

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

**AMENDED**  
 JUL 13 2016

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

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

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

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, W. CLAY JONES

Name of the Holding Company Director and Official

PRESIDENT/DIRECTOR

Title of the Holding Company Director and Official

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

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

*W. Clay Jones*

Signature of Holding Company Director and Official

7-8-16  
 Date of Signature

For holding companies not registered with the SEC—

Indicate status of Annual Report to Shareholders:

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

For Federal Reserve Bank Use Only

RSSD ID 1103207  
 C.I. \_\_\_\_\_

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

December 31, 2015

Month / Day / Year

N/A

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

Reporter's Name, Street, and Mailing Address

COMMERCIAL NATIONAL CORPORATION

Legal Title of Holding Company

P.O. BOX 591

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

<u>BRADY</u>	<u>TX</u>	<u>76825</u>
City	State	Zip Code

105 EAST SECOND BRADY, TX 76825

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

W. CLAY JONES PRESIDENT/DIRECTOR

Name Title

325-597-2961

Area Code / Phone Number / Extension

325-597-0122

Area Code / FAX Number

wcjones@cnbbrady.com

E-mail Address

www.cnbbrady.com

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

Does the reporter request confidential treatment for any portion of this submission?

Yes Please identify the report items to which this request applies:

In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.

The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

No

## For Use By Tiered Holding Companies

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

**COMMERCIAL NATIONAL FINANCIAL CORPORATION**

Legal Title of Subsidiary Holding Company

**P.O. BOX 591**

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

**BRADY TX 76825**  
City State Zip Code

**2360 CORPORATE #400 HENDERSONVILLE, NV 89074**

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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City State Zip Code

Physical Location (if different from mailing address)

FORM FR Y-6

COMMERCIAL NATIONAL CORPORATION  
P.O. BOX 591  
BRADY, TEXAS 76825

12-31-15

**AMENDED**  
JUL 13 2016

REPORT ITEM 1 Annual report to the shareholders is attached

REPORT ITEM 2 Organizational chart

COMMERCIAL NATIONAL CORPORATION  
Brady, Texas 76825-0591  
(Incorporated in Texas, Holding Company)

OWNS 100% OF

COMMERCIAL NATIONAL FINANCIAL CORPORATION  
Henderson, Nv 89074-7722  
(Incorporated in Nevada, Holding Company)

OWNS 100% OF

THE COMMERCIAL NATIONAL BANK OF BRADY  
Brady, Texas 76825-0591  
(Subsidiary Bank, Incorporated in Texas)

THE COMMERCIAL NATIONAL CORPORATION owns 1000 shares, or 100% of the 1000 outstanding shares of the COMMERCIAL NATIONAL FINANCIAL CORPORATION, a Nevada corporation, and is the only investment owned by COMMERCIAL NATIONAL CORPORATION.

The COMMERCIAL NATIONAL FINANCIAL CORPORATION, a Nevada corporation, owns 300,000 shares, or 100% of the 300,000 outstanding shares of THE COMMERCIAL NATIONAL BANK OF BRADY and this is the only investment owned by COMMERCIAL NATIONAL FINANCIAL CORPORATION.

**NO LEI IS AVAILABLE FOR ANY OF THE ABOVE CORPORATIONS**

**Results:** A list of branches for your depository institution: COMMERCIAL NATIONAL BANK OF BRADY, THE (ID\_RSSD: 42354). This depository institution is held by COMMERCIAL NATIONAL CORPORATION (1103207) of BRADY, TX. The data are as of 12/31/2015. Data reflects information that was received and processed through 01/07/2016.

**Reconciliation and Verification Steps**

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

**Actions**

**OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.  
**Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.  
**Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.  
**Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.  
**Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.  
 If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

**Submission Procedure**

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

**Note:**

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
ok		Full Service (Head Office)	42354 THE	COMMERCIAL NATIONAL BANK OF BRADY,	105 E. 2ND STREET	BRADY	TX	76825	MCCULLOCH	UNITED STATES	1985	0 THE	COMMERCIAL NATIONAL BANK OF BRADY,	42354	
ok		Full Service	3795099 SAN SABA BRANCH		307 WEST WALLACE	SAN SABA	TX	76877	SAN SABA	UNITED STATES	479950	1 THE	COMMERCIAL NATIONAL BANK OF BRADY,	42354	

REPORT ITEM 2B Completed by email

REPORT ITEM 3

(1) List of Shareholders of record owning 5% or more of the voting stock in COMMERCIAL NATIONAL CORPORATION:

<u>Name and Address</u>	<u>Citizenship</u>	<u>No. of Shares</u>	<u>Percentage</u>
Doris Ellis Jones Marital Trust Brady, Texas W. Clay Jones, Trustee	U.S.A.	24,166	7.05%
Doris M. Jones Brady, Texas	U.S.A.	18,000	5.25%
John W. Jones Family Trust Brady, Texas W. Clay Jones, Trustee	U.S.A.	331	.00001%
William L. Jones Family Trust Brady, Texas W. Clay Jones, Trustee	U.S.A.	41,053	11.98%
Saundra Davenport Brady, Texas	U.S.A.	52,230	15.25%
Durel Reid Dallas, Texas	U.S.A.	21,766	6.35%
W. Clay Jones Brady, Texas	U.S.A.	34,594	10.1%
Grant J. Jones Brady, Texas	U.S.A.	22,348	6.52%
Mark W. Jones Brady, Texas	U.S.A.	24,173	7.06%
Liane J. Locke Lubbock, Texas	U.S.A.	21,848	6.4%

