Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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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, Dixie Hall
Name of the Holding Company Director and Official

Director
Title of the Holding Company Director and Official

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

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

Dixie Hall
Signature of Holding Company Director and Official

3-4-16
Date of Signature

For holding companies ***not*** *registered with the SEC–*
Indicate status of Annual Report to Shareholders:

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

For Federal Reserve Bank Use Only

RSSD ID 3174005
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2015
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address
Blanco National Holdings, Inc.
Legal Title of Holding Company

P.O. Box 38
(Mailing Address of the Holding Company) Street / P.O. Box

Blanco | TX | 78606
City | State | Zip Code

416 Fourth Street, Blanco, TX 78606
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:
Dixie Hall | Director
Name | Title

830-833-4538
Area Code / Phone Number / Extension

830-833-4140
Area Code / FAX Number

DixieH@BlancoBank.com
E-mail Address

www.blancobank.com
Address (URL) for the Holding Company's web page

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

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

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

For Use By Tiered Holding Companies

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

N/A

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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Physical Location (if different from mailing address)

Blanco National Holdings, Inc.

Form FR Y-6

December 31, 2015

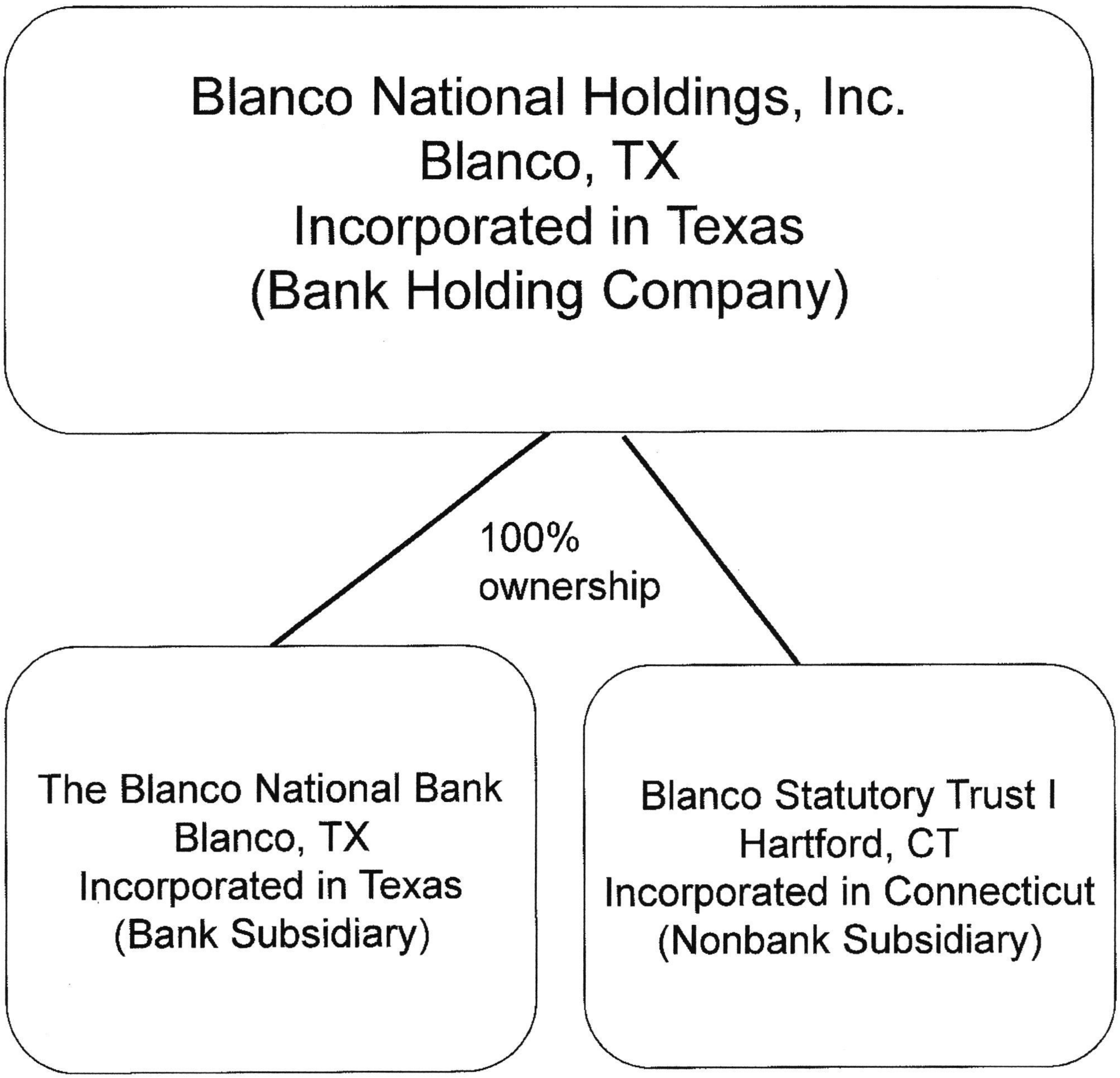
Responses to Report Items

Item No. 1 -	Copy of the consolidated financial statements will be sent under separate cover.
Item No. 2(a) -	Organizational chart is presented in Exhibit A.
Item No. 2(b) -	The domestic branch listing was verified and returned to the Federal Reserve Bank as per instructions.
Item No. 3 (1) -	A list of shareholders with 5 percent or more voting interest for the bank holding company as of year-end is in Exhibit B.
Item No. 3 (2) -	A list of shareholders who held 5 percent or more voting interest for the bank holding company during the year is in Exhibit B.
Item No. 4 -	A list of principal shareholders, directors, and executive officers for the bank holding company is in Exhibit C.

AMENDED
JUL 26 2016

Exhibit A

Blanco National Holdings, Inc.
Organizational Chart
December 31, 2015



Note: No entity has a legal entity identifier (LEI) assigned.

Results: A list of branches for your depository institution: BLANCO NATIONAL BANK, THE (ID_RSSD: 219259).
This depository institution is held by BLANCO NATIONAL HOLDINGS, INC. (3174005) of BLANCO, 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)	219259	BLANCO NATIONAL BANK, THE	416 4TH STREET	BLANCO	TX	78606	BLANCO	UNITED STATES	1981	0	BLANCO NATIONAL BANK, THE	219259	
