

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

AMENDED
JUL 24 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, Cindy Manthey

Name of the Holding Company Director and Official

Secretary/Treasurer

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.

Cindy Manthey
7-19-16

Signature of Holding Company Director and Official

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
C.I.

1107456

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

The Banc of San Jacinto County Bancshares, Inc.

Legal Title of Holding Company

P.O. Box 100

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

Coldspring TX 77331

City State Zip Code

100 State Highway 150, Coldspring, TX 77331

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Cindy Manthey Secretary/Treasurer

Name Title

936-653-1812

Area Code / Phone Number / Extension

936-653-2221

Area Code / FAX Number

cmanthey@banksjc.com

E-mail Address

N/A

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.

The Banc of San Jacinto County Bancshares, Inc.

Legal Title of Subsidiary Holding Company

P.O. Box 100

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

Coldspring TX 77331
City State Zip Code

100 Highway 150

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

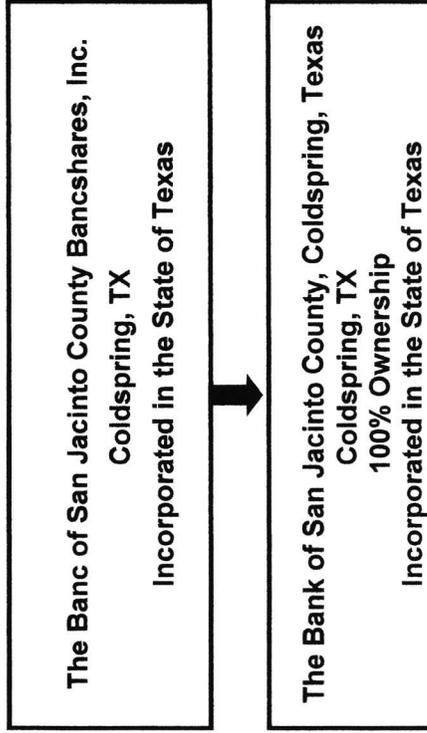
Physical Location (if different from mailing address)

The Banc of San Jacinto County Bancshares, Inc.
31-Dec-15

Report Item 1

- A:** The Banc of San Jacinto County Bancshares, Inc. is not required to prepare form 10K with the SEC.
- B:** The Banc of San Jacinto County Bancshares, Inc. does prepare an Annual report for it's Shareholders. However, it will not be available until May 2016. A copy will be forwarded to the Federal Reserve at that time.

Report Item 2 - Organizational Chart



LEI: N/A

LEI: N/A

AMENDED
AUG 01 2016

Report Item 2b - Branch Verification Report SUBMITTED ONLINE (MARCH 7, 2016)

Results: A list of branches for your depository institution: **BANK OF SAN JACINTO COUNTY, COLDSRING, TEXAS, THE (ID: RSSD: 678052)**. This depository institution is held by **BANK OF SAN JACINTO COUNTY BANCSHARES, INC., THE (1107456)** of COLDSRING, 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)	678052	BANK OF SAN JACINTO COUNTY, COLDSRING, TEXAS, THE	100 HIGHWAY 150	COLDSRING	TX	77331	SAN JACINTO	UNITED STATES	12787		BANK OF SAN JACINTO COUNTY, COLDSRING, TEXAS, THE	678052	

The Banc of San Jacinto County Bancshares, Inc.
December 31, 2015

Report Item 3

Fiscal Year End

1(a) Name City, State, & Zip	1(b) Country	1(c) No. Shares / Percentage
Robert Denny Clark Coldspring, TX 77331	USA	34,475 / 41.18%
Karen Clark Hutchins Houston, TX 77062	USA	6,494 / 7.76%
Donald McNorton Cleveland, TX 77327	USA	6,044 / 7.22%
Jim E. McNorton Cleveland, TX 77327	USA	6,044 / 7.22%
The Estate of Jana Clark C/O Christy Norwood Christy Norwood Porter, TX 77365	USA	12,988 / 15.52%
	USA	900 / 1.08%
Kendal Clark East Bernard, TX 77435	USA	6,494 / 7.76%

The Banc of San Jacinto County Bancshares, Inc.
December 31, 2015

Report Item 3

During Fiscal Year

2(a)
Name & Address
City, State, & Zip

2(b)
Country

2(c)
No. Shares / Percentage

Not Applicable

The Banc of San Jacinto County Bancshares, Inc.
December 31, 2015

Report Item 4

1. Name and Address Director and Officers	2. Principal Occupation	(3)(a) Title & Position w/in Holding Co.	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with other businesses	(4)(a) % of shares	(4)(b) % of shares in Subsidiaries	(4)(c) Names of other companies
R. Denny Clark Coldspring, TX 77331	Banker	Director/Chairman President	Director/C.E.O.	Pres. Eastex Title Pres. Clark Development	41.18%	NONE	Eastex Title - 34% Clark Development. - 25%
Cindy Manthey Conroe, TX 77304	Banker	Secretary/Treasurer Director	President Cashier	None	0.55%	NONE	NONE
Julia Rose Ellisor New Waverly, TX 77358	Retired Rural Store Owner	Director	Director	None	0.83%	NONE	NONE
Bryan Carr Normangee, Texas 77871	Retail Salesman	Director	Director	None	0.15%	NONE	NONE
Amanda Trapp Coldspring, TX 77331	Attorney At Law	Director	Director	None	0.19%	NONE	NONE
Phil Palmer Huntsville, TX 77340	Retired Real Estate Agent	Director	Director	President Palmer Management Co.	0.31%	NONE	Palmer Management Co. 50%
James Chesser Coldspring, TX 77331	Retired Corporate	Director	Director	None	0.12%	NONE	NONE
Matthew Clark Magnolia, TX 77355	Educator	Director	Director	None	0.54%	NONE	NONE
The Estate of Jana Clark c/o Christy Norwood Christy Norwood Porter, TX 77365	Property Manager	None	None	None	15.52% 1.08%	NONE	NONE

AMENDED
A JUL 24 2016

THE BANK OF SAN JACINTO COUNTY

COLDSRING, TEXAS

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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Ted A. Lankford, CPA
Glenda J. Hiers, CPA
Richard A. Rudel, CPA

AL&H ALEXANDER LANKFORD & HIERS, INC.

Yvette Sidnell, CPA
Jennifer L. Webster, CPA
Kimber R. Jones, CPA
Susan L. Murrell, CPA

Wilbur E. Alexander, CPA
(1940 - 2009)

Certified Public Accountants, A Professional Corporation
4000 S. Medford Dr., Lufkin, Texas 75901-5500
(936) 632-7771, FAX (936) 637-2448
E-mail: alh@consolidated.net Website: www.alhcpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Bank of San Jacinto County
Coldspring, Texas 77331

We have audited the accompanying financial statements of The Bank of San Jacinto County, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and comprehensive income, changes in stockholder's equity, and cash flows for the years 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Auditor's Responsibility - Continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Bank of San Jacinto County as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Lankford & Hiers, Inc.

ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
May 10, 2016

**THE BANK OF SAN JACINTO COUNTY
BALANCE SHEETS**

	DECEMBER 31,	
	2015	2014
ASSETS		
Cash and due from banks	\$ 16,646,534	\$ 13,348,449
Securities available for sale	3,187,029	2,809,990
Loans, less allowance for loan losses	17,466,348	18,944,886
Premises and equipment, net	405,615	468,687
Accrued income and other assets	177,807	437,294
	<u>\$ 37,883,333</u>	<u>\$ 36,009,306</u>
Total assets		
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES		
Deposits:		
Demand	\$ 12,443,163	\$ 11,776,012
Money market	1,887,075	1,818,665
NOW accounts	4,558,498	4,853,180
Savings	5,271,153	4,573,548
Time, \$100,000 and over	2,251,603	1,687,164
Other time	6,676,502	6,633,189
	<u>33,087,994</u>	<u>31,341,758</u>
Total deposits		
Accrued expenses and other liabilities	20,467	29,852
	<u>33,108,461</u>	<u>31,371,610</u>
Total liabilities		
STOCKHOLDER'S EQUITY		
Common stock - \$10 par value; 20,000 shares authorized, issued and outstanding	200,000	200,000
Additional paid-in capital	1,400,000	1,400,000
Retained earnings	3,157,678	2,995,830
Accumulated other comprehensive income	17,194	41,866
	<u>4,774,872</u>	<u>4,637,696</u>
Total stockholder's equity		
Total liabilities and stockholder's equity	<u>\$ 37,883,333</u>	<u>\$ 36,009,306</u>

The accompanying notes are an integral part of these financial statements.

