6.5 million. Loans grew 18% with loan balances ending at \$336.7 million. Net interest income grew \$2.4 million, or 20%, from the prior year while our net interest margin increased eight basis points to 4.19%. In addition to the substantial growth, our credit quality remained strong and our efficiency ratio, a measurement of the cost we incur to produce earnings from the business, improved to 55.2% in 2017.

Going forward, the tailwinds from tax and regulatory reform, well-managed rising rates, and a business-friendly government attitude keep us optimistic for what the future holds for us. If you or any of your business acquaintances need financial solutions, let's start a conversation! We would love to help, and our best business relationships tend to come from referrals. Thank you for your continued encouragement, investment and confidence.

Craig Scheef
Chairman, President
Chief Executive Officer

Larry Bennett
Executive Vice President
Chief Financial Officer

Chris Jones
Executive Vice President
Chief Lending Officer

Recognized for the Best Event Space 2016, Dallas Luxury, D.E.C. on Dragon is this year's photo shoot location to commemorate Texas Security Bank's 10th anniversary, thanks to owners and TSB clients, Larry and Brian Rutt. When asked, "Why bank at TSB?" Larry says, "We want a trusted resource we can reach out to at a moment's notice – someone we know and can depend on."

– Larry and Brian Rutt, D.E.C. on Dragon and The Emblem Source, LLC

Meet our leadership



Leadership Team (left to right)

Chris Jones
Executive Vice President
Chief Lending Officer

Shon Cass
Senior Vice President
Cash Management

Chris Benson
Senior Vice President
Senior Credit Officer

Larry Bennett
Executive Vice President
Chief Financial Officer

Craig Scheef
Chairman, President
Chief Executive Officer



Market Presidents (left to right)

Ben Parkey
Senior Vice President, Turtle Creek Market President

C.D. Heinen
Senior Vice President, Metrocrest Market President

Casey Herr
Senior Vice President, Garland Market President

Board of Directors (left to right)

Scott Miller	Principal, Miller Global Investments, LLC
Larry Waisanen	Retired, EVP/CFD, Lafarge North America, Inc.
Chris Jones	Texas Security Bank
Gina Norris	SVP Partner Relations, Matthews Southwest
Langhorne Reid	President, Arcady Capital, Inc.
Drew Keith	VP/CFD, Fritz Duda Company
Kip Kernodle	Retired, CFO & Director, Allflex Holdings, Inc.
Craig Scheef	Texas Security Bank
LeAnn Nabors	CFD, The Wright Group
Larry Bennett	Texas Security Bank
Cortney Liddiard	CEO, Ball Ventures, LLC (not pictured)



CUSTOMER PROFILE

An entrepreneur who keeps on trucking

Carla Luig says she's a serial entrepreneur. After her military service, she decided to go into transportation and learned everything she could about logistics. She worked for two retailers and a trucking company, and then struck out on her own. First Choice Transport carried its first load on September 11, 2001.

Despite the ominous start date, her company grew. Today she has 190 trailers and 75 trucks. But not stopping there, she has also started a luxury spa that has evolved into an event venue, from bed and breakfast to weddings. Now Carla's a wedding and event coordinator in addition to being a trucking magnate.

When a Texas Security Bank officer drove an hour to meet with her, she knew ours was a different kind of bank.

"Texas Security Bank cares more about me than a nationwide bank," Carla says. "They really value my business."

Carla Luig
President, Chief Executive Officer
First Choice Transport



Shon Cass
Senior Vice President
Cash Management

An employee's perspective on trust

We know that trust is not given; it's earned. We earn your trust with exemplary customer service, top of market services and most of all a knowledgeable relationship manager who can provide sound advice and counsel to help you run and grow your business.

As owner-operators ourselves, we understand the trials, tribulations and rewards of owning and operating your own business. When the decisions rest on your shoulders, it's refreshing to have a trusted advisor in your corner.

"Why did I join Texas Security Bank? I liked the opportunity to invest in and build something – not just simply manage someone else's plan but create something we could build and manage ourselves," Shon says. "We've done a good job of staying true to our vision."