(2) None

REPORT ITEM 4    INSIDERS

<u>Name/Address</u>	<u>Prin. Occupation</u>	<u>Title/PoS/BHC</u>	<u>Title/Pos/Sub</u>	<u>Other Bus/Pos</u>	<u>Per Shares BHC</u>	<u>Per Shares Sub</u>	<u>Other Co. 25% Or More</u>
Conrad Appleton Brady, Texas USA	Rancher	Director	CNB-Director	Brasada Ranch/ Pres	2.56%	N/A	Brasada Ranch 100%
Sandra Davenport Brady, Texas USA	Homemaker	N/A	N/A	N/A	15.25%	N/A	N/A
Doris M. Jones Brady, Texas USA	N/A	N/A	N/A	Jones North Ranch Mgmt- Ptr	5.25%	N/A	Jones North Ranch Mgt 33.33%
Doris E. Jones Marital Trust Brady, Texas USA	N/A	N/A	N/A	N/A	7.05%	N/A	N/A
Grant Jones Rochelle, Texas USA	Rancher	Director	CNB-Director	Wm.Jones Co Ranch LTD Ptr	6.52%	N/A	Wm.Jones Co Ranch 46.837%
Mark W. Jones Brady, Texas USA	Banker	Director	CNB-Director	Jones N.Ranch-Ptr JNR Mgmt.Ptr	7.06%	N/A	Jones N.Ranch 45.513% JNR Mgmt 33.33%
W. Clay Jones Brady, Texas USA	Banker	Director/Pres	CNB-Dir/Pres/ CEO CNFC-Pres	Jones N. Ranch LTD Ptr Jones N Ranch Mgmt-Ptr	10.1%	N/A	Jones N. Ranch LTD 50.193% Jones N.Ranch Mgt 33.33%
Beth Bowman Brookesmith, Texas USA	Banker	V P	CNB- VP	Bowman Land Mgmt Owner	N/A	N/A	Bowman Land Mgt 100%

**AMENDED**  
A JUL 13 2016

REPORT ITEM 4 CONTINUED:

<u>Name &amp; Address</u>	<u>Prin. Occupation</u>	<u>Title/Pos/BHC</u>	<u>Title/Pos/Sub</u>	<u>Other Bus/Pos</u>	<u>Per Shares BHC</u>	<u>Per Shares Sub</u>	<u>Other Co. 25% Or More</u>
William L. Jones Family Trust Brady, Texas USA	N/A	N/A	N/A	N/A	11.98%	N/A	N/A
Joseph S. King Brady, Texas USA	Retired Pharmacist	Director	CNB-Dir	Joseph & Mary King LLC	.00184%	N/A	Joseph & Mary King LLC 100%
Roy Mac Ranne Brady, Texas USA	Banker	Director	CNB-Dir	RMR Inc/Pres 4-R Partnership Ranne & Ranne-Ptr Ed Davenport, Inc. Pres	3.15%	N/A	RMR Inc 100% 4-R Partnership 25% Ranne & Ranne 50% Ed Davenport, Inc 51%
Reed Williams Brady, Texas USA	Banker	Secretary	CNB-Sec/VP	N/A	.002	N/A	N/A
John W. Jones Family Trust USA	N/A	N/A	N/A	N/A	.00001%	N/A	N/A
Liane Jones Locke Lubbock, Tx USA	Homemaker	N/A	N/A	N/A	6.4%	N/A	N/A

**All of the above Directors, Officers and Principal Shareholders (Insiders) are citizens of the United States of America.**

**AMENDED**  
JUL 13 2016

FORM FR Y-6

COMMERCIAL NATIONAL FINANCIAL CORPORATION  
2360 CORPOATE CIRCLE- SUITE 400  
HENDERSON, NEVADA 89074-7722

12-31-15

REPORT ITEM 3

(1) List of Shareholders of record owning 5% or more of the voting stock in COMMERCIAL NATIONAL FINANCIAL CORPORATION:

<u>NAME AND ADDRESS</u>	<u>NO. OF SHARES</u>	<u>PERCENTAGE</u>
Commercial National Corporation Brady, Texas 76825	1,000	100%

(2) None

**A** MENDED  
JUL 18 2016

REPORT ITEM 4

<u>Name &amp; Address</u>	<u>Prin. Occupation</u>	<u>Title/Pos/BHC</u>	<u>Title/Pos/Sub</u>	<u>Other Bus/Pos</u>	<u>Per Shares BHC</u>	<u>Per Shares Sub</u>	<u>Other Co. 25% Or More</u>
Commercial National Corporation Brady, Texas 76825	N/A	N/A	N/A	N/A	100%	N/A	N/A

**AMENDED**  
JUL 18 2015

COMMERCIAL NATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES,  
COMMERCIAL NATIONAL FINANCIAL CORPORATION AND  
THE COMMERCIAL NATIONAL BANK OF BRADY  
Brady, Texas

AUDIT REPORT

December 31, 2015

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES

Brady, Texas

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December 31, 2015

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# Krischke CPA, PC

201 CENTER AVENUE  
P. O. BOX 1645  
BROWNWOOD, TEXAS 76804  
325-646-6576  
325-646-3476 FAX

D. A. "Tony" Krischke, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Commercial National Corporation  
Commercial National Financial Corporation  
The Commercial National Bank of Brady

### **Report on the Financial Statements**

I have audited the accompanying consolidated financial statements of Commercial National Corporation (a Texas corporation) and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the 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***

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Commercial National Corporation and subsidiaries, at December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



