CELEBRATING 40 YEARS.

Annual Report | 2016

American National Bank & Trust™

AMERICAN NATIONAL BANK & TRUST

FINANCIAL HIGHLIGHTS

In thousands of dollars

	YEAR ENDED DECEMBER 31, 2016	YEAR ENDED DECEMBER 31, 2015	%CHANGE
Demand Deposits	31,856	25,555	24.7%
Total Deposits	453,702	414,236	9.5%
Total Assets	573,289	489,579	17.1%
Total Loans (net)	352,837	280,735	25.7%
Allowance for Loan Losses	5,129	5,205	-1.5%
Return on Earning Assets	3.73%	3.52%	6.0%
Cost of Funds	0.38%	0.30%	26.7%
Average Net Spread	3.35%	3.22%	4.0%
Growth in Capital	4,411	9,541	-53.8%
Total Capital Beginning	59,841	50,300	
Total Capital Ending	64,252	59,841	7.4%
Interest Income	18,940	15,871	19.3%
Interest Expense	1,357	956	41.9%
Net Interest Income	17,583	14,915	17.9%
Non-Interest Income	11,307	10,735	5.3%
Non-Interest Expense	20,755	19,840	4.6%
Profit Before Provision	8,135	5,810	40.0%
Provision for Loan Losses	0	0	
Income Taxes	2,036	1,510	34.8%
Net Income	6,099	4,300	41.8%
Earnings Per Share	2.34	1.99	17.6%
Dividends Paid	0.50	0.50	0.0%
Book Value	28.28	26.33	7.4%
Return on Average Assets	1.16%	0.93%	0.0%
Return on Average Equity	9.68%	7.79%	0.0%

CELEBRATING 40 YEARS.

DWIGHT BERRY

PRESIDENT AND
CHIEF EXECUTIVE OFFICER

To Our Shareholders,

November 29, 1976, forty years, what a great day for American National Bank & Trust

In November 2016, these few words announced our fortieth anniversary advertising campaign, and as we reflect over the past four decades, it is quite remarkable how our level of strength and profitability has grown.

Opening for business in 1976 in a temporary modular structure as a de novo charter with capitalization of $800,000, the bank has grown into an organization of eight branches plus a loan production office and maintains in excess of $64 million in capital. We began with eight employees and today our staffing exceeds 170 highly motivated and extremely loyal individuals. Growing from a single entity commercial bank we now house a Trust Department that manages over $900 million in assets, a full Mortgage Department providing a full array of real estate products, a Leasing Company, and a Title Company providing title services supported by sovereign plants in Wichita, Archer, and Clay Counties. With three branches in Wichita Falls, and full service branches in Flower Mound, Chillicothe, Quanah, Iowa Park, Archer City, and a loan production office expanding into a full branch facility in Fort Worth by August 2017, our footprint has become quite expansive.

I am proud to say that we ended 2016 on another high note as we did in 2015. Total assets increased 17% to over $573 million. Likewise, net loans increased 26%, while deposits increased 10%. And, total equity increased 7.4%, even as two cash dividends were paid in excess of $1.1 million.

Overall, profitability improved 42% to $6.1 million for the year, due primarily to the increase in loan volume and restructuring the bond portfolio. Additionally, loan losses remained negligible at .02% and reserves remained very satisfactory at 1.43% of total loans; thus, it was not necessary to allocate additional monies to the loan loss reserve in 2016.

> Growth of our loan portfolio is the result of the concerted efforts of our entire lending staff. Our correspondent division, headquartered in our Loan Production office in Fort Worth, has developed significantly since beginning in 2015. ***Craig Berry, Executive Vice President***, joined our correspondent team in September 2016. Just as our other ancillary departments, we expect the correspondent area to expand the bank's profitability potential as we continue to develop our business relationships with other financial institutions located throughout Texas.

In 2007 we initially entered the Archer City market in a non-bank owned property; however, we are excited to report that we are now occupying our new branch building located at 108 West Main. Likewise, our new downtown Fort Worth branch, located at the corner of 7th & Summit, is scheduled for completion in August 2017. This will be a full service branch offering an array of commercial banking activities as well as trust services, personal investment services, and mortgage products.

BEN WOODY
BOARD OF DIRECTIORS

MILBURN NUTT
BOARD OF DIRECTIORS

Directors Milburn Nutt and Ben Woody retired this year after twenty-eight years of service on our Board of Directors. These two gentlemen were outstanding Directors, bringing to the Board much knowledge and expertise gained throughout their varied banking and business careers. Milburn, an attorney and real estate investor and, Ben, actively involved in private investment, property development and management, contributed greatly in propelling our banking success during their years of service on the Board. We express our sincere gratitude to both of these fine gentlemen and wish them much enjoyment in their retirement.

For thirty five years ***Senior Vice President Doris Steinberger*** has been an integral part of our loan management of the bank. However, in December she retired and we wish her well in her future endeavors. Doris was indeed a loyal and cherished employee and a dear friend to her co-workers and many of our wonderful customers.

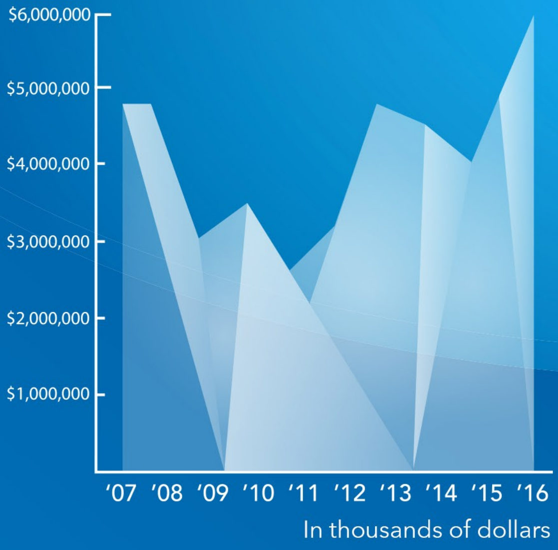
As we turn our attention to the future, excitement abounds as we have a fantastic customer base, a superior staff, a strong and active Board of Directors and great shareholders. We see 2017 as a year of increasing opportunity and strategically our plan is to accomplish new levels of achievement once again. The first forty years were fantastic and the future looks even brighter. Thank you for your support.

DWIGHT BERRY

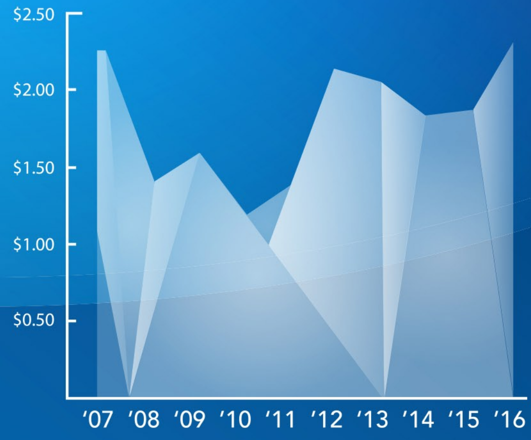
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