CUSTOMER PROFILE

We were just what the doctors ordered

Dr. Cory Roberts wanted to be a doctor since he was a kid. After medical school and residency, he planned to be a surgeon. But along the way he became fascinated with pathology and found that he loved it.

In 2000, he was recruited to ProPath, a physician-owned pathology practice that provides diagnostic testing, information and services to patients and physicians. He became president in 2011 and CEO in 2017. In the last 10 years, the company has seen tremendous growth and doubled its revenue.

After coming to Texas Security Bank for a home mortgage, Dr. Roberts saw our value as a strategic business partner. He liked how we think outside of the box to develop solutions that make sense for both sides.

"They took the time to understand what would benefit us," Dr. Roberts says. "Texas Security Bank has a deep knowledge of our goals and aspirations and has built the relationship. Money is available for any good business. A partner, however, is invaluable."

Cory Roberts, M.D.
President, Chairman, Chief Executive Officer
ProPath



Libby Smith
Senior Vice President
Mortgage Lending

An employee's perspective on mortgages and values

Our level of service is higher than most banks. One point of contact sees you through from origination to funding. Whether it's a conventional, jumbo, home purchase plus remodeling or construction loan, our small size and flexibility allow us to price loans very competitively. We often can close in a shorter amount of time, too.

I treat my job as if I own the bank myself. I'm as careful with our shareholders' and customers' money as I am with my own.

Libby says, "We are genuinely living our mission every day – working to bring value to our customers, vendors and shareholders."

At Texas Security Bank, we view everything as we think an owner would. We take care and pride in the service we offer. We work to be responsible and accountable with each transaction.

CUSTOMER PROFILE

An entrepreneur who's laser focused on the future

Ed Christmas has always been in public safety technology. But in 2008, when cameras were changing from analog to digital technology, he seized the moment to build a business around networked security systems and video surveillance. "Our strategy was betting on the growth of the Internet," he says. "Now most large enterprises employ only digital systems." Sales have taken off, with schools, cities and other organizations focusing on the need to capture real-time data.

Ed attributes his success to being nimble and flexible in a changing market, capitalizing on the opportunities at hand and having the vision to partner with the right companies. It was important, he says, "to get the right team in place, and that includes our employees and partners like Texas Security Bank."

"I quickly found out that it's key to have a bank that takes interest in your business and understands small businesses," Ed says. "TSB is part of our team, not just someone handling our transactions. You don't realize what having a bank who's a team member can be – until you have one."

Ed Christmas
Founder, Managing Principal
Sology Solutions



Heather Rodriguez
Client Service Manager II
Assistant Vice President

An employee's perspective on then and now

While our Turtle Creek Branch was still under construction, I was hired as the first and only teller, so my office was in the trailer! I learned about banking on the job with online training, mentoring and both one-on-one and group training.

As the bank has grown over 10 years, my career has grown too. I've trained and onboarded the teller staff. I've grown from the teller supervisor to the customer service representative to, most recently, the customer service manager. We are all invested in the bank on some level. Personally – I view it as my own.

"Why do I work here? It's like being part of a big family and growing together. They help me grow in my career – and be the best I can be."

A decade of elevating the Champions of Free Enterprise

Ten years ago, a group of investors and entrepreneurs came together with a dream. A dream to create a unique, completely independent bank. A bank with a single mission – to Elevate the Champions of Free Enterprise. By that we mean those businesses that are often founded and operated by the owner. These entrepreneurs, whose companies have less than 20 employees, contribute to most of the net job creation and pay most of the federal income tax in our country. Why not serve them?

So we did. In April 2007, a handful of us left good, well-paying jobs, wrote a business plan and raised capital. We opened our doors on May 5, 2008 – right at the start of the last recession and banking crisis. Were we crazy? Well, at times it was challenging, but mostly, it's been a wonderful journey.

"I am extremely proud of the management team. They have validated my investment. I'm impressed with the development of the executive management skills and excited about the future. We've reached a significant business platform, and now the sky's the limit."



– Drew Keith, Founder, Executive Committee Chairman, Board of Directors

Today, Texas Security Bank has over \$400 million in assets. We have three locations in the Dallas Metroplex. And we are one of the healthiest, most profitable and fastest growing banks in the United States.