OK		Full Service	3008717	FREDERICKSBURG BRANCH	609 EAST MAIN STREET	FREDERICKSBURG	TX	78624	GILLESPIE	UNITED STATES	196076	1	BLANCO NATIONAL BANK, THE	219259	
OK		Full Service	3542136	BULVERDE BRANCH	20475 HIGHWAY 46 WEST, SUITE 360	SPRING BRANCH	TX	78070	COMAL	UNITED STATES	362081	2	BLANCO NATIONAL BANK, THE	219259	
OK		Full Service	3542154	WIMBERLEY BRANCH	15451 RANCH ROAD 12	WIMBERLEY	TX	78676	HAYS	UNITED STATES	364642	3	BLANCO NATIONAL BANK, THE	219259	

Exhibit B

Blanco National Holdings, Inc.

5% Shareholders

December 31, 2015

Report Item 3 (1) – as of year-end:

Name	City, State, Country	Citizenship	Common Shares Owned / Controlled	Percentage of Total
Dixie Carolyn Lenz	St. Hedwig, TX, USA	USA	136.9	23.03%
Charles C. Pratt	Mary Esther, FL, USA	USA	40.1	6.75%
Medora Christine Pratt	Mary Esther, FL, USA	USA	125.9	21.18%
Rita P. Steitle and Dale R. Steitle	Burnet, TX, USA	USA	128.9	21.68%

Report Item 3 (2) – during the year:

Aaron Posey	Blanco, TX, USA	USA	54.0	9.08%

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JUL 26 2016

Exhibit C

Blanco National Holdings, Inc.

Principal Shareholders, Directors, and Executive Officers

December 31, 2015

Name / Address	Occupation other than HC	Position with HC	Position with Subsidiaries (Blanco National Bank – "Bank" or Statutory Trust)	Title and Position with Other Businesses	Percent Shares Owned of HC	Percent Shares Owned in Subs.	Names of Other Companies Greater Than 25% Owned
Mark E. Tidwell, Jr. Blanco, TX	Banker	Chairman of the Board, Director, President	Chairman of the Board, Director, President & CEO (Bank)	None	4.54%	None	None
Clinton DeWolfe Blanco, TX	Optometrist (retired)	Director	Director (Bank)	None	0.67%	None	None
Dixie Hall Blanco, TX	Banker	Director and Secretary	Director, Exec. Vice President and Cashier (Bank)	None	2.36%	None	None
Kirk Felps Blanco, TX	Farm and Ranch Supply store owner	Director	Director (Bank)	Owner / Manager	0.02%	None	100% owner of K & C Supply
David Behrends Blanco, TX	Veterinarian	Director	Director (Bank)	Owner / Manager	0.17%	None	100% owner of Blanco Veterinary Clinic
Paul Motes Blanco, TX	Banker	Advisory Director	Advisory Director, Chief Credit Officer (Bank)	None	None	None	None
Dixie Carolyn Lenz St. Hedwig, TX	Retired School Administrator	Principal Shareholder	None	None	23.03%	None	None
Medora Christine Pratt Mary Esther, FL	Retired Teacher	Principal Shareholder	None	None	21.18%	None	None
Rita P. Steitle and Dale R. Steitle Burnet, TX	Retired Legal Secretary	Principal Shareholder	None	None	21.68%	None	None

Blanco National Holdings, Inc. and Subsidiary

Annual Financial Report

December 31, 2015

Blanco National Holdings, Inc. and Subsidiary

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Independent Auditor's Report

To the Board of Directors and Stockholders
Blanco National Holdings, Inc.
Blanco, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Blanco National Holdings, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based 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.