AMERICAN NATIONAL BANK & TRUST
YEAR END STATISTICS

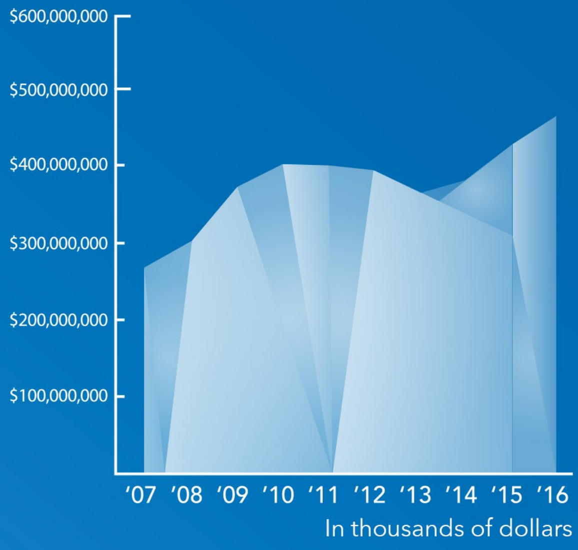
CONSOLIDATED NET INCOME



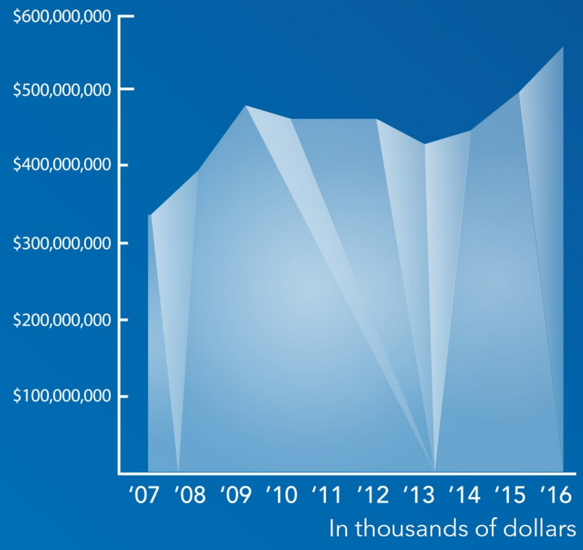
EARNINGS PER SHARE



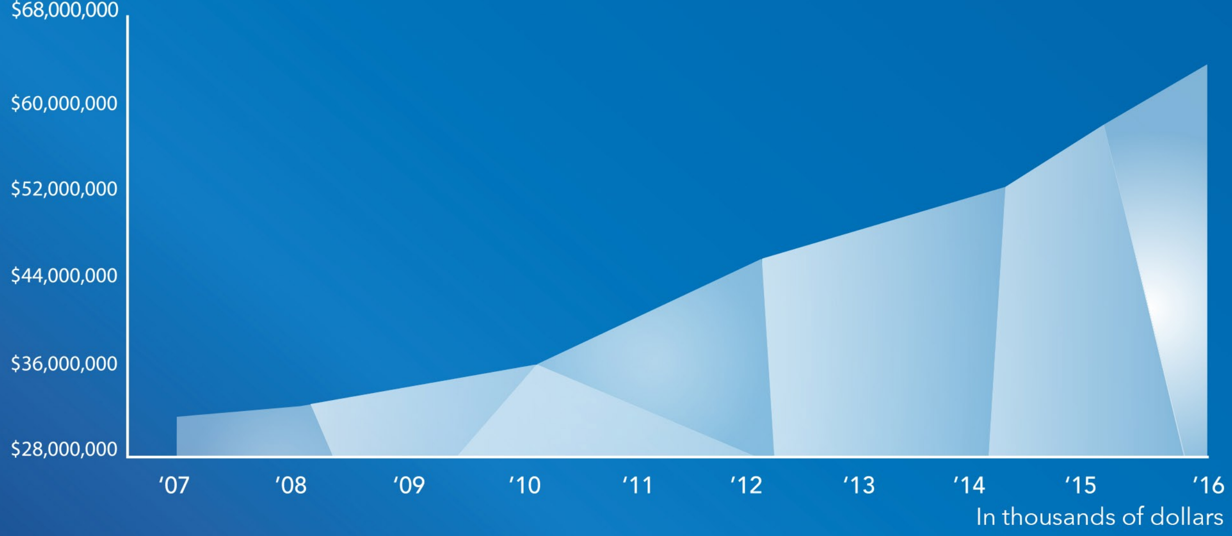
YEAR END DEPOSITS



YEAR END TOTAL ASSETS



STOCKHOLDERS' EQUITY



AMERIBANCSHARES, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
and Additional Information

December 31, 2016 and 2015

(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, 2016 and 2015 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, 2016 and 2015, 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

February 28, 2017

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

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(In thousands of dollars, except share amounts)

	2016	2015
ASSETS		
Cash and due from banks	$ 13,260	$ 10,257
Interest bearing deposits in banks	11,601	14,834
Total cash and equivalents	24,861	25,091
Securities available for sale	146,324	136,434
Other securities	2,889	1,338
Mortgage loans held for sale	1,104	2,091
Loans, net	352,837	280,735
Premises and equipment, net	19,180	18,502
Accrued interest receivable	2,045	1,787
Goodwill	4,220	4,220
Other assets	19,829	19,381
Total assets	$ 573,289	$ 489,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	$ 31,856	$ 25,555
Savings deposits	223,189	215,520
Money market and NOW accounts	101,070	86,900
Time certificates of deposit	97,587	86,261
Total deposits	453,702	414,236
Securities sold under agreements to repurchase	786	920
Other borrowings	40,000	-
Junior subordinated debentures	7,217	7,217
Accrued interest payable	86	45
Other liabilities	7,246	7,320
Total liabilities	509,037	429,738
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock (par value $2.50; 5,000,000, shares authorized, 2,321,360 issued and 2,272,360 outstanding at 2016 and 2015)	5,803	5,803
Surplus	18,473	18,442
Undivided profits	41,196	36,233
Treasury stock, at cost (49,000 shares)	(882)	(882)
Unearned KSOP stock	-	(217)
Accumulated other comprehensive (loss) income, net of tax (benefit) expense of ($174) in 2016 and $238 in 2015	(338)	462
Total stockholders' equity	64,252	59,841
Total liabilities and stockholders' equity	$ 573,289	$ 489,579

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the Years Ended December 31, 2016 and 2015

(In thousands of dollars)

	2016	2015
Interest income:		
Interest and fees on loans	$ 16,251	$ 13,754
Interest on investment securities		
Taxable	935	1,090
Nontaxable	1,679	935
Interest on interest bearing deposits in banks	75	92
Total interest income	18,940	15,871
Interest expense:		
Interest on deposits	1,024	805
Interest on repurchase agreements	3	2
Interest on other borrowed funds	155	1
Interest on junior subordinated debentures	175	148
Total interest expense	1,357	956
Net interest income	17,583	14,915
Provision for loan losses	-	-
Net interest income after provision for loan losses	17,583	14,915
Other operating income:		
Service charges on deposit accounts	870	776
Trust fee income	5,100	5,131
Gain on sale of mortgage loans	1,421	1,006
Gain on sale of other real estate owned	49	62
Gain on sale of securities available for sale	103	35
Rent income	877	863
Other	2,887	2,862
Total other operating income	11,307	10,735
Other operating expenses:		
Salaries and employee benefits	12,586	11,595
Premises and equipment	2,051	1,951
Data processing expense	1,129	1,224
Other	4,989	5,070
Total other operating expenses	20,755	19,840
Income before income taxes	8,135	5,810
Provision for income taxes	2,036	1,510
Net income	$ 6,099	$ 4,300

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2016 and 2015

(In thousands of dollars, except earnings per share)

	2016	2015
Net income	$ 6,099	$ 4,300
Other comprehensive (loss) income, net of tax:		
Change in net unrealized gain/loss on securities available for sale, net of tax (benefit) expense of ($377) and $109 for 2016 and 2015, respectively	(732)	211
Less reclassification adjustment for gains on sales of securities available for sale, net of tax expense of $35 and $12 for 2016 and 2015, respectively	(68)	(23)
Total other comprehensive (loss) income	(800)	188
Total comprehensive income	$ 5,299	$ 4,488
Earnings per share	$ 2.34	$ 1.99

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2016 and 2015

(In thousands of dollars)

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Unearned KSOP Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance January 1, 2015	$ 5,286	$ 13,039	$ 33,017	$ (882)	$ (434)	$ 274	$ 50,300
Net income	-	-	4,300	-	-	-	4,300
Other comprehensive income	-	-	-	-	-	188	188
Unearned KSOP shares released	-	23	-	-	217	-	240
Stock issued	517	5,380	-	-	-	-	5,897
Dividends ($.48 per common share)	-	-	(1,084)	-	-	-	(1,084)
Balance December 31, 2015	5,803	18,442	36,233	(882)	(217)	462	59,841
Net income	-	-	6,099	-	-	-	6,099
Other comprehensive loss	-	-	-	-	-	(800)	(800)
Unearned KSOP shares released	-	31	-	-	217	-	248
Dividends ($.50 per common share)	-	-	(1,136)	-	-	-	(1,136)
Balance December 31, 2016	$ 5,803	$ 18,473	$ 41,196	$ (882)	$ -	$ (338)	$ 64,252

See accompanying notes to consolidated financial statements.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

(In thousands of dollars)