Why did we succeed? We had a clear vision. We were committed to being the bank whose entire product and service offering would support owner-managed businesses. We would provide continuing education to help business owners grow their enterprise. We would be well-trained on running businesses, ourselves. We would be business people who happen to be bankers.

Today, we are proud that the capital we provide owner-managed businesses supports thousands of jobs. We are delighted that over 400 business owners and their employees participated in the TSB Business Institute in 2017. And we are genuinely honored to serve the business owners who are the backbone of our nation's economy.

In celebration of our 10th anniversary, we celebrate the entrepreneurs who make ours the greatest country on Earth. They all have inspirational, breathtaking free enterprise stories. We hope you enjoy the few we've included in this year's annual report.



Built by entrepreneurs to serve entrepreneurs

Every move we've made as a bank has been to serve entrepreneurs. We planned each of our locations to be accessible to the most owner-managed businesses. Our first location was in the Dallas Design District because the Stemmons corridor had the highest concentration of businesses. The same holds true for our Garland and Metrocrest locations. Now with three locations, we're able to double the size of our bank, and the potential earnings are enormous.

It all goes back to making the most of free enterprise. In fact, every year we host a barbeque to recognize the business owners we serve, to celebrate the virtues of free enterprise and to be thankful we can create jobs and improve the standard of living for our community.

– Craig Scheef, Chairman, President, Chief Executive Officer



Celebrating with our customers in Texas style with live music, good food and conversation at the annual Texas Security Bank barbeque.



An employee's perspective on the financial challenges of 2007-2008

Not only did we start a bank; we started it when the great recession hit. How did we overcome this challenge? It was our 13 founders, those who saw that we had a compelling plan and had the discipline to put it together. They made us what we are. We're an owner-managed bank for owner-managed businesses. If our clients win, we win.

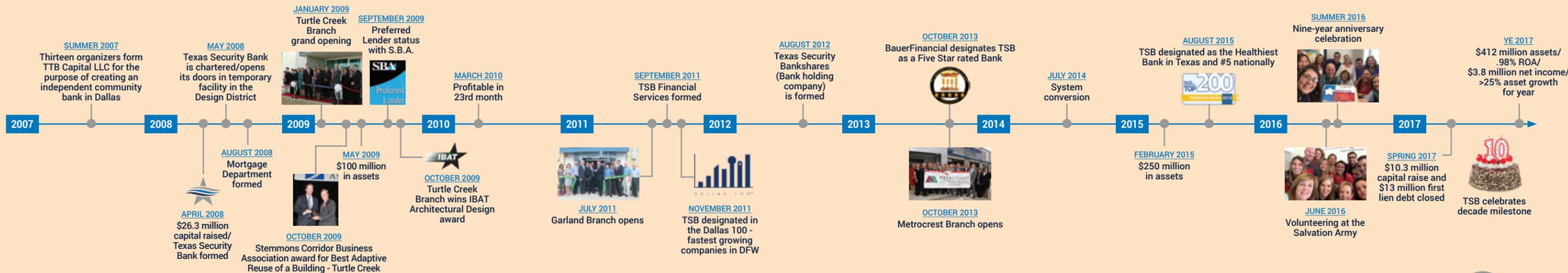
– Larry Bennett, Chief Financial Officer

Founders

- | | | |
|-------------------|---------------|--------------|
| Ballard Castleman | Greg Hultgren | Lang Reid |
| Kathleen Cooper | Chris Jones | Craig Scheef |
| Jason Crispin | Drew Keith | John Sears |
| Bob Dyer | Elliott Lewis | Bob Winspear |

"I was really proud to get this bank financed in 2008 when the financial world fell apart. It was a huge risk in the beginning. As great as the executive management team is, it's even more significant that they have stayed together for 10 years."

– Lang Reid, Founder, Board Member



TSB Business Speaker Series – Continuing education for the business owner

We founded Texas Security Bank to be an indispensable resource for business owners. We know the sacrifice it takes to put everything you have into starting a business. We also recognize that many owner-managed businesses are experts in their fields, but often lack expertise in other areas, such as human resources, financial skills, balance sheet management, working capital, cash-flow management and maximizing the value of your business. We created an educational lunch series, called the TSB Business Institute, to give business owners this critical business expertise.