America Counts on CPAs®

## Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The financial statements of Commercial National Corporation (Parent Only), Commercial National Financial Corporation and The Commercial National Bank of Brady are presented for the purposes of additional analysis and are 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 my opinion, the separate company financial statements are fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Krischke CPA, PC  
January 26, 2016

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

CONSOLIDATED BALANCE SHEET

December 31, 2015

ASSETS

Cash and due from banks		\$ 2,634,346
Interest-bearing deposits in banks		7,839,990
Investment Securities (Note 2):		
Securities available-for-sale	\$ 74,954,457	
Restricted investments	88,400	
Total Investment Securities		75,042,857
Loans Receivable (Note 3):		
Loans receivable	\$ 75,127,829	
Less allowance for loan losses	(1,028,768)	
Net Loans Receivable		74,099,061
Bank premises and equipment, net (Note 4)		2,107,474
Accrued interest receivable		910,654
Other assets		3,856,015
TOTAL ASSETS		<u>\$ 166,490,397</u>

See accompanying notes

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Deposits (Note 6):		
Demand deposits	\$	97,579,339
Time deposits		<u>51,148,663</u>
Total Deposits	\$	148,728,002
Accrued interest and other liabilities		<u>35,182</u>
Total Liabilities	\$	148,763,184

STOCKHOLDERS' EQUITY (NOTES 9 AND 10):

Common stock, par value \$0.50, 500,000 shares authorized, 342,600 issued and outstanding	\$	171,300	
Paid-in capital		1,992,050	
Retained earnings		15,032,462	
Accumulated other comprehensive income - unrealized gains on securities		<u>531,401</u>	
Total Stockholders' Equity			<u>17,727,213</u>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY			<u>\$ 166,490,397</u>
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COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31, 2015

INTEREST INCOME:		
Interest and fees on loans		\$ 4,254,364
Interest and dividends on investment securities		1,545,595
Interest on deposits with depository institutions		15,251
Total Interest Income		<u>\$ 5,815,210</u>
INTEREST EXPENSE:		
Interest on deposits	\$ 215,385	
Total Interest Expense		<u>(215,385)</u>
NET INTEREST INCOME		\$ 5,599,825
PROVISION FOR LOAN LOSSES		<u>(68,000)</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		\$ 5,531,825
OTHER INCOME:		
Service charges and fees	\$ 743,482	
Increase in cash value of bank owned life insurance	99,274	
Other income	50,573	
Total Other Income		<u>893,329</u>
OTHER EXPENSES:		
Salaries	\$ 1,511,483	
Employee benefits	689,353	
Occupancy and equipment expenses	368,958	
Data processing expense	437,052	
Advertising	76,158	
Audits and examinations	113,400	
FDIC assessment	73,192	
Other operating expenses	335,433	
Total Other Expenses		<u>(3,605,029)</u>
NET INCOME		<u>\$ 2,820,125</u>

See accompanying notes

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2015

NET INCOME		\$ 2,820,125
OTHER COMPREHENSIVE INCOME		
Change in unrealized gain on securities available for sale	\$ (70,973)	
Total Other Comprehensive Income		<u>(70,973)</u>
COMPREHENSIVE INCOME		<u>\$ 2,749,152</u>

See accompanying notes

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended December 31, 2015

	<u>Capital Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
BALANCE DECEMBER 31, 2014	\$ 171,300	\$ 1,992,050	\$ 14,411,486	\$ 602,374	\$ 17,177,210
NET INCOME			2,820,125		2,820,125
OTHER COMPREHENSIVE INCOME				(70,973)	(70,973)
DIVIDENDS			(2,199,149)		(2,199,149)
BALANCE DECEMBER 31, 2015	<u>\$ 171,300</u>	<u>\$ 1,992,050</u>	<u>\$ 15,032,462</u>	<u>\$ 531,401</u>	<u>\$ 17,727,213</u>

See accompanying notes

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income		\$ 2,820,125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		126,002
Provision for loan loss		68,000
Amortization (accretion) of securities, net		90,882
Decrease in accrued interest receivable		2,125
Increase in other assets		(150,548)
Decrease in accrued interest and other liabilities		(4,556)
		<hr/>
Net Cash Provided by Operating Activities		\$ 2,952,030

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of available-for-sale securities	\$ (41,137,968)	
Proceeds from sales and maturities of available-for-sale securities	36,375,925	
Purchase of Federal Home Loan Bank stock	(7,100)	
Purchase of bank premises and equipment	(38,509)	
Net increase in loans	(5,547,909)	
Net increase in interest bearing deposits in banks	(2,401,542)	
	<hr/>	
Net Cash Used by Investing Activities		(12,757,103)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net increase in demand deposits	\$ 14,279,605	
Net increase in time deposits	(1,963,490)	
Dividends paid	(2,210,001)	
	<hr/>	
Net Cash Provided by Financing Activities		10,106,114

NET INCREASE IN CASH AND DUE FROM BANKS	\$ 301,041
Cash and due from banks at beginning of year	<hr/> 2,333,305
CASH AND DUE FROM BANKS AT END OF YEAR	<hr/> <hr/> \$ 2,634,346
Supplemental information - Interest paid	\$ 215,277

See accompanying notes

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Commercial National Corporation (the Corporation) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries. The Commercial National Bank of Brady (the Bank) provides a variety of financial services to individuals and corporate customers through its offices in Brady and San Saba, Texas which are principally agricultural production areas. The Bank's primary deposit products are demand deposits and interest bearing checking accounts, savings accounts and certificates of deposit. Its main lending products are commercial business, agriculture, real estate and consumer loans.

Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Commercial National Financial Corporation and its wholly-owned subsidiary, The Commercial National Bank of Brady. All significant intercompany transactions and balances have been eliminated.

The accounting and reporting policies of The Commercial National Bank of Brady conform to generally accepted accounting principles and prevailing practices within the banking industry. The Bank carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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. 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 Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonable that the estimated losses on loans may change materially in the near term. However, the amount of the change that is possible cannot be estimated.

Investment Securities

Debt securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses.

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Investment Securities (Cont.)

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans are stated at unpaid principal balances, less the allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Other personal loans are typically charged off no later than 180 days due. Past due status is based on contractual terms of the loans. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Loan Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for losses each quarter. To determine the total allowance for loan losses, the Company estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the commercial loan portfolio; (ii) the agricultural production loan portfolio; (iii) the residential mortgage portfolio; (iv) the agricultural real estate loan portfolio; (v) the commercial real estate loan portfolio; (vi) the consumer loan portfolio.

The following is how management determines the balance of the allowance account for each segment or class of loans. Loans are evaluated individually for credit worthiness and graded using an internal classification system similar to that used by the regulatory authorities. Specific allocations are made to the allowance for the amounts of loans that could become a loss if certain pending factors do not materialize or if certain credit weaknesses are not corrected and continue to deteriorate. Allocation is also made for historical loss experience by portfolio segment using the actual loss experience over the prior twelve month period for that segment.

Loans that do not carry a specific reserve are assigned a general allocation risk factor based on considerations both internal and external to the portfolio. Establishment of a general allocation component, while a subjective process, is supported by documentation concerning current conditions and trends. Management and the Board of Directors assess the following factors:

- Trends in delinquencies and nonaccrual loans
- Current economic conditions
- Lending staff, policies and procedures
- Concentrations of credit

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Allowance for Loan Losses (Cont.)

- Off-balance sheet credit risk
- Trends in portfolio volume, maturity and composition
- Portfolio objectives

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, borrower behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

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

Loan Charge Off Policies

The Bank's charge off policies are as follows:

- Commercial loans – Loans are generally charged off when collectability is sufficiently questionable to no longer show the loan as an asset.
- Agricultural production loans – Loans are generally charged off when collectability is sufficiently questionable to no longer show the loan as an asset.
- Residential mortgages – Loans are generally charged off when collectability is sufficiently questionable to no longer show the loan as an asset.
- Agricultural real estate loans – Loans are generally charged off when collectability is sufficiently questionable to no longer show the loan as an asset.
- Commercial real estate loans – Loans are generally charged off when collectability is sufficiently questionable to no longer show the loan as an asset.
- Consumer loans - Loans are generally fully or partially charged down to the net realizable value when the loan is 120 days past due.

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Premises and Equipment

Land is carried at cost. Other premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Federal Income Taxes

The shareholders of the Corporation elected to file the Corporation's Federal income tax return in accordance with Subchapter S provisions of the Internal Revenue Code. Under this section of the Code, the shareholders individually report as taxable income the earnings of the Companies; generally there is no provision for Federal income taxes in the consolidated financial statements.

Income tax returns for the years ended December 31, 2012, 2013 and 2014 remain subject to examination by the Internal Revenue Service. Any taxes, penalties and interest attributable to the Corporation would be classified as income taxes on the statement of income.

Comprehensive income

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

Statement of Cash Flows

The Bank considers all cash and amounts due from depository institutions to be cash equivalents for purposes of the statement of cash flows.

Restriction on Cash and Due from Banks

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2015 was \$2,039,000.

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Fair value measurements

The Bank follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

NOTE 2: INVESTMENT SECURITIES

Investment securities have been classified in the consolidated balance sheet according to management's intent. The carrying amount of securities and their approximate fair values at December 31, 2015 are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government Agency securities	\$ 56,178,018	\$ 631,336	\$ 298,496	\$ 56,510,858
State and municipal securities	18,245,038	226,310	27,749	18,443,599
Total	<u>\$ 74,423,056</u>	<u>\$ 857,646</u>	<u>\$ 326,245</u>	<u>\$ 74,954,457</u>

The contractual maturities of available-for-sale securities at December 31, 2015 are as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 2,328,639	\$ 2,358,035
Due after one year through five years	23,390,356	23,603,581
Due after five years through ten years	15,971,291	16,286,588
Due after ten years	32,732,770	32,706,253
	<u>\$ 74,423,056</u>	<u>\$ 74,954,457</u>

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

During 2015, available-for-sale securities generated gross proceeds of \$36,375,925 for sales or maturities resulting in no realized gains or losses.

Restricted investments consist of Federal Home Loan Bank stock and Federal Reserve Bank stock carried at cost. These investments are required to be a member of these financial systems. These securities have no scheduled maturity date. Debt securities with a carrying amount of \$29,460,789 at December 31, 2015 were pledged to secure public deposits and for other purposes required or permitted by law.

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 2: INVESTMENT SECURITIES (CONT.)

Information pertaining to securities with gross unrealized losses at December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agency securities	\$ 26,374,630	\$ 161,679	\$ 4,965,073	\$ 136,818	\$ 31,339,703	\$ 298,497
State and municipal securities	2,520,811	4,698	2,014,722	23,051	4,535,533	27,749
Total	<u>\$ 28,895,441</u>	<u>\$ 166,377</u>	<u>\$ 6,979,795</u>	<u>\$ 159,869</u>	<u>\$ 35,875,236</u>	<u>\$ 326,246</u>

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 (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2015 the forty-seven debt securities with unrealized losses have depreciated 0.901% from the Bank's amortized cost basis. These securities are guaranteed by either the U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until the foreseeable future no declines are deemed to be other-than-temporary.