	2016	2015
Cash flows from operating activities:		
Net income	$ 6,099	$ 4,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,442	1,470
Provision for other real estate owned losses	17	117
Benefit from deferred taxes	(81)	(84)
Gain on sale of securities available for sale	(103)	(35)
Gain on sale of mortgage loans	(1,421)	(1,006)
Gain on sale of other real estate owned	(49)	(62)
Gain on sale of premises and equipment	(7)	(9)
Amortization of premium on investment securities	676	566
Accretion of discount on investment securities	(46)	(24)
Increase in cash surrender of life insurance	(563)	(743)
Proceeds from sales of mortgage loans	60,537	50,077
Mortgage loans funded	(58,123)	(50,690)
Change in:		
Prepaid expenses	(211)	18
Accrued interest receivable	(258)	(398)
Income taxes receivable	194	(67)
Miscellaneous other assets	223	628
Accrued interest payable	41	(6)
Other taxes payable	(36)	(9)
Other accrued expenses	(58)	(1,364)
Net cash provided by operating activities	8,273	2,679
Cash flows from investing activities:		
Proceeds from maturing securities available for sale	15,818	41,808
Proceeds from sale of securities available for sale	10,109	15,111
Proceeds from maturities of securities held to maturity	-	725
Proceeds from sale of other securities	-	23
Purchase of securities available for sale	(37,559)	(72,286)
Purchase of other securities	(1,551)	(683)
Net increase in loans	(72,954)	(9,080)
Purchase of premises and equipment	(2,874)	(4,832)
Proceeds from sale of premises and equipment	737	837
Proceeds from sale of other real estate owned	1,575	1,523
Net cash received from acquisition	-	1,640
Net cash used in investing activities	(86,699)	(25,214)
Cash flows from financing activities:		
Net increase (decrease) in deposits	39,466	(3,251)
Net decrease in repurchase agreements	(134)	(997)
Net increase in other borrowed funds	40,000	-
Dividends paid	(1,136)	(1,084)
Net cash provided by (used in) financing activities	78,196	(5,332)
Net decrease in cash and cash equivalents	(230)	(27,867)
Cash and cash equivalents at beginning of year	25,091	52,958
Cash and cash equivalents at end of year	$ 24,861	$ 25,091

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). Additionally, for the period from July 10, 2015 to August 14, 2015, First National Bank of Chillicothe (FNB) was a wholly-owned subsidiary of AmeriBancShares of Delaware, Inc. 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, 2016 and 2015.

As more fully explained in Note 18, the Company acquired Northern Bancshares, Inc. (NBI) and its wholly-owned subsidiary, First National Bank of Chillicothe (FNB), for a purchase price of approximately $5,904,000 on July 10, 2015. At the date of acquisition, NBI was merged into ABDI and FNB became wholly-owned by ABDI. Effective August 14, 2015, FNB was merged into the Bank. The operating results of FNB for the period from July 10, 2015 to August 14, 2015 have been included in the operating results of the Bank for year ended December 31, 2015 in the accompanying consolidating statement of income (see Additional Information) in a manner similar to a pooling of interests.

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.

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, 2016 and 2015, 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, 2016 and 2015.

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 February 28, 2017, the date these financial statements were available to be issued.

Reclassification

For comparability, certain amounts in the 2015 financial statements have been reclassified, where appropriate, to conform with the financial presentation used in 2016.

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, 2016:				
U.S. Treasury securities	$ 10,059	$ -	$ (10)	$ 10,049
U.S. Government Agency securities	59,871	19	(104)	59,786
Municipal securities	74,522	605	(1,008)	74,119
Mortgage-backed securities	2,311	2	(16)	2,297
Equity securities	73	-	-	73
	$ 146,836	$ 626	$ (1,138)	$ 146,324
December 31, 2015:				
U.S. Treasury securities	$ 10,079	$ -	$ (12)	$ 10,067
U.S. Government Agency securities	59,873	78	(233)	59,718
Municipal securities	62,724	985	(114)	63,595
Mortgage-backed securities	2,985	1	(5)	2,981
Equity securities	73	-	-	73
	$ 135,734	$ 1,064	$ (364)	$ 136,434
Other Securities				
December 31, 2016	$ 2,889	$ -	$ -	$ 2,889
December 31, 2015	$ 1,338	$ -	$ -	$ 1,338

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, 2016, 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	$ 38,070	$ 38,053
Due after one year through five years	58,005	57,895
Due after five years through ten years	33,163	33,032
Due after ten years	15,214	14,974
	144,452	143,954
Mortgage-backed securities	2,311	2,297
Equity securities	73	73
	$ 146,836	$ 146,324

Proceeds from sales of available for sale securities for the years ended December 31, 2016 and 2015 were approximately $10,109,000 and $15,111,000, respectively. Gross gains of approximately $103,000 and $35,000 were realized on sales of available for sale securities during 2016 and 2015, respectively. No gross losses were realized on sales of available for sale securities during 2016 or 2015.

Investment securities with a recorded value of approximately $98,414,000 and $86,311,000 at December 31, 2016 and 2015, 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, 2016 and 2015 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, 2016:				
U.S. Treasury securities	$ 10,049	$ (10)	$ -	$ -
U.S. Government Agency securities	44,745	(104)	-	-
Municipal securities	40,493	(972)	4,413	(36)
Mortgage-backed securities	1,915	(12)	319	(4)
	$ 97,202	$ (1,098)	$ 4,732	$ (40)
December 31, 2015:				
U.S. Treasury securities	$ 10,067	$ (12)	$ -	$ -
U.S. Government Agency securities	4,799	(233)	-	-
Municipal securities	1,582	(106)	1,797	(8)
Mortgage-backed securities	488	(5)	-	-
	$ 16,936	$ (356)	$ 1,797	$ (8)

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, 2016, 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, 2016 and 2015, 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):

	2016	2015
Real estate:		
1-4 family construction	$ 5,834	$ 6,123
Construction, land development and other land	26,620	11,889
Revolving 1-4 family residential	455	608
1-4 family residential	54,689	46,110
Multi-family residential	9,649	6,508
Nonfarm nonresidential - owner occupied	49,235	54,459
Nonfarm nonresidential - nonowner occupied	92,167	67,217
Farmland	10,154	11,027
Total real estate	248,803	203,941
Agriculture	1,514	1,246
Commercial and industrial	37,306	33,649
Consumer	25,109	21,252
Municipal	800	1,677
Nondepository financial institutions	15,142	-
Lease financing receivables	15,621	15,765
Overdrafts	67	61
All other loans	14,415	9,312
	358,777	286,903
Unearned discount	(811)	(963)
Allowance for loan losses	(5,129)	(5,205)
	$ 352,837	$ 280,735

At December 31, 2016 and 2015, the Company had total commercial real estate loans of approximately $183,505,000 and $146,196,000 respectively. Included in these amounts, the Company had construction, land development, and other land loans representing 44% and 27%, respectively, of total risk-based capital at December 31, 2016 and 2015. The Company had non-owner occupied commercial real estate loans representing 182% and 135%, respectively, of total risk-based capital at December 31, 2016 and 2015. 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, 2016 and 2015, 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 $237,123,000 and $236,731,000 at December 31, 2016 and 2015, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $1,254,000 and $1,318,000 at December 31, 2016 and 2015, respectively.

Originated mortgage servicing rights capitalized at December 31, 2016 and 2015, are approximately $1,894,000 and $1,871,000, respectively, and are included in other assets. The fair values of these rights were approximately $2,341,000 and $2,169,000 at December 31, 2016 and 2015, respectively. The fair value of servicing rights was determined using a weighted average discount rate of 10.52% and 10.53% for 2016 and 2015, respectively, and a weighted average prepayment speed of 7.68% and 9.14% for 2016 and 2015, respectively.