Now called the TSB Business Speaker Series, this lunchtime program presents renowned local business leaders sharing vital knowledge on key business principles. The series also provides an environment of support where owners can meet, have lunch, learn and share insights. The program started in a conference room in our first location. Now it takes place in our Farmers Branch training center. More than 4,500 people have participated to date.

2018 TSB Business Speaker Series topics

- Sexual harassment and creating a culture of respect
- Digitally enhancing your brand
- Conscious capitalism: how to really take care of all of your stakeholders, including shareholders, employees, customers and vendors
- Cybersecurity
- How the new tax reform affects owner-managed businesses
- Open-book management: sharing numbers with employees to get them more engaged, based on *The Great Game of Business*
- How to execute your strategic plan, based on the Entrepreneurial Operation System book *Traction*
- How to demystify your numbers to capitalize, fund your business and create 13-week forecasts



“Before joining the bank, I ran two businesses. I came to understand the challenges and needs of business owners. Beyond loans, they need a good resource for expertise and support. That’s why we’re committed to providing business owners with resources – and it’s so gratifying to know our support helps them grow.”

– Chris Jones, Executive Vice President
Chief Lending Officer

TSB Academy – Executive Business Curriculum

For owner-operated business leaders, the TSB Academy Executive Business Curriculum allows you to leverage your business experience and gain the additional depth of knowledge to grow your business and communicate in today’s complex business world.

Offered over three trimesters beginning July 2018, the course includes three Saturday sessions on corporate leadership, two three-hour sessions per month on foundational and functional knowledge and all TSB Business Speaker Series events throughout the year. Providing 75 hours of education, TSB Academy’s rigorous and robust content offers an excellent opportunity to fine-tune your business acumen and acquire the tools to take your firm and career to the next level. Interested? Give us a call.

“From the beginning, I envisioned our bank as a source of education for business owners. It started with our lunch series, which was a big success. Now we’ve taken that vision to the next level with the TSB Academy. With 12 months of intensive training, our goal is for owners to learn the basics of how to manage and operate a business. We’re actually building better business people.”

– Craig Scheef, Chairman, President
Chief Executive Officer



Kevin Taylor shakes hands with Michael Schneider, his customer and now friend.

EMPLOYEE PROFILE

Kevin Taylor’s perspective on whom we serve

I’ve been with Texas Security Bank since day one. I liked that we were helping a market of owner-managed businesses. One thing we have in common with our clients is that we are not only employees, but also owners. Many of our loan officers have invested their money in the bank. As our clients know, when you have your own money at stake, you run a business like an owner rather than an employee. We’re passionate about helping business owners achieve their vision. It is this type of passion that enabled us to hit profitability before our two-year anniversary.

“Many relationships start as a banking relationship, but often our clients become really good friends.”

– Kevin Taylor, Vice President
Commercial Loan Officer

“When you bank with Texas Security Bank, you work with entrepreneurs who are putting their own skin in the game. It matters to them to see you succeed. If you are looking for a long-term relationship with a bank that doesn’t just try to sell you products, then bank with TSB.”

– Michael Schneider, Chief Executive Officer
A-1 Locksmith & Safes

Then and now: a look at our performance

Below is a summary of Texas Security Bankshares, Inc.'s (TSB) financial highlights and performance ratios since 2014. Additional financial trends from 2012 through 2017 are presented on pages 15 and 16. Pages 17 to 20 present TSB's comparative consolidated financial statements for the years ended December 31, 2017 and 2016. These reports are presented in our annual audited financial statements. You may request complete audited financial statements and the required notes to the consolidated financial statements at any time from me.

Our auditors have expressed an unmodified opinion on our consolidated financial statements for both 2017 and 2016. This means that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Texas Security Bankshares, Inc. and Subsidiary and the results of their consolidated operations and cash flows for these years.