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THE BANK OF SAN JACINTO COUNTY
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	FOR THE YEAR ENDED DECEMBER 31,	
	2015	2014
INTEREST INCOME		
Interest and fees on loans	\$ 1,437,602	\$ 1,477,402
Interest on investment securities:		
Mortgage-backed securities	65,782	64,559
Interest on deposits in banks	33,542	24,562
	1,536,926	1,566,523
INTEREST EXPENSE		
Interest on deposits	65,865	78,373
	65,865	78,373
Net interest income	1,471,061	1,488,150
PROVISION FOR LOAN LOSSES	4,000	74,000
Net interest income, after provision for loan losses	1,467,061	1,414,150
NON-INTEREST INCOME		
Service charges on deposit accounts	216,484	249,826
Other service charges, commissions and fees	125,012	207,289
Other income (loss)	23,116	(4,811)
	364,612	452,304
NON-INTEREST EXPENSES		
Salaries and benefits - leased employees	891,861	902,358
Occupancy expense	70,142	72,343
Other operating expenses	627,822	661,436
	1,589,825	1,636,137
NET INCOME	241,848	230,317
OTHER COMPREHENSIVE INCOME		
Net change in unrealized gain on securities available for sale due to maturities, prepayments and calls	(24,672)	(681)
	(24,672)	(681)
TOTAL COMPREHENSIVE INCOME	\$ 217,176	\$ 229,636
NET INCOME PER SHARE OF COMMON STOCK	\$ 12.09	\$ 11.52

The accompanying notes are an integral part of these financial statements.

**THE BANK OF SAN JACINTO COUNTY
STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	COMMON STOCK
Balance at December 31, 2013	\$ 200,000
Comprehensive income:	
Net income for 2014	
Net change in unrealized gain on securities available for sale due to maturities, prepayments, and calls	
Comprehensive income	
Cash dividends paid	
Balance at December 31, 2014	200,000
Comprehensive income:	
Net income for 2015	
Net change in unrealized gain on securities available for sale due to maturities, prepayments, and calls	
Comprehensive income	
Cash dividends paid	
Balance at December 31, 2015	\$ 200,000

ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDER'S EQUITY
\$ 1,400,000	\$ 2,840,513	\$ 42,547	\$ 4,483,060
	230,317		
		(681)	
	(75,000)		229,636
			(75,000)
<u>1,400,000</u>	<u>2,995,830</u>	<u>41,866</u>	<u>4,637,696</u>
	241,848		
		(24,672)	
	(80,000)		217,176
			(80,000)
<u>\$ 1,400,000</u>	<u>\$ 3,157,678</u>	<u>\$ 17,194</u>	<u>\$ 4,774,872</u>

The accompanying notes are an integral part of these financial statements.

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THE BANK OF SAN JACINTO COUNTY
STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	FOR THE YEAR ENDED	
	DECEMBER 31,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 241,848	\$ 230,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	98,200	97,786
(Gain)/loss on sale of other assets	(16,278)	6,781
Writedown of other assets	21,500	
Provision for loan losses	4,000	74,000
Amortization and accretion	7,481	6,981
(Increase) in accrued income and other assets	(37,600)	(162,135)
Increase (decrease) in accrued expenses and other liabilities	(9,385)	5,387
Total adjustments	67,918	28,800
Net cash provided by operating activities	309,766	259,117
Cash flows from investing activities		
Purchases of equipment, fixtures, and improvements	(35,128)	(75,327)
Proceeds from sale of other assets	291,865	31,004
Purchases of securities available for sale	(1,008,781)	(985,231)
Proceeds from maturities, prepayments and calls of securities available for sale	599,589	568,883
Net (increase) decrease in loans	1,474,538	(1,371,157)
Net cash provided by (used in) investing activities	1,322,083	(1,831,828)
Cash flows from financing activities		
Net increase in demand deposits	655,286	1,504,212
Net increase in money market deposits	68,410	60,463
Net increase (decrease) in NOW deposit accounts	(294,682)	1,069,203
Net increase in savings deposits	697,605	282,171
Net increase (decrease) in time deposits	607,752	(1,084,843)
Net increase in mortgage escrow account	11,865	7,701
Cash dividends paid	(80,000)	(75,000)
Net cash provided by financing activities	1,666,236	1,763,907

The accompanying notes are an integral part of these financial statements.

THE BANK OF SAN JACINTO COUNTY
STATEMENTS OF CASH FLOWS - CONTINUED
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	FOR THE YEAR ENDED	
	DECEMBER 31,	
	2015	2014
Net increase in cash and cash equivalents	3,298,085	191,196
Cash and cash equivalents, beginning of year	13,348,449	13,157,253
Cash and cash equivalents, end of year	\$ 16,646,534	\$ 13,348,449
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 66,169	\$ 79,258

The accompanying notes are an integral part of these financial statements.

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank of San Jacinto County (Bank) is a wholly-owned subsidiary of The Banc of San Jacinto County Bancshares, Inc., a bank holding company incorporated under the laws of the State of Texas. The accounting and reporting policies of the Bank conform to generally accepted accounting principles and the general practices within the banking industry. The Bank provides a variety of services to individuals and businesses. The Bank's lending services consist primarily of commercial, real estate mortgage, and consumer loans. The deposit services are primarily demand, savings, and certificates of deposit.

Investment Securities

Securities Available for Sale - Securities available for sale consist of mortgage-backed securities not classified as securities to be held to maturity.

Declines in the fair value of individual available for sale securities below their cost that are deemed to be other than temporary are written down to their fair value, with the related write-down reflected in earnings as realized losses. Unrealized gains and losses on securities available for sale are excluded from earnings and reported in other comprehensive income. Purchases and sales of securities are recorded on the trade date and gains and losses are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

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.

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 income is accrued on the unpaid principal balance. Loan fees are recognized as income at inception, and loan costs are expensed as incurred instead of capitalized, as these amounts are not deemed to be material to the financial statements. Loans may be secured or unsecured in accordance with Bank policy. Bank policy requires that collateral on secured loans be adequate to repay the loan in the event of foreclosure.

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loans and Allowance for Loan Losses - Continued

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expenses. Loan losses are charged against the allowance when management believes that the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on periodic evaluations of the collectibility of loans and historical experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, risk characteristics of various categories of loans, overall portfolio quality, review of specific problem loans, estimated value of underlying collateral, prevailing economic conditions, and adverse situations that may affect the borrower's ability to pay. The evaluations are inherently subjective, as estimates are susceptible to significant revision when situations change or more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or watch. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 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.

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loans and Allowance for Loan Losses - Continued

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Upon such discontinuance, all unpaid accrued interest is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Premises and Equipment

Premises and equipment are stated at cost net of accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses on foreclosed assets. Foreclosed assets totaled \$0 at December 31, 2015 and \$297,087 at December 31, 2014.

Net Income Per Share of Common Stock

Net income per share of common stock is calculated by dividing net income by the weighted average number of shares outstanding during the period.

Cash and Cash Equivalents

For the purpose of presentation in the statements of cash flows, the Bank has defined cash and cash equivalents as those amounts included in the balance sheet caption "Cash and due from banks", which includes cash on hand and amounts due from banks in demand accounts.