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

	2016	2015
Balance at beginning of year	$ 1,871	$ 1,811
Origination	344	313
Amortization	(321)	(253)
Impairments	-	-
Balance at end of year	$ 1,894	$ 1,871

Loan maturities and rate sensitivity of the loan portfolio at December 31, 2016 and 2015, including mortgage loans held for sale less loans on nonaccrual, are as follows (in thousands):

	2016	2015
Fixed rate loans with a remaining maturity of:		
Three months or less	$ 22,734	$ 12,053
Over three months through twelve months	35,197	37,634
Over one year through five years	142,333	106,312
Over five years	72,171	65,883
Total fixed rate loans	$ 272,435	$ 221,882
Variable rate loans with a repricing frequency of:		
Quarterly or more frequently	$ 70,726	$ 54,419
Annually or more frequently, but less frequently than quarterly	11,376	2,034
Every five years or more frequently, but less frequently than annually	2,775	7,862
Less frequently than every five years	663	935
Total variable rate loans	$ 85,540	$ 65,250

Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2016 and 2015 is as follows (in thousands):

	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
December 31, 2016:					
Real estate:					
1-4 family construction	$ 157	$ (92)	$ -	$ -	$ 65
Construction, land development and other land	361	415	-	-	776
Revolving 1-4 family residential	2	(1)	-	-	1
1-4 family residential	564	93	(115)	65	607
Multi-family residential	62	15	-	-	77
Nonfarm nonresidential - owner occupied	708	(142)	-	-	566
Nonfarm nonresidential - nonowner occupied	1,690	50	-	-	1,740
Farmland	66	(15)	-	-	51
Total real estate	3,610	323	(115)	65	3,883
Agriculture	-	2	-	-	2
Commercial and industrial	461	(91)	-	-	370
Consumer	184	12	(41)	15	170
Municipal	-	1	-	-	1
Nondepository financial institutions	-	91	-	-	91
Lease financing receivable	103	(28)	-	-	75
Overdrafts	-	-	-	-	-
All other loans	37	13	-	-	50
Unallocated	810	(323)	-	-	487
	$ 5,205	$ -	$ (156)	$ 80	$ 5,129
December 31, 2015:					
Real estate:					
1-4 family construction	$ 100	$ 57	$ -	$ -	$ 157
Construction, land development and other land	454	(93)	-	-	361
Revolving 1-4 family residential	2	-	-	-	2
1-4 family residential	506	29	(3)	32	564
Multi-family residential	105	(43)	-	-	62
Nonfarm nonresidential - owner occupied	592	116	-	-	708
Nonfarm nonresidential - nonowner occupied	1,737	(47)	-	-	1,690
Farmland	36	30	-	-	66
Total real estate	3,532	49	(3)	32	3,610
Agriculture	-	-	-	-	-
Commercial and industrial	282	179	-	-	461
Consumer	130	117	(78)	15	184
Municipal	-	-	-	-	-
Lease financing receivable	105	-	(2)	-	103
Overdrafts	-	-	-	-	-
All other loans	18	19	-	-	37
Unallocated	1,174	(364)	-	-	810
	$ 5,241	$ -	$ (83)	$ 47	$ 5,205

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, 2016 and 2015 is as follows (in thousands):

	Loan Evaluation			ALLL Allocations		
	Individually	Collectively	Total	Individually	Collectively	Total ALLL
December 31, 2016:						
Real estate:						
1-4 family construction	$ -	$ 5,834	$ 5,834	$ -	$ 65	$ 65
Construction, land development and other land	175	26,445	26,620	-	776	776
Revolving 1-4 family residential	-	455	455	-	1	1
1-4 family residential	1,000	53,689	54,689	2	605	607
Multi-family residential	-	9,649	9,649	-	77	77
Nonfarm nonresidential - owner occupied	-	49,235	49,235	-	566	566
Nonfarm nonresidential - nonowner occupied	587	91,580	92,167	-	1,740	1,740
Farmland	-	10,154	10,154	-	51	51
Total real estate	1,762	247,041	248,803	2	3,881	3,883
Agriculture	-	1,514	1,514	-	2	2
Commercial and industrial	-	37,306	37,306	-	370	370
Consumer	209	24,900	25,109	-	170	170
Municipal	-	800	800	-	1	1
Nondepository financial institutions	-	15,142	15,142	-	91	91
Lease financing receivable	-	15,621	15,621	-	75	75
Overdrafts	-	67	67	-	-	-
All other loans	-	14,415	14,415	-	50	50
Unallocated	-	-	-	-	487	487
	$ 1,971	$ 356,806	$ 358,777	$ 2	$ 5,127	$ 5,129
December 31, 2015:						
Real estate:						
1-4 family construction	$ -	$ 6,123	$ 6,123	$ -	$ 157	$ 157
Construction, land development and other land	175	11,714	11,889	-	361	361
Revolving 1-4 family residential	-	608	608	-	2	2
1-4 family residential	1,680	44,430	46,110	50	514	564
Multi-family residential	-	6,508	6,508	-	62	62
Nonfarm nonresidential - owner occupied	-	54,459	54,459	-	708	708
Nonfarm nonresidential - nonowner occupied	988	66,229	67,217	-	1,690	1,690
Farmland	-	11,027	11,027	-	66	66
Total real estate	2,843	201,098	203,941	50	3,560	3,610
Agriculture	-	1,246	1,246	-	-	-
Commercial and industrial	15	33,634	33,649	4	457	461
Consumer	59	21,193	21,252	-	184	184
Municipal	-	1,677	1,677	-	-	-
Lease financing receivable	-	15,765	15,765	-	103	103
Overdrafts	-	61	61	-	-	-
All other loans	-	9,312	9,312	-	37	37
Unallocated	-	-	-	-	810	810
	$ 2,917	$ 283,986	$ 286,903	$ 54	$ 5,151	$ 5,205

Past Due and Nonaccrual Loans

The following is a summary of past due and non-accrual loans at December 31, 2016 and 2015 (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, 2016:				
Real estate:				
1-4 family construction	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	175	175
Revolving 1-4 family residential	-	-	-	-
1-4 family residential	1,544	-	935	2,479
Multi-family residential	-	-	-	-
Nonfarm nonresidential - owner occupied	15	-	-	15
Nonfarm nonresidential - nonowner occupied	-	-	587	587
Farmland	448	-	-	448
Total real estate	2,007	-	1,697	3,704
Agriculture	56	-	-	56
Commercial and industrial	126	-	-	126
Consumer	2,169	-	209	2,378
Municipal	-	-	-	-
Nondepository financial institutions	-	-	-	-
Lease financing receivable	-	-	-	-
Overdrafts	-	-	-	-
All other loans	-	-	-	-
	$ 4,358	$ -	$ 1,906	$ 6,264
December 31, 2015:				
Real estate:				
1-4 family construction	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	175	175
Revolving 1-4 family residential	-	-	-	-
1-4 family residential	1,214	-	1,613	2,827
Multi-family residential	-	-	-	-
Nonfarm nonresidential - owner occupied	-	-	-	-
Nonfarm nonresidential - nonowner occupied	1,046	-	-	1,046
Farmland	-	-	-	-
Total real estate	2,260	-	1,788	4,048
Agriculture	-	-	-	-
Commercial and industrial	-	-	15	15
Consumer	1,091	-	59	1,150
Municipal	-	-	-	-
Lease financing receivable	-	-	-	-
Overdrafts	-	-	-	-
All other loans	-	-	-	-
	$ 3,351	$ -	$ 1,862	$ 5,213

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 2016 and 2015 were approximately $2,422,000 and $3,899,000, respectively. Approximately $176,000 and $412,000 of interest income was recognized on impaired loans in 2016 and 2015, respectively. Approximately $39,000 and $98,000 of additional interest would have been recognized if the loans had been on accrual status during 2016 and 2015, respectively. The following is a summary of information pertaining to impaired loans at December 31, 2016 and 2015 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, 2016:						
Real estate:						
1-4 family construction	$ -	$ -	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	-	175	175	-
Revolving 1-4 family residential	-	-	-	-	-	-
1-4 family residential	65	65	2	935	935	-
Multi-family residential	-	-	-	-	-	-
Nonfarm nonresidential - owner occupied	-	-	-	-	-	-
Nonfarm nonresidential - nonowner occupied	-	-	-	587	587	-
Farmland	-	-	-	-	-	-
Total real estate	65	65	2	1,697	1,697	-
Agriculture	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Consumer	-	-	-	209	209	-
Municipal	-	-	-	-	-	-
Nondepository financial institutions	-	-	-	-	-	-
Lease financing receivable	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
All other loans	-	-	-	-	-	-
	$ 65	$ 65	$ 2	$ 1,906	$ 1,906	$ -
December 31, 2015:						
Real estate:						
1-4 family construction	$ -	$ -	$ -	$ -	$ -	$ -
Construction, land development and other land	-	-	-	175	175	-
Revolving 1-4 family residential	-	-	-	-	-	-
1-4 family residential	352	352	50	1,328	1,328	-
Multi-family residential	-	-	-	-	-	-
Nonfarm nonresidential - owner occupied	-	-	-	-	-	-
Nonfarm nonresidential - nonowner occupied	-	-	-	988	988	-
Farmland	-	-	-	-	-	-
Total real estate	352	352	50	2,491	2,491	-
Agriculture	-	-	-	-	-	-
Commercial and industrial	4	4	4	11	11	-
Consumer	-	-	-	59	59	-
Municipal	-	-	-	-	-	-
Lease financing receivable	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
All other loans	-	-	-	-	-	-
	$ 356	$ 356	$ 54	$ 2,561	$ 2,561	$ -