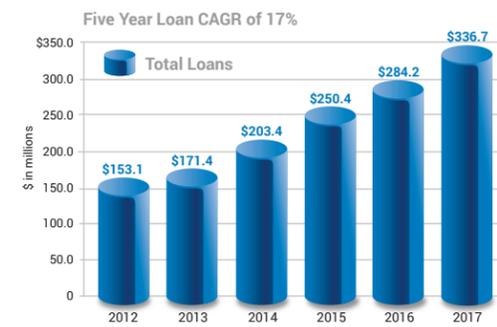
Larry Bennett
Executive Vice President, Chief Financial Officer, Chief Operating Officer

(in whole dollars, except per share data)	2014	2015	2016	2017
OPERATING RESULTS				
Net interest income	\$ 9,191,221	\$ 10,471,089	\$ 12,079,792	\$ 14,480,571
Provision for loan loss	241,598	423,571	442,401	877,297
Non-interest income	1,127,122	1,436,636	1,870,980	1,890,664
Net realized gain (loss) on sales of securities	360,478	249,879	165,273	(209)
Non-interest expense	7,535,763	7,722,303	8,304,464	9,030,037
Earnings before provision for income tax expense	2,901,460	4,011,730	5,369,180	6,463,692
Income tax expense	935,171	1,328,774	1,790,620	2,711,339
Net income	\$ 1,966,289	\$ 2,682,956	\$ 3,578,560	\$ 3,752,353
AT YEAR END				
Total assets	\$ 245,463,182	\$ 303,592,746	\$ 328,210,170	\$ 412,347,142
Loans, net of allowance	201,206,326	247,879,852	281,428,761	333,416,464
Investments in securities & interest bearing deposits	35,029,846	45,588,072	33,908,952	62,328,610
Deposits	211,457,197	270,604,844	292,176,471	352,616,100
Stockholders' equity	24,871,244	27,635,446	31,155,258	45,398,647
Common shares outstanding (net of treasury)	2,343,546	2,412,168	2,532,642	3,035,668
OTHER FINANCIAL DATA				
Return on average assets	.84%	.96%	1.12%	.98%
Return on average equity	8.24%	10.22%	12.04%	9.39%
Loans to deposits	96%	92%	97%	95%
Allowance for loan losses to loans	1.10%	1.04%	1.07%	1.04%
Net charge offs to loans	0.00%	0.02%	0.00%	0.12%
PER SHARE DATA				
Net income (basic)	\$ 0.84	\$ 1.14	\$ 1.45	\$ 1.32
Book value	\$ 10.61	\$ 11.46	\$ 12.30	\$ 14.96

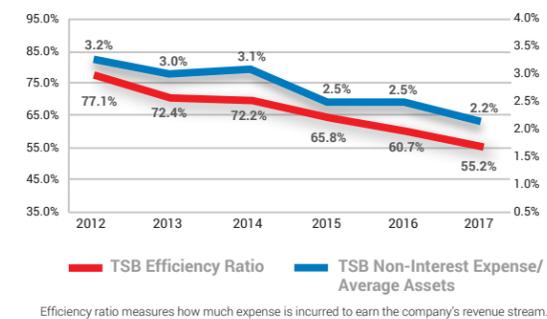
Financial Trends

Texas Security Bankshares, Inc. and Subsidiary

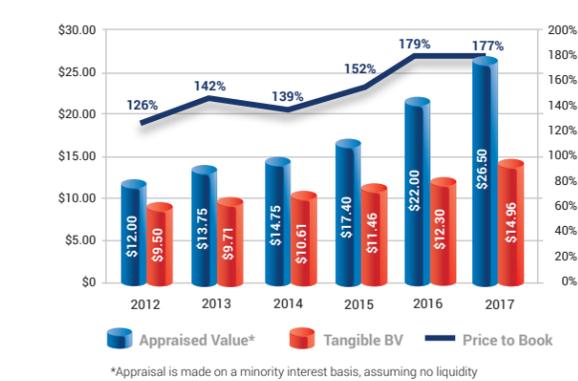
Balance Sheet Growth



Efficiency Measurements

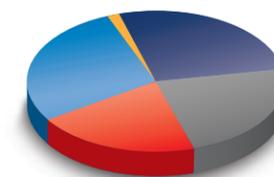


Enhancing Shareholder Value



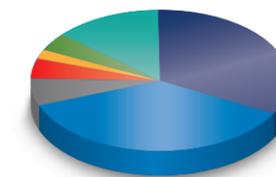
Balance Sheet Makeup

December 2017 Loan Portfolio



- 28%: Owner Occupied CRE
- 21%: Residential Mortgage
- 21%: Commercial & Industrial
- 29%: Non Owner Occupied CRE
- 1%: Consumer