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The Banc of San Jacinto County Bancshares, Inc., with the consent of its stockholders has elected to be taxed as an S corporation under the Internal Revenue Code. In lieu of corporation income taxes, stockholders of an S corporation are taxed on their proportionate share of the corporation's taxable income. Therefore, no provision or liability for federal income taxes is included in the financial statements. A federal income tax return is filed for The Banc of San Jacinto County Bancshares, Inc., including the Bank of San Jacinto County, as a result of its election to treat the Bank as a qualified Subchapter S subsidiary. Income tax returns for years ended on or after December 31, 2012 remain subject to examination by the Internal Revenue Service. During the years ended December 31, 2015 and 2014, no interest or penalties were incurred on income tax returns. If penalties or interest were incurred, they would be included in non-interest expense.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

Advertising Costs

Advertising costs are expensed in the period incurred. Advertising costs were \$5,786 and \$12,912 for December 31, 2015 and 2014, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although 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 equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Date of Management Review-Subsequent Events

Management has evaluated subsequent events through May 10, 2016, the date on which the financial statements were available to be issued.

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

INVESTMENT SECURITIES

Carrying amounts and approximate market values of investment securities are summarized as follows:

	DECEMBER 31, 2015			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE
Securities available for sale:				
Mortgage-backed securities	\$ 3,169,835	\$ 21,069	\$ (3,875)	\$ 3,187,029
Total	<u>\$ 3,169,835</u>	<u>\$ 21,069</u>	<u>\$ (3,875)</u>	<u>\$ 3,187,029</u>

	DECEMBER 31, 2014			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE
Securities available for sale:				
Mortgage-backed securities	\$ 2,768,126	\$ 42,081	\$ (217)	\$ 2,809,990
Total	<u>\$ 2,768,126</u>	<u>\$ 42,081</u>	<u>\$ (217)</u>	<u>\$ 2,809,990</u>

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	DECEMBER 31, 2015			
	LESS THAN TWELVE MONTHS		OVER TWELVE MONTHS	
	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE
Securities available for sale:				
Mortgage-backed securities	\$ (3,823)	\$ 954,707	\$ (52)	\$ 50,951
Total	<u>\$ (3,823)</u>	<u>\$ 954,707</u>	<u>\$ (52)</u>	<u>\$ 50,951</u>

	DECEMBER 31, 2014			
	LESS THAN TWELVE MONTHS		OVER TWELVE MONTHS	
	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE
Securities available for sale:				
Mortgage-backed securities			\$ (217)	\$ 68,769
Total			<u>\$ (217)</u>	<u>\$ 68,769</u>

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

INVESTMENT SECURITIES - CONTINUED

When management evaluates securities for other-than-temporary impairment 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 and 2014, debt securities did not have unrealized losses that were aggregately depreciated more than 1% from the Bank's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

Gross realized gains and (losses) on securities available for sale were \$0 for 2015 and 2014.

The amortized cost and estimated market value of securities available for sale at December 31, 2015, by scheduled maturities are shown below. Expected maturities will differ from scheduled maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The scheduled maturities of investment securities at December 31, 2015 were as follows:

	SECURITIES AVAILABLE FOR SALE	
	AMORTIZED COST	APPROXIMATE FAIR VALUE
Due in one year or less	\$ 526	\$ 525
Due from one to five years	93,551	95,938
Due from five to ten years	673,829	679,460
Due after ten years	2,401,929	2,411,106
Total	\$ 3,169,835	\$ 3,187,029

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

LOANS

Major classifications of loans are as follows:

	DECEMBER 31,	
	2015	2014
Commercial and construction	\$ 1,890,701	\$ 2,273,825
Real estate	14,438,330	15,288,875
Installment	1,412,266	1,657,346
Overdrafts	12,437	54,472
	<u>17,753,734</u>	<u>19,274,518</u>
Allowance for loan losses	<u>(287,386)</u>	<u>(329,632)</u>
Loans, net	<u>\$ 17,466,348</u>	<u>\$ 18,944,886</u>

Changes in the allowance for loan losses were as follows:

	DECEMBER 31,	
	2015	2014
Balance, beginning year	\$ 329,632	\$ 312,131
Provision	4,000	74,000
Loans charged off	(46,969)	(67,231)
Recoveries	723	10,732
	<u>287,386</u>	<u>329,632</u>
Balance, end of year	<u>\$ 287,386</u>	<u>\$ 329,632</u>

FASB ASC 310, *Receivables*, requires disclosures relating to the allowance for loans losses, impaired loans, and the credit quality of loans. Those disclosures follow.

The allowance for loan losses disaggregated based on the method of impairment evaluation is as follows:

METHOD OF EVALUATION	DECEMBER 31, 2015	
	LOAN BALANCE	ALLOWANCE BALANCE
Individually evaluated for impairment	\$ 1,222,852	
Collectively evaluated for impairment	16,530,882	\$ 287,386
Total	<u>\$ 17,753,734</u>	<u>\$ 287,386</u>

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

LOANS - CONTINUED

METHOD OF EVALUATION	DECEMBER 31, 2014	
	LOAN BALANCE	ALLOWANCE BALANCE
Individually evaluated for impairment	\$ 1,505,256	
Collectively evaluated for impairment	17,769,262	\$ 329,632
Total	<u>\$ 19,274,518</u>	<u>\$ 329,632</u>

The following is an analysis of past due loans:

	DECEMBER 31, 2015			
	30 - 59 DAYS	60 - 89 DAYS	OVER 90 DAYS	TOTAL
Commercial and construction			\$ 142,069	\$ 142,069
Real estate	\$ 35,512			35,512
Installment	15,298		6,731	22,029
Total	<u>\$ 50,810</u>		<u>\$ 148,800</u>	<u>\$ 199,610</u>

	DECEMBER 31, 2014			
	30 - 59 DAYS	60 - 89 DAYS	OVER 90 DAYS	TOTAL
Commercial and construction			\$ 47,373	\$ 47,373
Real estate	\$ 464,008	\$ 38,488		502,496
Installment	1,672		5,603	7,275
Total	<u>\$ 465,680</u>	<u>\$ 38,488</u>	<u>\$ 52,976</u>	<u>\$ 557,144</u>

The balance on loans past due greater than ninety days still accruing interest at December 31, 2015 and 2014 was \$0 and \$52,976, respectively. The December 31, 2014 balance included commercial and construction, and installment loans in the amount of \$47,373, and \$5,603, respectively.

The Bank internally grades its loans as they are originated or renewed. These internal grades are exceptional, quality, acceptable, watch, doubtful, substandard or non-accrual. The criteria for determining what a grade should include was last reviewed in June, 2015. Loans with a grade of watch, doubtful, substandard or non-accrual must be on the Bank's internal watch list which is reviewed monthly. Those loans portray one or more deficiencies. These loans are assigned a value based on the fair value of the collateral. If the collateral to loan value results in a deficiency, a loss reserve is calculated.

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

LOANS - CONTINUED

The internal grades of the Bank's loans were as follows:

	DECEMBER 31, 2015		
	COMMERCIAL AND CONSTRUCTION	REAL ESTATE	INSTALLMENT
Exceptional, quality, and acceptable	\$ 1,748,398	\$ 13,364,512	\$ 1,405,535
Watch		463,754	
Substandard	234	602,474	
Non-accrual and bankruptcies *	142,069	7,590	6,731
Total	\$ 1,890,701	\$ 14,438,330	\$ 1,412,266

* This grade includes non-accruals and bankruptcies that have not been included in another grade.

	DECEMBER 31, 2014		
	COMMERCIAL AND CONSTRUCTION	REAL ESTATE	INSTALLMENT
Exceptional, quality, and acceptable	\$ 2,115,385	\$ 13,951,157	\$ 1,648,249
Watch	21,128	358,880	594
Substandard	137,312	973,235	8,503
Non-accrual and bankruptcies *		5,603	
Total	\$ 2,273,825	\$ 15,288,875	\$ 1,657,346

* This grade includes non-accruals and bankruptcies that have not been included in another grade.

Loans that have had recognition of interest discontinued consisted of the following:

	DECEMBER 31,	
	2015	2014
Commercial and construction	\$ 142,069	
Installment	6,731	
Total	\$ 148,800	

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

LOANS - CONTINUED

Information regarding impaired loans at December 31, 2015 and 2014 is shown in the following tables. Impaired loans include those classified as watch or substandard that have been individually evaluated, as well as non-accruals and bankruptcies.