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, 2016 and 2015, the Company had TDRs totaling approximately $805,000 and $1,321,000, respectively. The Company had approximately $65,000 and $1,055,000 of performing TDRs at December 31, 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, the Company had approximately $75,000 and $31,000 in loans modified as TDRs. These restructuring did not significantly impact the Company's determination of the allowance for loan losses. During the years ended December 31, 2016 and 2015, 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, 2016 and 2015 is as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2016:					
Real estate:					
1-4 family construction	$ 5,834	$ -	$ -	$ -	$ 5,834
Construction, land development and other land	26,445	-	175	-	26,620
Revolving 1-4 family residential	455	-	-	-	455
1-4 family residential	53,372	48	1,269	-	54,689
Multi-family residential	9,649	-	-	-	9,649
Nonfarm nonresidential - owner occupied	49,235	-	-	-	49,235
Nonfarm nonresidential - nonowner occupied	91,580	-	587	-	92,167
Farmland	9,706	448	-	-	10,154
Total real estate	246,276	496	2,031	-	248,803
Agriculture	1,333	181	-	-	1,514
Commercial and industrial	35,995	1,311	-	-	37,306
Consumer	24,856	-	253	-	25,109
Municipal	800	-	-	-	800
Nondepository financial institutions	15,142	-	-	-	15,142
Lease financing receivable	15,621	-	-	-	15,621
Overdrafts	67	-	-	-	67
All other loans	14,415	-	-	-	14,415
	$ 354,505	$ 1,988	$ 2,284	$ -	$ 358,777
December 31, 2015:					
Real estate:					
1-4 family construction	$ 6,123	$ -	$ -	$ -	$ 6,123
Construction, land development and other land	11,714	-	175	-	11,889
Revolving 1-4 family residential	608	-	-	-	608
1-4 family residential	43,886	63	2,161	-	46,110
Multi-family residential	6,508	-	-	-	6,508
Nonfarm nonresidential - owner occupied	54,459	-	-	-	54,459
Nonfarm nonresidential - nonowner occupied	66,229	-	988	-	67,217
Farmland	11,027	-	-	-	11,027
Total real estate	200,554	63	3,324	-	203,941
Agriculture	1,246	-	-	-	1,246
Commercial and industrial	33,634	-	15	-	33,649
Consumer	21,164	-	88	-	21,252
Municipal	1,677	-	-	-	1,677
Lease financing receivable	15,765	-	-	-	15,765
Overdrafts	61	-	-	-	61
All other loans	9,312	-	-	-	9,312
	$ 283,413	$ 63	$ 3,427	$ -	$ 286,903

4. Premises and Equipment

A summary of premises, equipment and land improvements and related accumulated depreciation at December 31, 2016 and 2015 is as follows (in thousands):

	Estimated Useful Lives	2016	2015
Land		$ 4,737	$ 4,737
Premises	5-40 years	13,848	12,524
Furniture, fixtures and equipment	3-10 years	8,931	8,642
Land improvements	5-20 years	486	486
Lease equipment	3-5 years	4,486	4,573
		32,488	30,962
Less accumulated depreciation		13,308	12,460
Totals		$ 19,180	$ 18,502

Depreciation expense amounted to approximately $1,442,000 and $1,470,000 in 2016 and 2015, respectively.

5. Goodwill

Goodwill in the amount of approximately $4,220,000 at December 31, 2016 and 2015, is included in the accompanying consolidated financial statements. At December 31, 2016 and 2015, 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 $5,700,000 and $9,719,000 at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, the scheduled maturities of certificates and deposit are as follows (in thousands):

	2016	2015
Less than three months	$ 15,923	$ 18,948
Four to twelve months	33,925	37,114
One to five years	47,707	30,198
Over five years	32	1
	$ 97,587	$ 86,261

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, 2016 the Company has reclassed $99,690,000 demand deposits and $93,761,000 NOW and Money Market deposits to savings deposits for regulatory reporting in connection with this program. At December 31, 2015 the Company has reclassed approximately $100,177,000 demand deposits and $86,268,000 NOW and Money Market deposits to savings deposits.

7. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to approximately $786,000 and $920,000 at December 31, 2016 and 2015, respectively. The agreements are secured by U.S. Government Agency securities with a fair value of approximately $803,000 at 2016 and $939,000 at 2015. The weighted average interest rate on these agreements was 0.10% at both December 31, 2016 and 2015. The agreements of approximately $786,000 at December 31, 2016 mature on January 3, 2017 and are renewed daily as necessary under normal operations.

8. Other Borrowings

Federal Home Loan Bank

Advances from the Federal Home Loan Bank (FHLB) amounted to approximately $40,000,000, at December 31, 2016. 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. The borrowings include various advances, which bear interest at rates ranging from 3.31% to 5.90% at December 31, 2016, and are scheduled to mature on February 27, 2017. At maturity, the borrowings were paid down by $20,000,000 and the remaining advances were refinanced at comparable terms. At December 31, 2016 the Bank has additional unused borrowing capacity with the FHLB of approximately $79,476,000. The Company had no outstanding borrowings from the FHLB at December 31, 2015.

Other

Additionally, the Bank has unused federal funds lines available from commercial banks of approximately $20,000,000 at December 31, 2016.

9. Junior Subordinated Debentures

The junior subordinated debentures of approximately $7,217,000 at December 31, 2016 and 2015 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, 2016 and 2015. Both the junior subordinated debentures and the related trust preferred securities yield an annual distribution rate of 3-month LIBOR plus l.80% (2.76% at December 31, 2016 and 2.31% at December 31, 2015), 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):

	2016	2015
Current income tax expense:		
Federal and state	$ 2,117	$ 1,594
Deferred income tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	22	(237)
Accounting for bad debt expense	1	1
Nonaccrual loan interest	21	113
Federal Home Loan Bank stock dividends	3	(12)
Deferred compensation benefits	(46)	(140)
Deferred loan fee income	(38)	5
Goodwill amortization	(59)	105
Write down of other real estate owned	15	81
Net deferred income tax benefit	(81)	(84)
Total income tax expense	$ 2,036	$ 1,510

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 is primarily attributable to investments in tax-exempt securities, tax-exempt increases in cash surrender value of life insurance, and certain other transactions.

As of December 31, 2016 and 2015, there are no unused net operating losses or tax credits available for carryover to future periods for either financial reporting or tax reporting purposes.

A net deferred federal income tax asset of approximately $1,604,000 and $1,111,000 at December 31, 2016 and 2015, 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):

	2016	2015
Deferred tax assets		
Excess of tax over financial cost for fixed assets	$ 142	$ 114
Allowance for loan and lease losses	1,495	1,496
Deferred compensation benefits	2,243	2,197
Deferred loan fee income	90	52
Write down of other real estate owned	4	19
Nonaccrual loan interest	60	81
Net unrealized depreciation on securities available for sale	174	-
Total deferred tax assets	4,208	3,959
Deferred tax liabilities		
Depreciation	(1,135)	(1,085)
Federal Home Loan Bank stock dividends	(45)	(42)
Amortization	(1,424)	(1,483)
Net unrealized appreciation on securities available for sale	-	(238)
Total deferred tax liabilities	(2,604)	(2,848)
Total net deferred tax asset	$ 1,604	$ 1,111

Federal income taxes currently receivable of approximately $24,000 and $218,000 at December 31, 2016 and 2015, 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 2016 and 2015 was approximately $364,000 and $377,000, respectively. Employee salary reduction contributions of approximately $518,000 and $488,000 were made in 2016 and 2015, 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, 2016 and 2015, include the Company's accrued liability under the agreements of approximately $6,559,000 and $6,422,000, 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. Other assets at December 31, 2016 and 2015, respectively, include approximately $11,651,000 and $11,161,000 in cash value of these life insurance policies.