December 2017 Deposit Portfolio

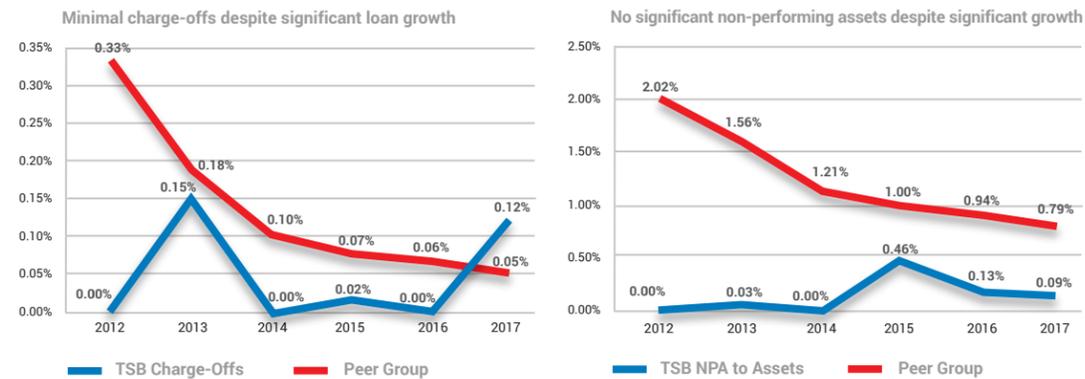


- 35%: Transaction
- 39%: MMDA/Savings
- 4%: Brokered CDs
- 1%: CDs > \$250K
- 3%: CDs < \$250K
- 3%: Qwik Rate CDs
- 15%: Public