DECEMBER 31, 2015				
	BALANCE	RELATED ALLOWANCE	AVERAGE BALANCE	INTEREST INCOME RECOGNIZED
Without a related allowance recorded:				
Commercial and construction	\$ 142,304		\$ 145,971	\$ 9,290
Real estate	1,073,817		1,276,229	119,681
Installment	6,731		7,050	272
Total:				
Commercial and construction	142,304		145,971	9,290
Real estate	1,073,817		1,276,229	119,681
Installment	6,731		7,050	272

DECEMBER 31, 2014				
	BALANCE	RELATED ALLOWANCE	AVERAGE BALANCE	INTEREST INCOME RECOGNIZED
Without a related allowance recorded:				
Commercial and construction	\$ 158,440		\$ 118,340	\$ 11,296
Real estate	1,337,719		1,447,638	129,796
Installment	9,097		8,977	1,098
With a related allowance recorded:				
Real estate			16,119	12,928
Total:				
Commercial and construction	158,440		118,340	11,296
Real estate	1,337,719		1,463,757	142,724
Installment	9,097		8,977	1,098

The unpaid principal balance at December 31, 2015 and 2014 for impaired loans is equal to the balance shown in the above tables.

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

PREMISES AND EQUIPMENT

Major classifications of premises and equipment as of December 31, 2015 and 2014 are summarized as follows:

	DECEMBER 31,	
	2015	2014
Land	\$ 26,100	\$ 26,100
Buildings and improvements	1,194,175	1,182,774
Equipment and furniture	768,687	744,960
Bank automobiles	60,614	60,614
	2,049,576	2,014,448
Accumulated depreciation	(1,643,961)	(1,545,761)
Total	\$ 405,615	\$ 468,687

Depreciation expense amounted to \$98,200 and \$97,786 for the years ended December 31, 2015 and 2014, respectively.

TIME DEPOSITS

Maturities for time deposits for the years subsequent to December 31, 2015 are as follows:

2016	\$ 4,947,822
2017	2,859,142
2018	465,858
2019	106,406
2020	543,858
2021	5,019
	\$ 8,928,105
Total	\$ 8,928,105

COMMITMENTS AND CONTINGENT LIABILITIES

The Bank'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 Bank's commitments and contingent liabilities are as follows:

	DECEMBER 31,	
	2015	2014
Commitments to extend credit (unfunded)	\$ 343,563	\$ 533,147
	\$ 343,563	\$ 533,147

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

Commitments to extend credit and standby letters of credit include exposure to some credit loss in the event of nonperformance of the customer. The Bank's credit policies and procedures of credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the statements of condition. 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 Bank. The Bank does not anticipate any material losses as a result of the commitments and contingent liabilities.

The Bank is involved in various legal actions arising from normal business activities. Management believes that, if any, the results of these matters will not materially affect the Bank's financial position.

LINE OF CREDIT

At December 31, 2015 and 2014, the Bank had \$500,000 available under a Federal Funds Line of Credit with The Independent BankersBank (TIB) which can be terminated with or without notice at any time by TIB.

RELATED PARTY TRANSACTIONS

Certain officers, directors, and companies in which they have beneficial ownership, were indebted to the Bank in the aggregate amount of \$78,741 at December 31, 2015 and \$35,697 at December 31, 2014. Deposit liabilities for these related parties totaled \$2,363,557 at December 31, 2015 and \$2,287,759 at December 31, 2014.

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Bank's loans, commitments, and standby letters of credit have been granted primarily to customers in the Bank's market area. The concentrations of credit by type of loan are set forth in the loan footnote. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commitments and standby letters of credit were granted primarily to commercial and real estate borrowers.

The market area generally includes the tri-county area of San Jacinto, Liberty and Montgomery counties. The economy of the primary market area depends heavily on the retail trade, service and recreation industries.

The Bank maintains cash deposits with various financial institutions. The accounts are insured by Federal Deposit Insurance Coverage (FDIC) up to \$250,000 per financial institution. At December 31, 2015, the Bank's uninsured cash balances totaled \$996,521. The uninsured balances at December 31, 2014 totaled \$1,472,836.

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

RESTRICTIONS ON RETAINED EARNINGS

The Bank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. At December 31, 2015 \$3,157,678 of retained earnings were available for dividend declaration without prior regulatory approval.

REGULATORY MATTERS

The Bank is required to maintain minimum capital requirements as defined by banking regulators. Management believes, as of December 31, 2015 and 2014, that the Bank meets all capital adequacy requirements to which it is subject. Effective January 1, 2015, the Bank was subject to revised regulatory capital rules.

As of December 31, 2015, the most recent notification from FDIC 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 total risk-based, Tier I risk-based and Tier I leverage 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 capital ratios, ratios required for capital adequacy purposes and prompt corrective action are shown in the table.

	ACTUAL	FOR CAPITAL ADEQUACY PURPOSES	UNDER PROMPT CORRECTIVE ACTION PROVISIONS
As of December 31, 2015			
Total Risk-Based Capital	39.66%	8.0%	10.0%
Tier I Risk-Based Capital	38.39%	6.0%	8.0%
Common Equity Tier I Capital	38.39%	4.5%	6.5%
Leverage	12.43%	4.0%	5.0%
As of December 31, 2014			
Total Capital to Risk Weighted Assets	35.79%	8.0%	10.0%
Tier I Capital to Risk Weighted Assets	34.52%	4.0%	6.0%
Tier I Capital to Average Assets (Leverage)	13.21%	4.0%	5.0%

THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

REGULATORY MATTERS - CONTINUED

The Bank's actual capital amounts, capital amounts required for capital adequacy purposes and prompt corrective action are shown in the table below (in thousands).

	ACTUAL	FOR CAPITAL ADEQUACY PURPOSES	UNDER PROMPT CORRECTIVE ACTION PROVISIONS
As of December 31, 2015			
Total Risk-Based Capital	\$ 4,915	\$ 991	\$ 1,239
Tier I Risk-Based Capital	4,758	744	991
Common Equity Tier I Capital	4,758	558	806
Leverage	4,758	1,532	1,914
As of December 31, 2014			
Total Capital to Risk Weighted Assets	\$ 4,765	\$ 1,065	\$ 1,331
Tier I Capital to Risk Weighted Assets	4,596	533	799
Tier I Capital to Average Assets (Leverage)	4,596	1,392	1,740

FAIR VALUE OF ASSETS AND LIABILITIES

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in some instances, there are no quoted market prices for the various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. A financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**THE BANK OF SAN JACINTO COUNTY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014**

FAIR VALUE OF ASSETS AND LIABILITIES - CONTINUED

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Fair values of assets and liabilities measured on a recurring basis are summarized below:

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
<u>December 31, 2015</u>				
Available for sale securities	\$ 3,187,029	\$ 3,187,029		
<u>December 31, 2014</u>				
Available for sale securities	2,809,990	2,809,990		

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances, some assets are adjusted to fair value although they are not measured at fair value at an ongoing basis. At December 31, 2015 and 2014, there were no material nonrecurring changes in fair value recorded.

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC.

AND SUBSIDIARY

COLDSRING, TEXAS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Banc of San Jacinto County Bancshares, Inc. and Subsidiary
Coldspring, Texas 77331

We have audited the accompanying consolidated financial statements of The Banc of San Jacinto County Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Auditor's Responsibility - Continued

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 The Banc of San Jacinto County Bancshares, Inc. and Subsidiary as of December 31, 2015 and 2014, 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.



ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
May 10, 2016

**THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

	DECEMBER 31,	
	2015	2014
ASSETS		
Cash and due from banks	\$ 16,646,534	\$ 13,348,449
Securities available for sale	3,187,029	2,809,990
Loans, less allowance for loan losses	17,466,348	18,944,886
Premises and equipment, net	405,615	468,687
Accrued income and other assets	177,807	437,294
Total assets	\$ 37,883,333	\$ 36,009,306
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	\$ 12,438,690	\$ 11,771,303
Money market	1,887,075	1,818,665
NOW accounts	4,558,498	4,853,180
Savings	5,271,153	4,573,548
Time, \$100,000 and over	2,251,603	1,687,164
Other time	6,676,502	6,633,189
Total deposits	33,083,521	31,337,049
Accrued expenses and other liabilities	20,467	29,852
Total liabilities	33,103,988	31,366,901
 STOCKHOLDERS' EQUITY		
Common stock - \$.01 par value; 1,000,000 shares authorized; 83,913 issued, 83,709 outstanding in 2015, and 83,913 issued, 83,866 outstanding in 2014	839	839
Additional paid-in capital	1,798,714	1,798,714
Retained earnings	2,968,724	2,802,402
Treasury stock, at cost (204 shares in 2015, 47 shares in 2014)	(6,126)	(1,416)
Accumulated other comprehensive income	17,194	41,866
Total stockholders' equity	4,779,345	4,642,405
Total liabilities and stockholders' equity	\$ 37,883,333	\$ 36,009,306

The accompanying notes are an integral part of these financial statements.