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable consist of the following at December 31, 2015:

Commercial loans	\$ 5,337,284
Agricultural production loans	10,142,366
Residential mortgages	26,305,337
Agricultural real estate loans	7,113,521
Commercial real estate loans	21,418,293
Consumer loans	4,811,028
Total loans	<u>\$ 75,127,829</u>

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONT.)

The following is an analysis of the allowance for loans losses and the recorded investment in loans for the year ended December 31, 2015:

	Commercial Loans	Agricultural Production Loans	Residential Mortgages	Agricultural Real Estate Loans	Commercial Real Estate Loans	Consumer Loans	Total
<u>Allowance for Loan Losses</u>							
Beginning balance	\$ 131,810	\$ 76,498	\$ 259,534	\$ 130,841	\$ 245,226	\$ 125,929	\$ 969,838
Charge offs						(18,195)	(18,195)
Recoveries	2,165	3,850				3,110	9,125
Provision		20,000				48,000	68,000
Ending balance	<u>\$ 133,975</u>	<u>\$ 100,348</u>	<u>\$ 259,534</u>	<u>\$ 130,841</u>	<u>\$ 245,226</u>	<u>\$ 158,844</u>	<u>\$ 1,028,768</u>
Ending balance individually evaluated for impairment	<u>\$ 133,975</u>	<u>\$ 100,348</u>	<u>\$ 259,534</u>	<u>\$ 130,841</u>	<u>\$ 245,226</u>	<u>\$ 158,844</u>	<u>\$ 1,028,768</u>
Ending balance collectively evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Financing Receivables</u>							
Ending balance	<u>\$ 5,337,284</u>	<u>\$ 10,142,366</u>	<u>\$ 26,305,337</u>	<u>\$ 7,113,521</u>	<u>\$ 21,418,293</u>	<u>\$ 4,811,028</u>	<u>\$ 75,127,829</u>
Ending balance individually evaluated for impairment	<u>\$ 5,337,284</u>	<u>\$ 10,142,366</u>	<u>\$ 26,305,337</u>	<u>\$ 7,113,521</u>	<u>\$ 21,418,293</u>	<u>\$ 4,811,028</u>	<u>\$ 75,127,829</u>
Ending balance collectively evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Internally assigned credit quality grades are used to evaluate the credit quality of the loan portfolio. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans. Category ratings are reviewed each quarter. The Bank's internally assigned grades are as follows:

- Pass/Minimal Risk – No loss potential.
- Satisfactory – Little or no identifiable risk of timely collection and conforms to Bank policy.
- Pass/Watch – Requiring additional monitoring but reviewed with no unwarranted risk noted.
- O.A.E.M. – Currently protected but has potential weaknesses.
- Substandard – Inadequately protected by current sound net worth, the paying capacity of the borrower or by pledged collateral.
- Doubtful – All of the weaknesses inherent in the Substandard grade 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.
- Loss - Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONT.)

The following is an analysis of credit risk profile by internally assigned grade by class of loan at December 31, 2015:

	Commercial Loans	Agricultural Production Loans	Residential Mortgages	Agricultural Real Estate Loans	Commercial Real Estate Loans	Consumer Loans	Total
Pass/minimal risk/Satisfactory	\$ 5,103,313	\$ 10,142,366	\$ 25,417,919	\$ 6,806,898	\$ 21,382,792	\$ 4,806,404	73,659,692
Pass/watch	59,284		389,909	243,287			692,480
O.A.E.M.							-
Substandard	174,687		497,509	63,336	35,501	4,624	775,657
Doubtful							-
Loss							-
Total	<u>\$ 5,337,284</u>	<u>\$ 10,142,366</u>	<u>\$ 26,305,337</u>	<u>\$ 7,113,521</u>	<u>\$ 21,418,293</u>	<u>\$ 4,811,028</u>	<u>75,127,829</u>

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a Troubled Debt Restructuring. Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. There were no loan modifications during the year ended December 31, 2015 classified as Troubled Debt Restructurings.

The following is an age analysis of past due financing receivables by class of financing receivable at December 31, 2015:

	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 5,337,284	\$ 5,337,284	\$ -
Agricultural production					10,142,366	10,142,366	
Residential	136,829		70,773	207,602	26,097,735	26,305,337	45,197
Agricultural real estate					7,113,521	7,113,521	
Commercial real estate					21,418,293	21,418,293	
Consumer	15,841	-		15,841	4,795,187	4,811,028	
Total	<u>\$ 152,670</u>	<u>\$ -</u>	<u>\$ 70,773</u>	<u>\$ 223,443</u>	<u>\$ 74,904,386</u>	<u>\$ 75,127,829</u>	<u>\$ 45,197</u>

The following is a table of financing receivables on nonaccrual status by class at December 31, 2015:

Commercial	\$ -
Agricultural production	-
Residential	25,576
Agricultural real estate	-
Commercial real estate	-
Consumer	6,198
Total	<u>\$ 31,774</u>

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONT.)

Overdrafts of \$14,054 have been included in loans. There were no impaired loans during the year ended December 31, 2015. Other real estate owned of \$51,265 included in other assets consisted of one commercial tract at December 31, 2015.

The Bank has entered into transactions with certain directors, executive officers, significant stockholders, and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties at December 31, 2015 was \$1,534,004. During 2015 new loans made to such related parties amounted to \$1,906,001 and payments amounted to \$3,068,943.