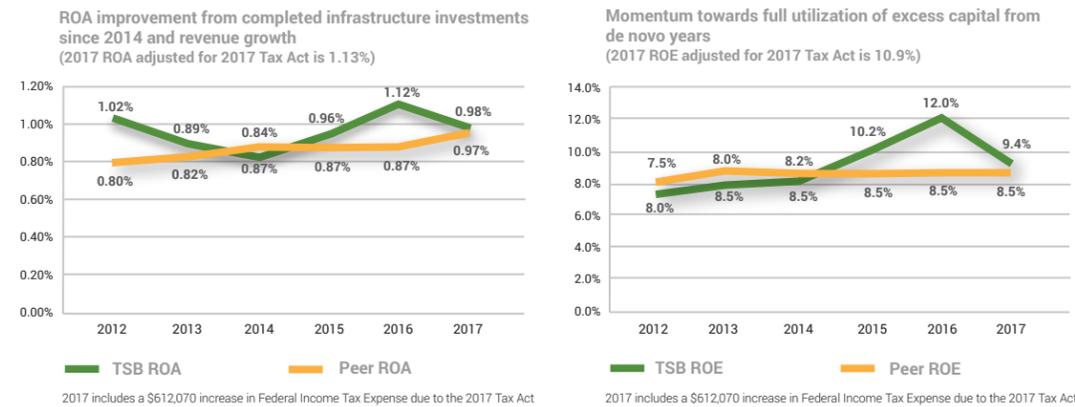
Financial Trends

Texas Security Bankshares, Inc. and Subsidiary

Credit Quality



Profitability Metrics



Pre-tax Income & EPS Growth



Texas Security Bankshares, Inc. and Subsidiary

Consolidated Balance Sheets for the Years Ended December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 2,201,571	\$ 1,569,841
Federal funds sold	5,500,000	3,000,000
Interest bearing deposits in other banks	41,066,713	10,669,794
Total cash and cash equivalents	48,768,284	15,239,635
Securities purchased under agreements to resell	–	473,294
Time deposits in other banks	1,246,000	250,000
Securities available for sale	20,015,897	22,515,864
Loans held for sale	496,900	764,100
Loans, net	332,919,564	280,664,661
Bank premises and equipment, net	5,406,400	5,537,585
Accrued interest receivable	1,137,234	802,396
Servicing asset	360,469	312,754
Other assets	1,996,394	1,649,881
Total assets	\$ 412,347,142	\$ 328,210,170
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	\$ 102,301,419	\$ 85,244,999
Interest bearing	250,314,681	206,931,472
Total deposits	352,616,100	292,176,471
Other borrowings	12,025,000	3,231,576
Accrued interest payable	533,124	379,796
Other liabilities	1,774,271	1,267,069
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$5 par value; 5,000,000 shares authorized, 3,377,618 and 2,874,592 shares issued, respectively; 3,035,668 and 2,532,642 outstanding, respectively	16,888,090	14,372,960
Additional paid-in capital	21,988,181	13,708,888
Stock issued with notes receivable	(2,058,670)	(1,773,200)
Retained earnings	13,262,979	9,499,646
Accumulated other comprehensive loss	(66,726)	(37,829)
Treasury stock, at cost, 341,950 shares at cost	(4,615,207)	(4,615,207)
Total stockholders' equity	45,398,647	31,155,258
Total liabilities and stockholders' equity	\$ 412,347,142	\$ 328,210,170

Texas Security Bankshares, Inc. and Subsidiary
Consolidated Statements of Income for the Years Ended December 31, 2017 and 2016

	2017	2016
INTEREST INCOME		
Interest and fees on loans	\$ 15,713,136	\$ 12,629,450
Interest on investment securities	452,214	513,295
Interest on securities purchased under agreements to resell	13,438	35,975
Interest on federal funds sold	49,748	3,315
Interest on other accounts	372,154	120,609
Total interest income	16,600,690	13,302,644
INTEREST EXPENSE		
Interest and fees on deposit accounts	1,614,836	1,077,613
Interest on other borrowings	505,283	145,239
Total interest expense	2,120,119	1,222,852
Net interest income	14,480,571	12,079,792
Provision for loan losses	877,297	442,401
Net interest income after provision	13,603,274	11,637,391
NON-INTEREST INCOME		
Service charges on deposit accounts	686,812	478,637
Gain on sales of loans held for sale	633,268	907,642
Gain on sales of SBA loans	267,109	178,172
Net (loss) gain on sales of investment securities	(209)	165,273
Other	303,475	306,529
Total non-interest income	1,890,455	2,036,253
NON-INTEREST EXPENSE		
Salaries and employee benefits	5,707,097	5,024,264
Occupancy of bank premises	673,828	778,961
Professional fees	381,594	382,915
Advertising and promotional	177,044	175,590
Data processing and IT management	750,576	696,345
Internet banking	230,352	188,556
Regulatory assessments	171,012	191,913
Software costs	219,057	102,105
Other	719,477	763,815
Total non-interest expense	9,030,037	8,304,464
Net income before income tax expense	6,463,692	5,369,180
Income tax expense	2,711,339	1,790,620
Net income	\$ 3,752,353	\$ 3,578,560
Basic earnings per share	\$ 1.32	\$ 1.45
Diluted earnings per share	\$ 1.23	\$ 1.34

Texas Security Bankshares, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017 and 2016

	2017	2016
Net income	\$ 3,752,353	\$ 3,578,560
Other comprehensive income (loss):		
Net unrealized holding losses on available for sale securities during the period	(27,356)	(194,796)
Reclassification adjustment for net realized losses (gains) on available for sale securities included in net income	209	(165,273)
Other comprehensive loss, before income taxes	(27,147)	(360,069)
Income tax benefit	9,230	122,423
Other comprehensive loss, net of income tax benefit	(17,917)	(237,646)
Total comprehensive income	\$ 3,734,436	\$ 3,340,914

Texas Security Bankshares, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2017 and 2016