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**THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	FOR THE YEAR ENDED DECEMBER 31,	
	2015	2014
INTEREST INCOME		
Interest and fees on loans	\$ 1,437,602	\$ 1,477,402
Interest on investment securities:		
Mortgage-backed securities	65,782	64,559
Interest on deposits in banks	33,542	24,562
Total interest income	1,536,926	1,566,523
INTEREST EXPENSE		
Interest on deposits	65,865	78,373
Total interest expense	65,865	78,373
Net interest income	1,471,061	1,488,150
PROVISION FOR LOAN LOSSES	4,000	74,000
Net interest income after provision for loan losses	1,467,061	1,414,150
NON-INTEREST INCOME		
Service charges on deposit accounts	216,484	249,826
Other service charges, commissions and fees	125,012	207,289
Other income (loss)	23,116	(4,811)
Total non-interest income	364,612	452,304
NON-INTEREST EXPENSES		
Salaries and benefits - leased employees	891,861	902,358
Occupancy expense	70,142	72,343
Other operating expenses	628,348	661,936
Total non-interest expenses	1,590,351	1,636,637
NET INCOME	241,322	229,817
OTHER COMPREHENSIVE INCOME		
Net change in unrealized gain on securities available for sale due to maturities, prepayments and calls	(24,672)	(681)
Total other comprehensive income	(24,672)	(681)
TOTAL COMPREHENSIVE INCOME	\$ 216,650	\$ 229,136
NET INCOME PER SHARE OF COMMON STOCK	\$ 2.88	\$ 2.74

The accompanying notes are an integral part of these financial statements.

**THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	COMMON STOCK
Balance at December 31, 2013	\$ 839
Comprehensive income:	
Net income for 2014	
Net change in unrealized gain on securities available for sale due to maturities, prepayments, and calls	
Comprehensive income	
Distributions to stockholders	
Balance at December 31, 2014	839
Comprehensive income:	
Net income for 2015	
Net change in unrealized gain on securities available for sale due to maturities, prepayments, and calls	
Comprehensive income	
Purchase of treasury stock	
Distributions to stockholders	
Balance at December 31, 2015	\$ 839

ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS' EQUITY
\$ 1,798,714	\$ 2,647,585	\$ (1,416)	\$ 42,547	\$ 4,488,269
	229,817			
	(75,000)		(681)	229,136 (75,000)
<u>1,798,714</u>	<u>2,802,402</u>	<u>(1,416)</u>	<u>41,866</u>	<u>4,642,405</u>
	241,322			
	(75,000)	(4,710)	(24,672)	216,650 (4,710) (75,000)
<u>\$ 1,798,714</u>	<u>\$ 2,968,724</u>	<u>\$ (6,126)</u>	<u>\$ 17,194</u>	<u>\$ 4,779,345</u>

The accompanying notes are an integral part of these financial statements.

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THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	FOR THE YEAR ENDED DECEMBER 31,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 241,322	\$ 229,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	98,200	97,786
(Gain)/loss on sale of other assets	(16,278)	6,781
Writedown of other assets	21,500	
Provision for loan losses	4,000	74,000
Amortization and accretion	7,481	6,981
(Increase) in accrued income and other assets	(37,600)	(162,135)
Increase (decrease) in accrued expenses and other liabilities	(9,385)	5,387
Total adjustments	67,918	28,800
Net cash provided by operating activities	309,240	258,617
Cash flows from investing activities		
Purchases of equipment, fixtures and improvements	(35,128)	(75,327)
Proceeds from sale of other assets	291,865	31,004
Purchase of securities available for sale	(1,008,781)	(985,231)
Proceeds from maturities, prepayments and calls of securities available for sale	599,589	568,883
Net (increase) decrease in loans	1,474,538	(1,371,157)
Net cash used in investing activities	1,322,083	(1,831,828)
Cash flows from financing activities		
Net increase in demand deposits	655,812	1,504,712
Net increase in money market deposits	68,410	60,463
Net increase (decrease) in NOW deposit accounts	(294,682)	1,069,203
Net increase in savings deposits	697,605	282,171
Net increase (decrease) in time deposits	607,752	(1,084,843)
Net increase in mortgage escrow account	11,865	7,701
Distributions to stockholders	(80,000)	(75,000)
Net cash provided by (used in) financing activities	1,666,762	1,764,407
Net increase in cash and cash equivalents	3,298,085	191,196
Cash and cash equivalents, beginning of year	13,348,449	13,157,253
Cash and cash equivalents, end of year	\$ 16,646,534	\$ 13,348,449
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 66,169	\$ 79,258

The accompanying notes are an integral part of these financial statements.

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THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Banc of San Jacinto County Bancshares, Inc. is a bank holding company incorporated under the laws of the State of Texas that owns 100% of the outstanding capital stock of The Bank of San Jacinto County (Bank). The accounting and reporting policies of The Banc of San Jacinto County Bancshares, Inc. and its subsidiary (Company) conform to generally accepted accounting principles and the general practices within the banking industry. The Bank provides a variety of services to individuals and businesses. The Bank's lending services consist primarily of commercial, real estate mortgage, and consumer loans. The deposit services are primarily demand, savings, and certificates of deposit.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of The Bank of San Jacinto County Bancshares, Inc. and its subsidiary. All material intercompany balances and transactions have been eliminated.

Investment Securities

Securities Available for Sale - Securities available for sale consist of mortgage-backed securities not classified as securities to be held to maturity.

Declines in the fair value of individual available for sale securities below their cost that are deemed to be other than temporary are written down to their fair value, with the related write-down reflected in earnings as realized losses. Unrealized gains and losses on securities available for sale are excluded from earnings and reported in other comprehensive income. Purchases and sales of securities are recorded on the trade date and gains and losses are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

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 BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 income is accrued on the unpaid principal balance. Loan fees are recognized as income at inception, and loan costs are expensed as incurred instead of capitalized, as these amounts are not deemed to be material to the financial statements. Loans may be secured or unsecured in accordance with Bank policy. Bank policy requires that collateral on secured loans be adequate to repay the loan in the event of foreclosure.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expenses. Loan losses are charged against the allowance when management believes that the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on periodic evaluations of the collectibility of loans and historical experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, risk characteristics of various categories of loans, overall portfolio quality, review of specific problem loans, estimated value of underlying collateral, prevailing economic conditions, and adverse situations that may affect the borrower's ability to pay. The evaluations are inherently subjective, as estimates are susceptible to significant revision when situations change or more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or watch. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loans and Allowance for Loan Losses - Continued

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 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.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Upon such discontinuance, all unpaid accrued interest is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Premises and Equipment

Premises and equipment are stated at cost net of accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses on foreclosed assets. Foreclosed assets totaled \$0 at December 31, 2015 and \$297,087 at December 31, 2014.

Net Income Per Share of Common Stock

Net income per share of common stock is calculated by dividing net income by the weighted average number of shares outstanding during the period.

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

For the purpose of presentation in the statements of cash flows, the Company has defined cash and cash equivalents as those amounts included in the balance sheet caption "Cash and due from banks", which includes cash on hand and amounts due from banks in demand accounts.