12. Related Party Transactions

At December 31, 2016 and 2015, 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 $10,842,000 and $19,762,000, respectively. During 2016, $1,542,000 of new loans were originated and repayments totaled approximately $10,462,000. 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, 2016 and 2015, are as follows (in thousands):

	2016	2015
Commitment to extend credit	$ 53,608	$ 50,596
Standby letters of credit	3,557	4,533
Total	$ 57,165	$ 55,129

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 2016 or 2015.

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, 2016 and 2015, the Company had approximately $7,684,000 and $9,160,000, 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, 2016 and 2015, total deposits include approximately $52,222,000 and $50,399,000, respectively, from four 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, 2016 and 2015 were as follows (in thousands):

	Level 1	Level 2	Level 3
December 31, 2016:			
Available for sale securities	$ -	$ 146,324	$ -
December 31, 2015:			
Available for sale securities	$ -	$ 136,434	$ -

(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, 2016 and 2015, 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, 2016:				
Financial assets - impaired loans	$ -	$ -	$ 1,969	$ 1,969
Other real estate owned	-	776	-	776
December 31, 2015:				
Financial assets - impaired loans	$ -	$ -	$ 2,863	$ 2,863
Other real estate owned	-	1,224	-	1,224

During the years ended December 31, 2016 and 2015, 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, 2016 and 2015, impaired loans with a carrying value of approximately $1,971,000 and $2,917,000, respectively, were reduced by specific valuation allowance allocations totaling approximately $2,000 and $54,000, respectively, to a total reported fair value of approximately $1,969,000 and $2,863,000, 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 writedowns of other real estate owned of approximately $17,000 and $117,000, respectively, for the year ended December 31, 2016 and 2015.

Those financial instruments not subject to the initial implementation of this guidance, are required to have their fair value disclosed, both assets and liabilities recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Following is a table that summarizes the carrying values and estimated fair values of all financial instruments of the Company at December 31, 2016 and 2015, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments not covered by FASB ASC Topic 820 (in thousands):

		Total Estimated Fair Value		
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2016:				
Financial Assets:				
Cash and cash equivalents	$ 24,861	$ 24,861	$ -	$ -
Securities available for sale	146,324	-	146,324	-
Other securities	2,889	-	-	2,889
Mortgage loans held for sale	1,104	-	1,104	-
Loans, net	352,837	-	-	346,222
Mortgage servicing rights	1,894	-	2,341	-
Accrued interest receivable	2,045	2,045	-	-
Financial Liabilities:				
Deposits	453,702	-	-	454,536
Repurchase agreements	786	-	786	-
Other borrowings	40,000	-	40,000	-
Junior subordinated debentures	7,217	-	7,217	-
Accrued interest payable	86	86	-	-
On-Balance Sheet Derivative Financial Instruments:				
Assets	-	-	-	-
Liabilities	-	-	-	-
Off-Balance Sheet Credit Related Financial Instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit	-	-	-	-
December 31, 2015:				
Financial Assets:				
Cash and cash equivalents	$ 25,091	$ 25,091	$ -	$ -
Securities available for sale	136,434	-	136,434	-
Other securities	1,338	-	-	1,338
Mortgage loans held for sale	2,091	-	2,091	-
Loans, net	280,735	-	-	276,187
Mortgage servicing rights	1,871	-	2,169	-
Accrued interest receivable	1,787	1,787	-	-
Financial Liabilities:				
Deposits	414,236	-	-	414,691
Repurchase agreements	920	-	920	-
Other borrowings	-	-	-	-
Junior subordinated debentures	7,217	-	7,217	-
Accrued interest payable	45	45	-	-
On-Balance Sheet Derivative Financial Instruments:				
Assets	-	-	-	-
Liabilities	-	-	-	-
Off-Balance Sheet Credit Related Financial Instruments:				
Commitments to extend credit	-	-	-	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as disclosed herein. The values are for disclosure purposes only and have not affected the carrying values of the assets and liabilities on the balance sheet.

Cash and Cash Equivalents

For those short-term investments, the carrying amount is a reasonable estimate of fair value.

Securities Available for Sale and Other Securities

For debt securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Mortgage Loans Held for Sale and Loans, net

For certain homogeneous categories of loans, such as some residential mortgages, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Mortgage Servicing Rights

Fair values of mortgage servicing rights are estimated based on their respective present values of future expected cash flows, which are projected using management's best estimate of certain key assumptions, such as credit losses, prepayment speeds, forward yield curves, and discount rates with the risks involved.

Deposits

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Repurchase Agreements, Junior Subordinated Debentures and Other Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other borrowings are estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximates their fair values.

On-Balance Sheet Derivative Financial Instruments and Off-Balance Sheet Credit Related Financial Instruments

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between the current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

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, 2016 and 2015, 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, 2016, 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, 2016 and 2015 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, 2016:								
Total capital to risk weighted assets	$ 73,760	17.579%	$ 33,568	8.000%	$ 36,191	8.625%	$ 41,960	10.000%
Tier 1 (core) capital to risk weighted assets	68,621	16.354%	25,176	6.000%	27,799	6.625%	33,568	8.000%
Common Tier 1 (CET1)	68,621	16.354%	18,882	4.500%	21,505	5.125%	27,274	6.500%
Tier 1 (core) capital to average assets	68,621	12.112%	22,662	4.000%	22,662	4.000%	28,328	5.000%
December 31, 2015:								
Total capital to risk weighted assets	$ 67,905	19.76%	$ 27,487	8.00%	NA	NA	$ 34,359	10.00%
Tier 1 (core) capital to risk weighted assets	63,599	18.51%	20,615	6.00%	NA	NA	27,487	8.00%
Common Tier 1 (CET1)	63,599	18.51%	15,461	4.50%	NA	NA	22,333	6.50%
Tier 1 (core) capital to average assets	63,599	13.31%	19,107	4.00%	NA	NA	23,884	5.00%

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, 2016 and 2015 is presented as follows (in thousands):

	2016	2015
Cash transactions:		
Interest expense paid	$ 1,316	$ 956
Federal income taxes paid	$ 1,922	$ 1,558
Noncash transactions:		
Net unrealized (depreciation) appreciation on securities available for sale	$ (1,212)	$ 285
Acquisition (more fully discussed in Note 18):		
Recorded amounts of tangible assets acquired	$ -	$ 44,576
Liabilities assumed	-	40,398
Net fair value of tangible assets acquired over liabilities assumed	-	4,178
Common stock issued	-	5,897
Net cash received in acquisition	-	(1,640)
Consideration paid in excess of the net fair value of tangible assets acquired	$ -	$ 79

18. Acquisition

On July 10, 2015, the Company acquired 100% of the outstanding common stock of Northern Bancshares, Inc. (NBI) and its wholly owned subsidiary, First National Bank of Chillicothe (FNB). In connection with the acquisition, the Company issued 206,390 shares of its common stock with an estimated fair value of approximately $5,897,000 to the shareholders of NBI. Additionally, the Company paid $7,000 in cash for fractional shares of NBI. At the time of the acquisition, NBI was merged into American Bancshares of Delaware, Inc. (ABDI) and FNB became wholly-owned by ABDI. The transaction has been accounted for in accordance with ASC Topic 805, Business Combinations.

A summary of the recorded amounts of assets purchased and liabilities assumed by the Company is as follows (in thousands):

Assets:	
Investment securities available for sale	$ 24,270
Loans	19,261
Bank premises and equipment	281
Other assets	764
Tangible assets acquired	44,576
Liabilities:	
Deposits	38,703
Other liabilities	1,695
Total liabilities assumed	40,398
Net fair value of tangible assets acquired over liabilities assumed	4,178
Consideration paid, net of cash received:	
Cash paid for fractional shares	(7)
Cash received from NBI	1,647
Net cash received in the acquisition	1,640
Common stock issued in connection with the acquisition	(5,897)
Total consideration paid, net of cash received	(4,257)
Consideration paid in excess of the net fair value of tangible assets acquired	$ (79)

The consideration paid over the net fair value of tangible assets acquired was initially recorded as a core deposit intangible asset of approximately $79,000 and is being amortized on the straight line basis over ten years.