	Common Stock	Additional Paid-In Capital	Stock Issued with Notes Receivable	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total
Balance, January 1, 2016	\$13,770,590	\$13,045,380	\$ (686,220)	\$5,921,086	\$ 199,817	\$(4,615,207)	\$27,635,446
Sale of common stock, 120,474 shares	602,370	603,873	(1,086,980)	–	–	–	119,263
Net income	–	–	–	3,578,560	–	–	3,578,560
Stock-based compensation	–	59,635	–	–	–	–	59,635
Other comprehensive loss	–	–	–	–	(237,646)	–	(237,646)
Balance, December 31, 2016	14,372,960	13,708,888	(1,773,200)	9,499,646	(37,829)	(4,615,207)	31,155,258
Sale of common stock, 503,026 shares	2,515,130	8,224,078	(285,470)	–	–	–	10,453,738
Net income	–	–	–	3,752,353	–	–	3,752,353
Stock-based compensation	–	55,215	–	–	–	–	55,215
Reclassification of stranded tax effects due to change in tax rate	–	–	–	10,980	(10,980)	–	–
Other comprehensive loss	–	–	–	–	(17,917)	–	(17,917)
Balance, December 31, 2017	\$16,888,090	\$21,988,181	\$(2,058,670)	\$13,262,979	\$ (66,726)	\$(4,615,207)	\$ 45,398,647

Texas Security Bankshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016

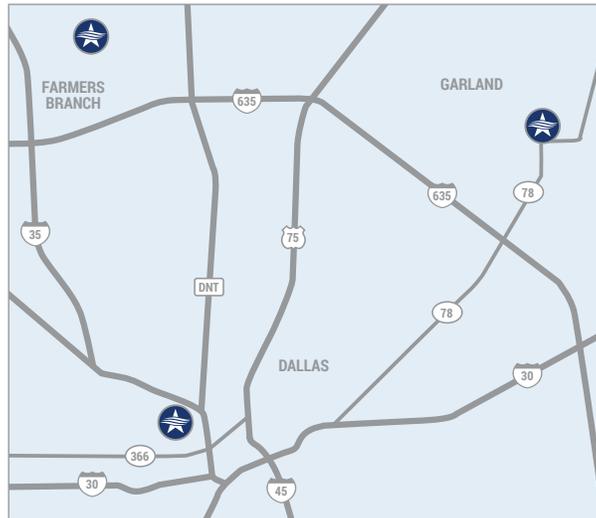
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,752,353	\$ 3,578,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	554,305	618,007
Provision for loan losses	877,297	442,401
Net loss (gain) on sales of securities	209	(165,273)
Gain on sales of SBA loans	(267,109)	(178,172)
Gain on sales of loans held for sale	(633,268)	(907,642)
Proceeds from sales of loans held for sale	26,171,974	30,992,053
Net originations of loans held for sale	(25,271,506)	(30,266,311)
Stock-based compensation	55,215	59,635
Increase in accrued interest and other assets	(672,121)	(173,178)
Increase in accrued expenses and other liabilities	660,530	86,307
Net cash provided by operating activities	5,227,879	4,086,387
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available for sale securities:		
Maturities, calls, sales and principal paydowns received	302,231,475	270,927,071
Purchases	(299,984,664)	(266,015,271)
Net originations of loans	(52,999,075)	(33,631,238)
Additions to bank premises and equipment	(111,051)	(98,082)
Net decrease in securities purchased under agreements to resell	473,294	3,860,584
Net (increase) decrease in time deposits in other banks	(996,000)	1,247,000
Net cash used in investing activities	(51,386,021)	(23,709,936)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net changes in deposits	60,439,629	21,571,627
Repayments of other borrowings	(4,206,576)	(437,896)
Proceeds from other borrowings	13,000,000	-
Proceeds from sale of common stock	10,453,738	119,263
Net cash provided by financing activities	79,686,791	21,252,994
Net increase in cash and cash equivalents	33,528,649	1,629,445
Cash and cash equivalents at beginning of year	15,239,635	13,610,190
Cash and cash equivalents at end of year	\$ 48,768,284	\$ 15,239,635
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,966,791	\$ 1,097,237
Cash paid for income taxes	\$ 2,659,224	\$ 2,150,000



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BANK

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