Income Taxes

The Banc of San Jacinto County Bancshares, Inc., with the consent of its stockholders has elected to be taxed as an S corporation under the Internal Revenue Code. In lieu of corporation income taxes, stockholders of an S corporation are taxed on their proportionate share of the corporation's taxable income. Therefore, no provision or liability for federal income taxes is included in the financial statements. A federal income tax return is filed for The Banc of San Jacinto County Bancshares, Inc., including the Bank of San Jacinto County, as a result of its election to treat the Bank as a qualified Subchapter S subsidiary. Income tax returns for years ended on or after December 31, 2011 remain subject to examination by the Internal Revenue Service. During the years ended December 31, 2015 and 2014, no interest or penalties were incurred on income tax returns. If penalties or interest were incurred, they would be included in non-interest expense.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

Advertising Costs

Advertising costs are expensed in the period incurred. Advertising costs were \$5,786 and \$12,912 for December 31, 2015 and 2014, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although 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 equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Date of Management Review-Subsequent Events

Management has evaluated subsequent events through May 10, 2016, the date on which the financial statements were available to be issued.

INVESTMENT SECURITIES

Carrying amounts and approximate market values of investment securities are summarized as follows:

	DECEMBER 31, 2015			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE
Securities available for sale:				
Mortgage-backed securities	\$ 3,169,835	\$ 21,069	\$ (3,875)	\$ 3,187,029
Total	<u>\$ 3,169,835</u>	<u>\$ 21,069</u>	<u>\$ (3,875)</u>	<u>\$ 3,187,029</u>

	DECEMBER 31, 2014			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE
Securities available for sale:				
Mortgage-backed securities	\$ 2,768,126	\$ 42,081	\$ (217)	\$ 2,809,990
Total	<u>\$ 2,768,126</u>	<u>\$ 42,081</u>	<u>\$ (217)</u>	<u>\$ 2,809,990</u>

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	DECEMBER 31, 2015			
	LESS THAN TWELVE MONTHS		OVER TWELVE MONTHS	
	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE
Securities available for sale:				
Mortgage-backed securities	\$ (3,823)	\$ 954,707	\$ (52)	\$ 50,951
Total	<u>\$ (3,823)</u>	<u>\$ 954,707</u>	<u>\$ (52)</u>	<u>\$ 50,951</u>

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

INVESTMENT SECURITIES - CONTINUED

	DECEMBER 31, 2014			
	LESS THAN TWELVE MONTHS		OVER TWELVE MONTHS	
	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE	GROSS UNREALIZED LOSSES	APPROXIMATE FAIR VALUE
Securities available for sale:				
Mortgage-backed securities			\$ (217)	\$ 68,769
Total			\$ (217)	\$ 68,769

When management evaluates securities for other-than-temporary impairment 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 and 2014, debt securities did not have unrealized losses that were aggregately depreciated more than 1% from the Bank's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

Gross realized gains and (losses) on securities available for sale were \$0 for 2015 and 2014.

The amortized cost and estimated market value of securities available for sale at December 31, 2015, by scheduled maturities are shown below. Expected maturities will differ from scheduled maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The scheduled maturities of investment securities at December 31, 2015 were as follows:

	SECURITIES AVAILABLE FOR SALE	
	AMORTIZED COST	APPROXIMATE FAIR VALUE
Due in one year or less	\$ 526	\$ 525
Due from one to five years	93,551	95,938
Due from five to ten years	673,829	679,460
Due after ten years	2,401,929	2,411,106
Total	\$ 3,169,835	\$ 3,187,029

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

LOANS

Major classifications of loans are as follows:

	DECEMBER 31,	
	2015	2014
Commercial and construction	\$ 1,890,701	\$ 2,273,825
Real estate	14,438,330	15,288,875
Installment	1,412,266	1,657,346
Overdrafts	12,437	54,472
	<u>17,753,734</u>	<u>19,274,518</u>
Allowance for loan losses	(287,386)	(329,632)
Loans, net	<u>\$ 17,466,348</u>	<u>\$ 18,944,886</u>

Changes in the allowance for loan losses were as follows:

	DECEMBER 31,	
	2015	2014
Balance, beginning year	\$ 329,632	\$ 312,131
Provision	4,000	74,000
Loans charged off	(46,969)	(67,231)
Recoveries	723	10,732
Balance, end of year	<u>\$ 287,386</u>	<u>\$ 329,632</u>

FASB ASC 310, *Receivables*, requires disclosures relating to the allowance for loans losses, impaired loans, and the credit quality of loans. Those disclosures follow.

The allowance for loan losses disaggregated based on the method of impairment evaluation is as follows:

METHOD OF EVALUATION	DECEMBER 31, 2015	
	LOAN BALANCE	ALLOWANCE BALANCE
Individually evaluated for impairment	\$ 1,222,852	
Collectively evaluated for impairment	16,530,882	\$ 287,386
Total	<u>\$ 17,753,734</u>	<u>\$ 287,386</u>

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

LOANS - CONTINUED

METHOD OF EVALUATION	DECEMBER 31, 2014	
	LOAN BALANCE	ALLOWANCE BALANCE
Individually evaluated for impairment	\$ 1,505,256	
Collectively evaluated for impairment	17,769,262	\$ 329,632
Total	<u>\$ 19,274,518</u>	<u>\$ 329,632</u>

The following is an analysis of past due loans:

	DECEMBER 31, 2015			
	30 - 59 DAYS	60 - 89 DAYS	OVER 90 DAYS	TOTAL
Commercial and construction			\$ 142,069	\$ 142,069
Real estate	\$ 35,512			35,512
Installment	15,298		6,731	22,029
Total	<u>\$ 50,810</u>	<u>\$ 0</u>	<u>\$ 148,800</u>	<u>\$ 199,610</u>

	DECEMBER 31, 2014			
	30 - 59 DAYS	60 - 89 DAYS	OVER 90 DAYS	TOTAL
Commercial and construction			\$ 47,373	\$ 47,373
Real estate	\$ 464,008	\$ 38,488		502,496
Installment	1,672		5,603	7,275
Total	<u>\$ 465,680</u>	<u>\$ 38,488</u>	<u>\$ 52,976</u>	<u>\$ 557,144</u>

The balance on loans past due greater than ninety days still accruing interest at December 31, 2015 and 2014 was \$0 and \$52,976, respectively. The December 31, 2014 balance included commercial and construction, and installment loans in the amount of \$47,373 and \$5,603, respectively.

The Bank internally grades its loans as they are originated or renewed. These internal grades are exceptional, quality, acceptable, watch, doubtful, substandard or non-accrual. The criteria for determining what a grade should include was last reviewed in June, 2015. Loans with a grade of watch, doubtful, substandard or non-accrual must be on the Bank's internal watch list which is reviewed monthly. Those loans portray one or more deficiencies. These loans are assigned a value based on the fair value of the collateral. If the collateral to loan value results in a deficiency, a loss reserve is calculated.

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

LOANS - CONTINUED

The internal grades of the Bank's loans were as follows:

	DECEMBER 31, 2015		
	COMMERCIAL AND CONSTRUCTION	REAL ESTATE	INSTALLMENT
Exceptional, quality, and acceptable	\$ 1,748,398	\$ 13,364,512	\$ 1,405,535
Watch		463,754	
Substandard	234	602,474	
Non-accrual and bankruptcies *	142,069	7,590	6,731
Total	\$ 1,890,701	\$ 14,438,330	\$ 1,412,266

* This grade includes non-accruals and bankruptcies that have not been included in another grade.

	DECEMBER 31, 2014		
	COMMERCIAL AND CONSTRUCTION	REAL ESTATE	INSTALLMENT
Exceptional, quality, and acceptable	\$ 2,115,385	\$ 13,951,157	\$ 1,648,249
Watch	21,128	358,880	594
Substandard	137,312	973,235	8,503
Non-accrual and bankruptcies *		5,603	
Total	\$ 2,273,825	\$ 15,288,875	\$ 1,657,346

* This grade includes non-accruals and bankruptcies that have not been included in another grade.

Loans that have had recognition of interest discontinued consisted of the following:

	DECEMBER 31,	
	2015	2014
Commercial and construction	\$ 142,069	
Installment	6,731	
Total	\$ 148,800	

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

LOANS - CONTINUED

Information regarding impaired loans at December 31, 2015 and 2014 is shown in the following tables. Impaired loans include those classified as watch or substandard that have been individually evaluated, as well as non-accruals and bankruptcies.