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, 2016, and have issued our report thereon dated February 28, 2017, 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 34, 35 and 36 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

February 28, 2017

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

Consolidating Balance Sheet

December 31, 2016

(In thousands of dollars)

	National Leasing Co	Title of Texas	Insurance Services	National Bank & Trust	AmeriBancShares of Delaware, Inc.	Realty Corp.	AmeriBancShares Inc.	Reclassification and Eliminations Entries	Consolidated
ASSETS									
Cash and due from banks	$ 410	$ 273	$ 30	$ 13,258	$ 2	$ 1	$ 116	$ (830)	$ 13,260
Interest bearing deposits in banks	-	-	-	11,601	-	-	-	-	11,601
Total cash and equivalents	410	273	30	24,859	2	1	116	(830)	24,861
Securities available for sale	-	-	-	146,251	-	-	73	-	146,324
Other securities	-	-	-	6,327	71,078	-	71,298	(145,814)	2,889
Mortgage loans held for sale	-	-	-	1,104	-	-	-	-	1,104
Loans, net	14,694	-	-	351,748	-	-	-	(13,605)	352,837
Premises and equipment, net	3,293	1,345	-	14,542	-	-	-	-	19,180
Accrued interest receivable	-	-	-	4,170	-	-	-	(2,125)	2,045
Goodwill	-	21	-	4,199	-	-	-	-	4,220
Other assets	235	18	-	17,948	-	-	1	1,627	19,829
Total assets	$ 18,632	$ 1,657	$ 30	$ 571,148	$ 71,080	$ 1	$ 71,488	$ (160,747)	$ 573,289
LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	$ -	$ -	$ -	$ 32,686	$ -	$ -	$ -	$ (830)	$ 31,856
Savings deposits	-	-	-	223,189	-	-	-	-	223,189
Money market and NOW accounts	-	-	-	101,070	-	-	-	-	101,070
Time certificates of deposit	-	-	-	97,587	-	-	-	-	97,587
Total deposits	-	-	-	454,532	-	-	-	(830)	453,702
Securities sold under agreements to repurchase		-	-	786	-	-	-	-	786
Other borrowings	13,250	315	40	40,000	-	-	-	(13,605)	40,000
Junior subordinated debentures	-	-	-	-	-	-	7,217	-	7,217
Accrued interest payable	2,001	124	-	86	-	-	-	(2,125)	86
Other liabilities	913	21	-	4,666	-	-	19	1,627	7,246
Total liabilities	16,164	460	40	500,070	-	-	7,236	(14,933)	509,037
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	2,467	1,196	(11)	56,741	44,595	(256)	41,196	(104,732)	41,196
Treasury stock	-	-	-	-	-	-	(882)	-	(882)
Unearned KSOP stock	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive loss, net of tax benefit	-	-	-	(338)	(338)	-	(338)	676	(338)
Total stockholders' equity	2,468	1,197	(10)	71,078	71,080	1	64,252	(145,814)	64,252
Total liabilities and stockholders' equity	$ 18,632	$ 1,657	$ 30	$ 571,148	$ 71,080	$ 1	$ 71,488	$ (160,747)	$ 573,289

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, 2016

(In thousands of dollars)

	American National Leasing Co	Archer Title of Texas	AMNAT Insurance Services	American National Bank & Trust	AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares Inc.	Reclassification and Eliminations Entries	Consolidated
Interest income:									
Interest and fees on loans	$ 540	$ -	$ -	$ 15,760	$ -	$ -	$ -	$ (49)	$ 16,251
Interest on investment securities									
Taxable	-	-	-	935	-	-	-	-	935
Nontaxable	-	-	-	1,679	-	-	-	-	1,679
Interest on interest bearing deposits in banks	-	-	-	75	-	-	-	-	75
Total interest income	540	-	-	18,449	-	-	-	(49)	18,940
Interest expense:									
Interest on deposits	-	-	-	1,024	-	-	-	-	1,024
Interest on repurchase agreements	-	-	-	3	-	-	-	-	3
Interest on other borrowed funds	48	1	-	155	-	-	-	(49)	155
Interest on junior subordinated debentures	-	-	-	-	-	-	175	-	175
Total interest expense	48	1	-	1,182	-	-	175	(49)	1,357
Net interest income	492	(1)	-	17,267	-	-	(175)	-	17,583
Provision for loan losses	-	-	-	-	-	-	-	-	-
Net interest income after provision for loan losses	492	(1)	-	17,267	-	-	(175)	-	17,583
Other operating income:									
Service charges on deposit accounts	-	-	-	870	-	-	-	-	870
Trust fee income	-	-	-	5,100	-	-	-	-	5,100
Gain on sale of mortgage loans	-	-	-	1,421	-	-	-	-	1,421
Gain on sale of other real estate owned	-	-	-	49	-	-	-	-	49
Gain on sale of securities	-	-	-	103	-	-	-	-	103
Rent income	877	-	-	-	-	-	-	-	877
Earning from subsidiary	-	-	-	410	6,216	-	6,215	(12,841)	-
Other	47	1,169	3	1,734	-	-	-	(66)	2,887
Total other operating income	924	1,169	3	9,687	6,216	-	6,215	(12,907)	11,307
Other operating expenses									
Salaries and employee benefits	355	546	-	11,685	-	-	-	-	12,586
Premises and equipment	16	76	-	2,025	-	-	-	(66)	2,051
Data processing expense	-	-	-	1,129	-	-	-	-	1,129
Other	758	359	6	3,865	1	-	-	-	4,989
Total other operating expenses	1,129	981	6	18,704	1	-	-	(66)	20,755
Income before income taxes	287	187	(3)	8,250	6,215	-	6,040	(12,841)	8,135
Provision for (benefit from) income taxes	(2)	64	(1)	2,034	-	-	(59)	-	2,036
Net income	289	123	(2)	6,216	6,215	-	6,099	(12,841)	6,099
Other comprehensive loss:									
Change in net unrealized gain (loss) on securities available for sale, net of taxes	-	-	-	(732)	(732)	-	(732)	1,464	(732)
Less reclassification adjustment for gain on sales of securities available for sale, net of taxes	-	-	-	(68)	(68)	-	(68)	136	(68)
Total other comprehensive loss	-	-	-	(800)	(800)	-	(800)	1,600	(800)
Total comprehensive (loss) income	$ 289	$ 123	$ (2)	$ 5,416	$ 5,415	$ -	$ 5,299	$ (11,241)	$ 5,299

See accompanying independent auditor’s report on additional information.

AMERIBANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Cash Flows

For the Year ended December 31, 2016

(In thousands of dollars)