NOTE 4: BANK PREMISES AND EQUIPMENT

The following is a summary of bank premises and equipment at December 31, 2015:

Land	\$ 347,371
Buildings	2,385,548
Furniture and equipment	258,194
Automobiles	91,847
	<hr/>
	\$ 3,082,960
Less accumulated depreciation	975,486
	<hr/>
	<u>\$ 2,107,474</u>

The provision for depreciation amounted to \$126,002 in 2015.

NOTE 5: PROFIT SHARING PLAN

The Bank has a profit-sharing plan which covers substantially all of its employees. The Bank's Board of Directors annually determines the amount of the Bank's contribution, in accordance with the terms of the plan. The expense for the year ended December 31, 2015, amounted to \$195,828.

NOTE 6: DEPOSITS

The aggregate amount of time deposit accounts in denominations that meet or exceed the FDIC insurance limit amounted to \$11,875,927 at December 31, 2015. The bank held related party deposits of \$5,578,183 at December 31, 2015.

An analysis of time deposits at December 31, 2015, is as follows:

Savings accounts	\$ 9,099,462
Certificates of deposit, less than \$100,000	8,248,215
Certificates of deposit, \$100,000 or greater	12,428,186
Money market accounts	21,372,800
Total	<hr/>
	<u>\$ 51,148,663</u>

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 6: DEPOSITS (CONT.)

At December 31, 2015, the scheduled maturities of certificates of deposit are as follows:

2016	\$ 19,980,241
2017	511,056
2018	185,104
	<u>\$ 20,676,401</u>

NOTE 7: FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheet.

Financial instruments whose contract amount represents credit risk at December 31, 2015 are as follows:

	<u>Notional Amount</u>
Unfunded lines of credit	\$ 6,256,365
Standby letters of credit	80,500

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Bank has not been required to perform on any financial guarantees during the past year. The Bank has not incurred any losses on its commitments in 2015.

NOTE 8: CONCENTRATION OF CREDIT

All of the Bank's loans, related accrued interest receivable, commitments, and standby letters of credit have been granted to customers in the Bank's market area. All such customers are depositors of the Bank. The concentrations of credit by the type of loans are set forth in Note 3.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Bank does not extend credit to any single borrower or group of related borrowers in excess of its legal lending limit.

The Corporation maintains cash balances in several high quality institutions. The balances at times may exceed federally insured limits. At December 31, 2015, the Corporation's uninsured cash balances total \$1,109,425.

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 9: RESTRICTIONS ON STOCK TRANSFERS AND RETAINED EARNINGS

The Corporation stock has certain transfer restrictions agreed upon by each shareholder. Stock may not be transferred in any way that would jeopardize the S election for Federal income tax purposes. The Corporation retains a purchase right to acquire any stock involved in a prohibited transfer.

The Bank, as a National Bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends in the current year fell within the dividend restrictions.

NOTE 10: REGULATORY MATTERS

The bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of capital as set forth in the table below. Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage ratio	\$ 17,183	10.66%	\$ 6,449	4.00%	\$ 8,061	5.00%
Common Equity Tier 1 Capital ratio	17,183	20.17%	3,833	4.50%	5,536	6.50%
Tier 1 Capital ratio	17,183	20.17%	5,110	6.00%	6,814	8.00%
Total Capital ratio	18,212	21.38%	6,814	8.00%	8,517	10.00%

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 11: OPERATING LEASE

The Bank leases an outdoor display sign under an operating lease. The following is a schedule of minimum rental payments due under this lease:

Year Ended <u>December 31,</u>	
2016	\$ 7,503
2017	7,503
2018	3,752

Rental expense under this lease in 2015 amounted to \$7,503.

NOTE 12: FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value framework as disclosed in the Fair Value Measurements and Disclosure Topic of FASB ASC Topic 825, Financial Instruments (Fair Value Topic) includes a hierarchy which focuses on prioritizing the inputs used in valuation techniques. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

- Level 1 Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. FASB ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and due from banks: The carrying amounts reported in the consolidated balance sheet for cash and due from banks approximate those assets' fair values.

Interest-bearing deposits in bank: The carrying amounts reported in the consolidated balance sheet for interest-bearing deposits in bank approximate these assets' fair value.

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 12: FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT.)

Investment securities: Fair value for securities available-for-sale is based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Restricted securities are not marketable, thus it is not practical to estimate their fair value.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The carrying amount of accrued interest receivable approximates its fair value.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of accrued interest payable approximates fair value.

The estimated fair values of the Corporation's financial instruments at December 31, 2015 are as follows:

	Carrying Amount	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from banks	\$ 2,634,346	\$ 2,634,346	\$ 2,634,346	\$	\$
Interest-bearing deposits in banks	7,839,990	7,839,990	7,839,990		
Securities available-for-sale	74,423,056	74,954,457	74,954,457		
Loans receivable	74,099,061	73,782,000			73,782,000
Accrued interest receivable	910,654	910,654		910,654	
Financial liabilities:					
Demand deposits	97,591,946	97,591,946		97,591,946	
Time deposits	51,148,663	51,159,800			51,159,800
Accrued interest payable	11,011	11,011		11,011	

COMMERCIAL NATIONAL CORPORATION AND SUBSIDIARIES  
Brady, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

December 31, 2015

NOTE 13: FAIR VALUE MEASUREMENTS

Fair value of assets and liabilities measured on a recurring basis at December 31, 2015 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Securities available-for-sale	\$ 74,954,457	\$ 74,954,457

NOTE 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 26, 2016, the date which the financial statements were available for issue.