DECEMBER 31, 2015				
	BALANCE	RELATED ALLOWANCE	AVERAGE BALANCE	INTEREST INCOME RECOGNIZED
Without a related allowance recorded:				
Commercial and construction	\$ 142,304		\$ 145,971	\$ 9,290
Real estate	1,073,817		1,276,229	119,681
Installment	6,731		7,050	272
Total:				
Commercial and construction	142,304		145,971	9,290
Real estate	1,073,817		1,276,229	119,681
Installment	6,731		7,050	272

DECEMBER 31, 2014				
	BALANCE	RELATED ALLOWANCE	AVERAGE BALANCE	INTEREST INCOME RECOGNIZED
Without a related allowance recorded:				
Commercial and construction	\$ 158,440		\$ 118,340	\$ 11,296
Real estate	1,337,719		1,447,638	129,796
Installment	9,097		8,977	1,098
With a related allowance recorded:				
Real estate			16,119	12,928
Total:				
Commercial and construction	158,440		118,340	11,296
Real estate	1,337,719		1,463,757	142,724
Installment	9,097		8,977	1,098

The unpaid principal balance at December 31, 2015 and 2014 for impaired loans is equal to the balance shown in the above tables.

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

PREMISES AND EQUIPMENT

Major classifications of premises and equipment as of December 31, 2015 and 2014 are summarized as follows:

	DECEMBER 31,	
	2015	2014
Land	\$ 26,100	\$ 26,100
Buildings and improvements	1,194,175	1,182,774
Equipment and furniture	768,687	744,960
Bank automobiles	60,614	60,614
	2,049,576	2,014,448
Accumulated depreciation	(1,643,961)	(1,545,761)
Total	\$ 405,615	\$ 468,687

Depreciation expense amounted to \$98,200 and \$97,786 for the years ended December 31, 2015 and 2014, respectively.

TIME DEPOSITS

Maturities for time deposits for the years subsequent to December 31, 2015 are as follows:

2016	\$ 4,947,822
2017	2,859,142
2018	465,858
2019	106,406
2020	543,858
2021	5,019
	\$ 8,928,105
Total	\$ 8,928,105

COMMITMENTS AND CONTINGENT LIABILITIES

The Company's financial statements do not reflect the Bank's 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 Bank's commitments and contingent liabilities are as follows:

	DECEMBER 31,	
	2015	2014
Commitments to extend credit (unfunded)	\$ 343,563	\$ 533,147
	\$ 343,563	\$ 533,147

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

Commitments to extend credit and standby letters of credit include exposure to some credit loss in the event of nonperformance of the customer. The Bank's credit policies and procedures of credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the consolidated statements of condition. 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 Bank. The Bank does not anticipate any material losses as a result of the commitments and contingent liabilities.

The Bank is involved in various legal actions arising from normal business activities. Management believes that, if any, the results of these matters will not materially affect the Bank's financial position.

LINE OF CREDIT

At December 31, 2015 and 2014, the Bank had \$500,000 available under a Federal Funds Line of Credit with The Independent BankersBank (TIB) which can be terminated with or without notice at any time by TIB.

RELATED PARTY TRANSACTIONS

Certain officers, directors, and companies in which they have beneficial ownership, were indebted to the Bank in the aggregate amount of \$78,741 at December 31, 2015 and \$35,697 at December 31, 2014. Deposit liabilities for these related parties totaled \$2,363,557 at December 31, 2015 and \$2,287,759 at December 31, 2014.

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Bank's loans, commitments, and standby letters of credit have been granted primarily to customers in the Bank's market area. The concentrations of credit by type of loan are set forth in the loan footnote. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commitments and standby letters of credit were granted primarily to commercial and real estate borrowers.

The market area generally includes the tri-county area of San Jacinto, Liberty and Montgomery counties. The economy of the primary market area depends heavily on the retail trade, service and recreation industries.

The Bank maintains cash deposits with various financial institutions. The accounts are insured by Federal Deposit Insurance Coverage (FDIC) up to \$250,000 per financial institution. At December 31, 2015, the Bank's uninsured cash balances totaled \$996,521. The uninsured cash balances at December 31, 2014 was \$1,472,836.

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

REGULATORY MATTERS

The Bank is required to maintain minimum capital requirements as defined by banking regulators. Management believes, as of December 31, 2015 and 2014, that the Bank meets all capital adequacy requirements to which it is subject. Effective January 1, 2015, the Bank was subject to revised regulatory capital rules.

As of December 31, 2015, the most recent notification from FDIC 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 total risk-based, Tier I risk-based and Tier I leverage 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 capital ratios, ratios required for capital adequacy purposes and prompt corrective action are shown in the table.

	ACTUAL	FOR CAPITAL ADEQUACY PURPOSES	UNDER PROMPT CORRECTIVE ACTION PROVISIONS
As of December 31, 2015			
Total Risk-Based Capital	39.66%	8.0%	10.0%
Tier I Risk-Based Capital	38.39%	6.0%	8.0%
Common Equity Tier I Capital	38.39%	4.5%	6.5%
Leverage	12.43%	4.0%	5.0%
As of December 31, 2014			
Total Capital to Risk Weighted Assets	35.79%	8.0%	10.0%
Tier I Capital to Risk Weighted Assets	34.52%	4.0%	6.0%
Tier I Capital to Average Assets (Leverage)	13.21%	4.0%	5.0%

The Bank's actual capital amounts, capital amounts required for capital adequacy purposes and prompt corrective action are shown in the table below (in thousands).

	ACTUAL	FOR CAPITAL ADEQUACY PURPOSES	UNDER PROMPT CORRECTIVE ACTION PROVISIONS
As of December 31, 2015			
Total Risk-Based Capital	\$ 4,915	\$ 991	\$ 1,239
Tier I Risk-Based Capital	4,758	744	991
Common Equity Tier I Capital	4,758	558	806
Leverage	4,758	1,532	1,914
As of December 31, 2014			
Total Capital to Risk Weighted Assets	\$ 4,765	\$ 1,065	\$ 1,331
Tier I Capital to Risk Weighted Assets	4,596	533	799
Tier I Capital to Average Assets (Leverage)	4,596	1,392	1,740

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014

FAIR VALUE OF ASSETS AND LIABILITIES

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in some instances, there are no quoted market prices for the various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. A financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Fair values of assets and liabilities measured on a recurring basis are summarized below:

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
<u>December 31, 2015</u>				
Available for sale securities	\$ 3,187,029	\$ 3,187,029		
<u>December 31, 2014</u>				
Available for sale securities	2,809,990	2,809,990		

**THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2015 AND 2014**

FAIR VALUE OF ASSETS AND LIABILITIES - CONTINUED

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances, some assets are adjusted to fair value although they are not measured at fair value at an ongoing basis. At December 31, 2015 and 2014, there were no material nonrecurring changes in fair value recorded.

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OTHER FINANCIAL INFORMATION

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Glenda J. Hiers, CPA
Richard A. Rudel, CPA

Wilbur E. Alexander, CPA
(1940 - 2009)

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INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Directors

The Banc of San Jacinto County Bancshares, Inc. and Subsidiary
Coldspring, Texas 77331

We have audited the consolidated financial statements of The Banc of San Jacinto County Bancshares, Inc. and Subsidiary as of and for the years ended December 31, 2015 and 2014, and have issued our report thereon dated May 10, 2016, which expressed an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it 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 consolidating information has been subjected to the auditing procedures applied in the audits 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



ALEXANDER, LANKFORD & HIERS, INC.

Certified Public Accountants

Lufkin, Texas
May 10, 2016

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**THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015**

	THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC.	THE BANK OF SAN JACINTO COUNTY	ELIMINATIONS	CONSOLIDATED TOTALS
ASSETS				
Cash and due from banks	\$ 4,473	\$ 16,646,534	\$ (4,473)	\$ 16,646,534
Securities available for sale		3,187,029		3,187,029
Investment in subsidiary	4,774,872		(4,774,872)	
Loans, net		17,466,348		17,466,348
Premises and equipment, net		405,615		405,615
Accrued income and other assets		177,807		177,807
Total assets	<u>\$ 4,779,345</u>	<u>\$ 37,883,333</u>	<u>\$ (4,779,345)</u>	<u>\$ 37,883,333</u>

See accompanying independent auditor's report on other financial information.

THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET - CONTINUED
DECEMBER 31, 2015

	THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC.	THE BANK OF SAN JACINTO COUNTY	ELIMINATIONS	CONSOLIDATED TOTALS
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Deposits:				
Demand		\$ 12,443,163	\$ (4,473)	\$ 12,438,690
Money market		1,887,075		1,887,075
NOW accounts		4,558,498		4,558,498
Savings		5,271,153		5,271,153
Time, \$100,000 and over		2,251,603		2,251,603
Other time		6,676,502		6,676,502
Total deposits		33,087,994	(4,473)	33,083,521
Accrued expenses and other liabilities		20,467		20,467
Total liabilities		33,108,461	(4,473)	33,103,988
STOCKHOLDERS' EQUITY				
Common stock - \$.01 par value; 1,000,000 shares authorized; 83,913 issued, 83,709 outstanding	\$ 839	200,000	(200,000)	839
Additional paid-in capital	1,798,714	1,400,000	(1,400,000)	1,798,714
Retained earnings	2,968,724	3,157,678	(3,157,678)	2,968,724
Treasury stock	(6,126)			(6,126)
Accumulated other comprehensive income	17,194	17,194	(17,194)	17,194
Total stockholders' equity	4,779,345	4,774,872	(4,774,872)	4,779,345
Total liabilities and stockholders' equity	\$ 4,779,345	\$ 37,883,333	\$ (4,779,345)	\$ 37,883,333

See accompanying independent auditor's report on other financial information.

**THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015**

	THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC.	THE BANK OF SAN JACINTO COUNTY	ELIMINATIONS	CONSOLIDATED TOTALS
INTEREST INCOME				
Interest and fees on loans		\$ 1,437,602		\$ 1,437,602
Interest on investment securities:				
Mortgage-backed securities		65,782		65,782
Interest on deposits in banks		33,542		33,542
				<hr/>
Total interest income		1,536,926		1,536,926
INTEREST EXPENSE				
Interest on deposits		65,865		65,865
				<hr/>
Total interest expense		65,865		65,865
				<hr/>
Net interest income		1,471,061		1,471,061
PROVISION FOR LOAN LOSSES				
		4,000		4,000
				<hr/>
Net interest income, after provision for loan losses		1,467,061		1,467,061
NON-INTEREST INCOME				
Service charges on deposit accounts		216,484		216,484
Other service charges, commissions and fees		125,012		125,012
Other income (loss)		23,116		23,116
				<hr/>
Total non-interest income		364,612		364,612
NON-INTEREST EXPENSES				
Salaries and benefits - leased employees		891,861		891,861
Occupancy expense		70,142		70,142
Other expense	\$ 526	627,822		628,348
				<hr/>
Total non-interest expenses	526	1,589,825		1,590,351

See accompanying independent auditor's report on other financial information.

**THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015**

	THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC.	THE BANK OF SAN JACINTO COUNTY	ELIMINATIONS	CONSOLIDATED TOTALS
EQUITY IN EARNINGS OF SUBSIDIARY	241,848		\$ (241,848)	
NET INCOME	241,322	241,848	(241,848)	241,322
OTHER COMPREHENSIVE INCOME				
Net change in unrealized gain on securities available for sale due to maturities, prepayments, and calls	(24,672)	(24,672)	24,672	(24,672)
Total other comprehensive income	(24,672)	(24,672)	24,672	(24,672)
TOTAL COMPREHENSIVE INCOME	<u>\$ 216,650</u>	<u>\$ 217,176</u>	<u>\$ (217,176)</u>	<u>\$ 216,650</u>
NET INCOME PER SHARE OF COMMON STOCK	<u>\$ 2.88</u>	<u>\$ 12.09</u>	<u>\$ (12.09)</u>	<u>\$ 2.88</u>

See accompanying independent auditor's report on other financial information.

**THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015**

	THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC.	THE BANK OF SAN JACINTO COUNTY	ELIMINATIONS	CONSOLIDATED TOTALS
COMMON STOCK				
Balance at December 31, 2014 and 2015	\$ 839	\$ 200,000	\$ (200,000)	\$ 839
ADDITIONAL PAID-IN CAPITAL				
Balance at December 31, 2014 and 2015	1,798,714	1,400,000	(1,400,000)	1,798,714
RETAINED EARNINGS				
Balance at December 31, 2014	2,802,402	2,995,830	(2,995,830)	2,802,402
Comprehensive income:				
Net income for 2015	241,322	241,848	(241,848)	241,322
Distributions to stockholders	(75,000)			(75,000)
Cash dividends paid		(80,000)	80,000	
Balance at December 31, 2015	2,968,724	3,157,678	(3,157,678)	2,968,724
TREASURY STOCK				
Balance at December 31, 2014	(1,416)			(1,416)
Purchase of treasury stock	(4,710)			(4,710)
Balance at December 31, 2015	(6,126)			(6,126)
ACCUMULATED OTHER				
COMPREHENSIVE INCOME				
Balance at December 31, 2014	41,866	41,866	(41,866)	41,866
Comprehensive income:				
Net change in unrealized gain on securities available for sale due to maturities, prepayments, and calls	(24,672)	(24,672)	24,672	(24,672)
Balance at December 31, 2015	17,194	17,194	(17,194)	17,194
Total stockholders' equity	\$ 4,779,345	\$ 4,774,872	\$ (4,774,872)	\$ 4,779,345

See accompanying independent auditor's report on other financial information.

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THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC.	THE BANK OF SAN JACINTO COUNTY	ELIMINATIONS	CONSOLIDATED TOTALS
Cash flows from operating activities				
Net income	\$ 241,322	\$ 241,848	\$ (241,848)	\$ 241,322
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation		98,200		98,200
(Gain) on sale of other assets		(16,278)		(16,278)
Writedown of other assets		21,500		21,500
Provision for loan losses		4,000		4,000
Amortization and accretion		7,481		7,481
(Increase) in accrued income and other assets		(37,600)		(37,600)
(Decrease) in accrued expenses and other liabilities		(9,385)		(9,385)
(Increase) in investment in subsidiary	(241,848)		241,848	
Adjustments	(241,848)	67,918	241,848	67,918
Net cash provided by (used in) operating activities	(526)	309,766		309,240
Cash flows from investing activities				
Purchases of equipment, fixtures and improvements		(35,128)		(35,128)
Proceeds from sale of other assets		291,865		291,865
Purchase of securities available for sale		(1,008,781)		(1,008,781)
Proceeds from maturities, prepayments and calls of securities available for sale		599,589		599,589
Net decrease in loans		1,474,538		1,474,538
Cash dividends received	80,000		(80,000)	
Net cash provided by investing activities	80,000	1,322,083	(80,000)	1,322,083

See accompanying independent auditor's report on other financial information.

**THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015**

	THE BANC OF SAN JACINTO COUNTY BANCSHARES, INC.	THE BANK OF SAN JACINTO COUNTY	ELIMINATIONS	CONSOLIDATED TOTALS
Cash flows from financing activities				
Net increase in demand deposits		655,286	526	655,812
Net increase in money market deposits		68,410		68,410
Net (decrease) in NOW deposit accounts		(294,682)		(294,682)
Net increase in savings deposits		697,605		697,605
Net increase in time deposits		607,752		607,752
Net increase in mortgage escrow account		11,865		11,865
Distributions to stockholders	(75,000)		75,000	
Cash dividends paid		(80,000)		(80,000)
Purchase of treasury stock	(4,710)		4,710	
Net cash provided by (used in) financing activities	(79,710)	1,666,236	80,236	1,666,762
Net increase (decrease) in cash and cash equivalents	(236)	3,298,085	236	3,298,085
Cash and cash equivalents, beginning of year	4,709	13,348,449	(4,709)	13,348,449
Cash and cash equivalents, end of year	<u>\$ 4,473</u>	<u>\$ 16,646,534</u>	<u>\$ (4,473)</u>	<u>\$ 16,646,534</u>
Supplemental disclosures of cash flow information:				
Interest paid		\$ 66,169		\$ 66,169

See accompanying independent auditor's report on other financial information.