	American National Leasing Co	Archer Title of Texas	AMNAT Insurance Services	American National Bank & Trust	AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares Inc.	Reclassification and Eliminations Entries	Consolidated
Cash flows from operating activities:									
Net income	$ 289	$ 123	$ (2)	$ 6,216	$ 6,215	$ -	$ 6,099	$ (12,841)	$ 6,099
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation	707	4	-	731	-	-	-	-	1,442
Provision for other real estate owned losses	-	-	-	17	-	-	-	-	17
Benefit from deferred taxes	27	-	-	(108)	-	-	-	-	(81)
Gain on sale of securities available for sale	-	-	-	(103)	-	-	-	-	(103)
Gain on sale of mortgage loans	-	-	-	(1,421)	-	-	-	-	(1,421)
Gain on sale of other real estate owned	-	-	-	(49)	-	-	-	-	(49)
Gain on sale of premises and equipment	(13)	-	-	6	-	-	-	-	(7)
Amortization of premium on investment securities	-	-	-	676	-	-	-	-	676
Accretion of discount on investment securities	-	-	-	(46)	-	-	-	-	(46)
Increase in cash surrender value	-	-	-	(563)	-	-	-	-	(563)
Proceeds from sales of mortgage loans	-	-	-	60,537	-	-	-	-	60,537
Mortgage loans funded	-	-	-	(58,123)	-	-	-	-	(58,123)
Unconsolidated earnings from subsidiary	-	-	-	(410)	(6,216)	-	(6,215)	12,841	-
Change in:									
Prepaid expenses	6	(4)	-	(213)	-	-	-	-	(211)
Accrued interest receivable	-	-	-	(307)	-	-	-	49	(258)
Income taxes receivable	-	-	-	169	-	-	25	-	194
Miscellaneous other assets	61	5	-	138	-	-	19	-	223
Accrued interest payable	48	1	-	41	-	-	-	(49)	41
Other taxes payable	-	-	-	(36)	-	-	-	-	(36)
Other accrued expenses	48	(3)	-	(104)	1	-	-	-	(58)
Net cash provided by (used in) operating activities	1,173	126	(2)	7,048	-	-	(72)	-	8,273
Cash flows from investing activities:									
Proceeds from maturing securities available for sale	-	-	-	15,818	-	-	-	-	15,818
Proceeds from sale of securities available for sale	-	-	-	10,109	-	-	-	-	10,109
Purchase of securities available for sale	-	-	-	(37,559)	-	-	-	-	(37,559)
Purchase of other securities	-	-	-	(1,551)	-	-	-	-	(1,551)
Dividends received from subsidiaries	-	-	-	-	1,136	-	1,136	(2,272)	-
Net increase in loans	(8)	-	-	(72,596)	-	-	-	(350)	(72,954)
Purchase of premises and equipment	(1,203)	(52)	-	(1,619)	-	-	-	-	(2,874)
Proceeds from sale of premises and equipment	729	-	-	8	-	-	-	-	737
Proceeds from sale of other real estate owned	-	-	-	1,575	-	-	-	-	1,575
Net cash provided by (used in) investing activities	(482)	(52)	-	(85,815)	1,136	-	1,136	(2,622)	(86,699)
Cash flows from financing activities:									
Net increase in deposits	-	-	-	39,808	-	-	-	(342)	39,466
Net decrease in repurchase agreements	-	-	-	(134)	-	-	-	-	(134)
Net decrease in other borrowed funds	(350)	-	-	40,000	-	-	-	350	40,000
Dividends paid	-	-	-	(1,136)	(1,136)	-	(1,136)	2,272	(1,136)
Net cash provided by (used in) financing activities	(350)	-	-	78,538	(1,136)	-	(1,136)	2,280	78,196
Net decrease in cash and cash equivalents	341	74	(2)	(229)	-	-	(72)	(342)	(230)
Cash and cash equivalents at beginning of period	69	199	32	25,088	2	1	188	(488)	25,091
Cash and cash equivalents at end of period	$ 410	$ 273	$ 30	$ 24,859	$ 2	$ 1	$ 116	$ (830)	$ 24,861

See accompanying independent auditor's report on additional information.

OFFICERS & DIRECTORS

OFFICERS ADMINISTRATION
Dwight L. Berry
President & CEO
Meagan Swenson
Banking Officer/Merchant Services

LOAN DEPARTMENT
Don Whatley
Executive Vice President/Loans
Bob Elmore
Senior Vice President/Loans
Doris McGregor Steinberger
Senior Vice President/Loan Operations
Damon Whatley
Senior Vice President/Loans
D.J Dickey
Vice President/Loans
Linda Musgrave
Vice President/Loans
Lacey Slack
Vice President/Credit Officer
Karyn Wainscott
Vice President/Loan Operations
Rhona Kelton
Banking Officer
Jennifer "Nikki" Morrison
Banking Officer
Toni Neal
Banking Officer
Vera Simons
Banking Officer

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Blake Andrews
Executive Vice President/CFO
Roy T. Olsen
Executive Vice President/Cashier/Human Resources
Nancy Vannucci
Senior Vice President/Internal Auditor
Candace Stroud
Vice President/Teller Services
Andrew Walmer
Vice President/Information Security Officer
Kimberly Box
Assistant Vice President/Internal Audit
Gloria Garcia
Assistant Vice President/Account Services
Kenneth L. Haney
Assistant Vice President/Calling Officer
Patrick Martin
Assistant Vice President/Operations
Delores Scarber
Assistant Vice President/Data Processing
Camilo Canales
Information Technology Officer
Jennifer Duncan
BSA Officer
Karen Baker
Banking Officer
Raquel Gutierrez
Banking Officer/Customer Service/HR Assistant
Cheyenne Patnode
Banking Officer

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Managing Director
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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
Janice Adams
Vice President/Investment Services
Kristin Morris, CTFA
Vice President/Trust Officer
Kevin O'Connell
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
Carol Cox
Trust Officer
Melissa Miller
Trust Officer
Connie Shaw
Trust Officer
Jennifer Rea
Trust Compliance Officer

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Donna Adair
Senior Vice President/Mortgage Lending
Natalie Eubanks
Vice President/Mortgage Lending
Chris Rogers
Vice President/Mortgage Lending
Micha Lambeth
Banking / Loan Officer
Caroline Groves
Banking / Loan Officer
Karen Hill
Banking Officer
Lynzee Price
Servicing Officer

PLATINUM CIRCLE
Donna Adams
Administrative Officer/Coordinator

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John Kable
Executive Vice President/Loans
Marva Pieratt
Vice President/Branch Manager
Amy Collier
Banking Officer

IOWA PARK OFFICE
Christy Potter
Banking Officer/Branch Manager

ARCHER CITY OFFICE
Patrick Martin
Assistant Vice President/Branch Manager

AMERICAN NATIONAL BANK & TRUST
OFFICERS & DIRECTORS

FLOWER MOUND OFFICE

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President

Joe D. Willard
Senior Vice President/Loans

Ryan Schroer
Vice President/Loans

Sara Van Hoff
Banking Officer

Rosie Torrence
Banking Officer

Olivia Bajaj
Vice President/Credit Officer

FLOWER MOUND TRUST & INVESTMENT SERVICES

Darrin Salge, CFP, CTFA
Vice President/Trust Officer

CHILLICOTHE OFFICE

Mike Baustert
President

Susan Madl
Vice President/Loans/Compliance Officer

Cathy Young
Vice President/Treasury

QUANAH OFFICE

Niki Converse
Vice President/Branch Manager

Sandy McAllister
Banking Officer

Debra O'Neal
Banking/Loan Officer

FORT WORTH LOAN PRODUCTION OFFICE

Michael Winfrey
President/Loans/Branch Manager

Ann Morris
Vice President/Loans

Lynnlee Maroney
Compliance Officer

CORRESPONDENT BANKING

Craig Berry
Executive Vice President

Paul Scheurer
Vice President/Correspondent Lending

AMERICAN NATIONAL LEASING COMPANY

Mike Cuba
President

Billy Hughes
Leasing Officer

Alisha Bowers
Leasing Officer

ARCHER TITLE OF TEXAS INC.

Zachary Beck
Vice President/Manager

Jean Taylor
Vice President

DIRECTORS

Juliana Hanes
Chairman of the Board

Mark Tucker
Vice Chairman of the Board

Dwight Berry
President and CEO

Hank Anderson
Blake Andrews*
Mike Baustert
Craig Berry*
Kenny Bryant
Mike Cuba*
J. Bradley Davidson*
Tommy Isbell
Randy R. Martin*
Jeffrey Schultz*
Ty Thacker
Max Vordenbaum
Don Whatley
Michael Winfrey*
Sam Wilson*

Roy T. Olsen
Board Secretary

*Advisory Director

American National Bank & Trust™

MAIN BRANCH
2732 Midwestern Parkway
Wichita Falls, Texas 76308
(940) 397-2300 main
(940) 397-2414 fax

DOWNTOWN BRANCH
825 Scott Avenue
Wichita Falls, Texas 76301
(940) 723-0172 main
(940) 761-4054 fax

ELMWOOD BRANCH
1920 Elmwood Ave. N.
Wichita Falls, Texas 76308
(940) 397-2333 main
(940) 397-2415 fax

IOWA PARK BRANCH
219 W. Park
Iowa Park, Texas 76367
(940) 592-4321 main
(940) 592-5163 fax

FORT WORTH LPO
2929 W. 5th Street
Fort Worth, Texas 76107
(817) 505-1530 main

ARCHER CITY BRANCH
108 W. Main
PO Box 1491
Archer City, Texas 76351
(940) 574-2707 main
(940) 574-2292 fax

FLOWER MOUND BRANCH
1201 Cross Timbers Road
Flower Mound, Texas 75028
(972) 874-7600 main
(972) 355-7645 fax

CHILICOTHE BRANCH
200 Ave. H South
PO Box 430
Chilicothe, Texas 79225
(940) 852-5161 main
(940) 852-5727 fax

QUANAH BRANCH
111 W. 4th St.
PO Box 360
Quanah, Texas 79252
(940) 663-5387 main
(940) 663-5380 fax

AmeriBancShares,Inc.
P.O. Box 4477 | Wichita Falls, TX 76308 - 0477
www.amnat.com