SUPPLEMENTARY INFORMATION

COMMERCIAL NATIONAL CORPORATION  
(PARENT COMPANY ONLY)  
Brady, Texas

BALANCE SHEET

December 31, 2015

ASSETS

CURRENT ASSETS:

Cash	\$ 12,607	
Total Current Assets		\$ 12,607

INVESTMENTS:

Investment in Commercial National Financial Corporation	\$ 17,714,606	
Total Investments		17,714,606

OTHER ASSETS:

Organization costs (net of \$37,520 amortization)	\$ -	
Total Other Assets		-

TOTAL ASSETS		<u>\$ 17,727,213</u>
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LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		\$ -
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STOCKHOLDERS' EQUITY:

Common stock, par value \$0.50, 500,000 shares authorized, 342,600 issued and outstanding	\$ 171,300	
Paid-in capital	1,992,050	
Retained earnings	15,032,462	
Accumulated other comprehensive income - unrealized gains on securities	531,401	
Total Stockholders' Equity		<u>17,727,213</u>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>\$ 17,727,213</u>
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COMMERCIAL NATIONAL CORPORATION  
(PARENT COMPANY ONLY)  
Brady, Texas

STATEMENT OF INCOME

Year Ended December 31, 2015

INCOME:

Equity in earnings of subsidiary

\$ 2,822,355

Total Income

\$ 2,822,355

EXPENSE:

Operating expense

\$ 2,230

Total Expense

2,230

NET INCOME

\$ 2,820,125

COMMERCIAL NATIONAL CORPORATION  
(PARENT COMPANY ONLY)  
Brady, Texas

STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2015

NET INCOME		\$ 2,820,125
OTHER COMPREHENSIVE INCOME		
Change in unrealized gain on securities available for sale	\$ (70,973)	
Total Other Comprehensive Income		<u>(70,973)</u>
COMPREHENSIVE INCOME		<u>\$ 2,749,152</u>

COMMERCIAL NATIONAL CORPORATION  
(PARENT COMPANY ONLY)  
Brady, Texas

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended December 31, 2015

	<u>Capital Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
BALANCE DECEMBER 31, 2014	\$ 171,300	\$ 1,992,050	\$ 14,411,486	\$ 602,374	\$ 17,177,210
NET INCOME			2,820,125		2,820,125
OTHER COMPREHENSIVE INCOME				(70,973)	(70,973)
DIVIDENDS			(2,199,149)		(2,199,149)
BALANCE DECEMBER 31, 2015	<u>\$ 171,300</u>	<u>\$ 1,992,050</u>	<u>\$ 15,032,462</u>	<u>\$ 531,401</u>	<u>\$ 17,727,213</u>

COMMERCIAL NATIONAL CORPORATION  
(PARENT COMPANY ONLY)  
Brady, Texas

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income \$ 2,820,125

Adjustments to reconcile net income to net cash provided by  
operating activities:

Increase in equity investment of subsidiary (612,354)

Net Cash Provided by Operating Activities \$ 2,207,771

CASH FLOWS FROM FINANCING ACTIVITIES:

Dividends paid \$ (2,199,149)

Net Cash Used by Financing Activities (2,199,149)

NET DECREASE IN CASH \$ 8,622

Cash at Beginning of Year 3,985

CASH AT END OF YEAR \$ 12,607

COMMERCIAL NATIONAL FINANCIAL CORPORATION  
Brady, Texas

BALANCE SHEET

December 31, 2015

ASSETS

INVESTMENTS:

Investment in The Commercial National Bank of Brady \$ 17,414,606

TOTAL ASSETS \$ 17,414,606

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES \$ -

STOCKHOLDER'S EQUITY:

Common stock, par value \$1.00, 1,000 shares authorized,  
issued and outstanding \$ 1,000

Paid-in capital 10,673,412

Retained earnings 6,508,793

Accumulated other comprehensive income - unrealized  
gains on securities 531,401

Total Stockholder's Equity 17,714,606

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY \$ 17,714,606

COMMERCIAL NATIONAL FINANCIAL CORPORATION  
Brady, Texas

STATEMENT OF INCOME

Year Ended December 31, 2015

INCOME:	
Equity in earnings of subsidiary bank	\$ 2,822,355
EXPENSE	<u>-</u>
NET INCOME	<u>\$ 2,822,355</u>

COMMERCIAL NATIONAL FINANCIAL CORPORATION  
Brady, Texas

STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2015

NET INCOME		\$ 2,822,355
OTHER COMPREHENSIVE INCOME		
Change in unrealized gain on securities available for sale	\$ (70,973)	
Total Other Comprehensive Income		<u>(70,973)</u>
COMPREHENSIVE INCOME		<u>\$ 2,751,382</u>

COMMERCIAL NATIONAL FINANCIAL CORPORATION  
Brady, Texas

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

Year Ended December 31, 2015

	Capital Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
BALANCE DECEMBER 31, 2014	\$ 1,000	\$ 10,673,412	\$ 5,896,439	\$ 602,374	\$ 17,173,225
NET INCOME			2,822,355		2,822,355
OTHER COMPREHENSIVE INCOME				(70,973)	(70,973)
DIVIDENDS			(2,210,001)		(2,210,001)
BALANCE DECEMBER 31, 2015	<u>\$ 1,000</u>	<u>\$ 10,673,412</u>	<u>\$ 6,508,793</u>	<u>\$ 531,401</u>	<u>\$ 17,714,606</u>

COMMERCIAL NATIONAL FINANCIAL CORPORATION  
Brady, Texas

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 2,822,355
Adjustments to reconcile net income to net cash provided by operating activities:	
Increase in equity investment of subsidiary	<u>(612,354)</u>
Net Cash Provided by Operating Activities	\$ 2,210,001

CASH FLOWS FROM FINANCING ACTIVITIES:

Dividends paid	<u>\$ (2,210,001)</u>
Net Cash Used by Financing Activities	<u>(2,210,001)</u>

NET INCREASE IN CASH	\$ -
Cash at Beginning of Year	<u>-</u>
CASH AT END OF YEAR	<u><u>\$ -</u></u>

COMMERCIAL NATIONAL BANK OF BRADY  
Brady, Texas

STATEMENT OF CONDITION

December 31, 2015

ASSETS

Cash and due from banks		\$ 2,634,346
Interest-bearing deposits in banks		7,839,990
Investment Securities:		
Securities available-for-sale	\$ 74,954,457	
Restricted investments	88,400	
Total Investment Securities		75,042,857
Loans Receivable:		
Loans receivable	\$ 75,127,829	
Less allowance for loan losses	(1,028,768)	
Net Loans Receivable		74,099,061
Bank premises and equipment, net		2,107,474
Accrued interest receivable		910,654
Other assets		3,856,015
TOTAL ASSETS		<u>\$ 166,490,397</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES:

Deposits:

Demand deposits	\$ 97,591,946
Time deposits	<u>51,148,663</u>

Total Deposits \$ 148,740,609

Accrued interest and other liabilities 35,182

Total Liabilities \$ 148,775,791

STOCKHOLDER'S EQUITY:

Common stock, par value \$0.50, 300,000 shares authorized, issued and outstanding	\$ 150,000	
Paid-in capital	710,000	
Retained earnings	16,323,205	
Accumulated other comprehensive income - unrealized gains on securities	<u>531,401</u>	
Total Stockholder's Equity		<u>17,714,606</u>

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY \$ 166,490,397

COMMERCIAL NATIONAL BANK OF BRADY  
Brady, Texas

STATEMENT OF INCOME

Year Ended December 31, 2015

INTEREST INCOME:

Interest and fees on loans	\$	4,254,364	
Interest and dividends on investment securities		1,545,595	
Interest on deposits with depository institutions		15,251	
Total Interest Income	\$	<u>5,815,210</u>	

INTEREST EXPENSE:

Interest on deposits	\$	<u>215,385</u>	
Total Interest Expense			<u>(215,385)</u>

NET INTEREST INCOME

\$ 5,599,825

PROVISION FOR LOAN LOSSES

(68,000)

NET INTEREST INCOME AFTER PROVISION FOR  
LOAN LOSSES

\$ 5,531,825

OTHER INCOME:

Service charges and fees	\$	743,482	
Increase in cash value of bank owned life insurance		99,274	
Other income		50,573	
Total Other Income		<u>893,329</u>	

OTHER EXPENSES:

Salaries	\$	1,511,483	
Employee benefits		689,353	
Occupancy and equipment expenses		368,958	
Data processing expense		437,052	
Advertising		76,158	
Audits and examinations		113,400	
FDIC assessment		73,192	
Other operating expenses		333,203	
Total Other Expenses		<u>(3,602,799)</u>	

NET INCOME

\$ 2,822,355

COMMERCIAL NATIONAL BANK OF BRADY  
Brady, Texas

STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2015

NET INCOME		\$ 2,822,355
OTHER COMPREHENSIVE INCOME		
Change in unrealized gain on securities available for sale	\$ (70,973)	
Total Other Comprehensive Income		<u>(70,973)</u>
COMPREHENSIVE INCOME		<u>\$ 2,751,382</u>

COMMERCIAL NATIONAL BANK OF BRADY  
Brady, Texas

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

Year Ended December 31, 2015

	<u>Capital Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholder's Equity</u>
BALANCE DECEMBER 31, 2014	\$ 150,000	\$ 710,000	\$ 15,710,851	\$ 602,374	\$ 17,173,225
NET INCOME			2,822,355		2,822,355
OTHER COMPREHENSIVE INCOME				(70,973)	(70,973)
DIVIDENDS			(2,210,001)		(2,210,001)
BALANCE DECEMBER 31, 2015	<u>\$ 150,000</u>	<u>\$ 710,000</u>	<u>\$ 16,323,205</u>	<u>\$ 531,401</u>	<u>\$ 17,714,606</u>

COMMERCIAL NATIONAL BANK OF BRADY  
Brady, Texas

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$	2,822,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		126,002
Provision for loan loss		68,000
Amortization (accretion) of securities, net		90,882
Decrease in accrued interest receivable		2,125
Increase in other assets		(150,548)
Decrease in accrued interest and other liabilities		(4,556)
		(4,556)
Net Cash Provided by Operating Activities	\$	2,954,260

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of available-for-sale securities	\$	(41,137,968)
Proceeds from sales and maturities of available-for-sale securities		36,375,925
Purchase of Federal Home Loan Bank stock		(7,100)
Purchase of bank premises and equipment		(38,509)
Net increase in loans		(5,547,909)
Net increase in interest bearing deposits in banks		(2,401,542)
		(2,401,542)
Net Cash Used by Investing Activities		(12,757,103)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net increase in demand deposits	\$	14,277,375
Net decrease in time deposits		(1,963,490)
Dividends paid		(2,210,001)
		(2,210,001)
Net Cash Provided by Financing Activities		10,103,884

NET INCREASE IN CASH AND DUE FROM BANKS	\$	301,041
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Cash and due from banks at beginning of year		2,333,305
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CASH AND DUE FROM BANKS AT END OF YEAR	\$	2,634,346
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Supplemental information - Interest paid	\$	215,277
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