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 Blanco National Holdings, Inc. and its subsidiary 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.

Padgett, Stratemann + Co., L.L.P.

San Antonio, Texas
May 10, 2016

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Blanco National Holdings, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2015 and 2014
(Dollars in Thousands, Except Share Data)

	2015	2014
Cash and due from banks	$ 17,613	$ 14,963
Federal funds sold	1,025	450
Cash and cash equivalents	18,638	15,413
Securities available for sale	71,458	50,135
Restricted investment securities	280	280
Loans – net of unearned discount and allowance for loan losses of $1,524 ($1,629 in 2014)	91,913	99,788
Bank premises and equipment – net	1,050	996
Accrued interest receivable	911	942
Other real estate owned – net	46	436
Prepaid expenses and other assets	343	374
Total assets	$ 184,639	$ 168,364
Liabilities		
Deposits:		
Noninterest-bearing	$ 53,498	$ 45,397
Interest-bearing	112,721	105,281
Total deposits	166,219	150,678
Dividends payable	-	250
Junior subordinated debenture	2,578	2,578
Accrued interest payable and other liabilities	438	429
Total liabilities	169,235	153,935
Commitments and contingencies (notes 6, 8, 10, and 13)		
Stockholders' Equity		
Common stock – $1 par value; 600 shares authorized; 598 shares issued; 593 shares outstanding	1	1
Surplus	1,459	1,459
Retained earnings	13,818	12,755
Treasury stock – 5 shares at cost	(250)	(250)
Accumulated other comprehensive income	376	464
Total stockholders' equity	15,404	14,429
Total liabilities and stockholders' equity	$ 184,639	$ 168,364

Notes to the consolidated financial statements form an integral part of these statements.

Blanco National Holdings, Inc. and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

	2015	2014
Interest income:		
Loans – including fees	$ 6,136	$ 6,210
Securities available for sale	1,294	1,220
Federal funds sold	21	14
Interest-bearing deposits in banks	3	3
Total interest income	7,454	7,447
Interest expense:		
Deposits	304	318
Junior subordinated debenture	85	87
Total interest expense	389	405
Net interest income	7,065	7,042
Provision for loan losses	67	249
Net interest income after provision for loan losses	6,998	6,793
Noninterest income:		
Service charges and fees	912	932
Net gain on sale of bank premises and equipment	-	9
Net gain on sale of securities	128	9
Net gain (loss) on sale of other real estate owned	43	(15)
Other income	19	19
Total noninterest income	1,102	954
Noninterest expense:		
Salaries and employee benefits	3,540	3,448
Occupancy and equipment expenses	582	621
Other operating expenses	2,111	2,095
Total noninterest expense	6,233	6,164
Net income	$ 1,867	$ 1,583

Notes to the consolidated financial statements form an integral part of these statements.

Blanco National Holdings, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

	2015	2014
Net income	$ 1,867	$ 1,583
Other items of comprehensive income:		
Adjustment for net gain on sale of investment securities	(128)	(9)
Unrealized holding gain on securities available for sale	40	1,882
Total other items of comprehensive income	(88)	1,873
Comprehensive income	$ 1,779	$ 3,456

Notes to the consolidated financial statements form an integral part of these statements.

Blanco National Holdings, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2013	$ 1	$ 1,459	$ 12,009	$ (250)	$ (1,409)	$ 11,810
Net income – year ended December 31, 2014	-	-	1,583	-	-	1,583
Change in other comprehensive income	-	-	-	-	1,873	1,873
Cash dividends declared	-	-	(837)	-	-	(837)
Balance at December 31, 2014	1	1,459	12,755	(250)	464	14,429
Net income – year ended December 31, 2015	-	-	1,867	-	-	1,867
Change in other comprehensive income	-	-	-	-	(88)	(88)
Cash dividends declared	-	-	(804)	-	-	(804)
Balance at December 31, 2015	$ 1	$ 1,459	$ 13,818	$ (250)	$ 376	$ 15,404

Notes to the consolidated financial statements form an integral part of these statements.

Blanco National Holdings, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014
(Dollars in Thousands)
Increase (Decrease) in Cash and Cash Equivalents

	2015	2014
Cash Flows From Operating Activities		
Net income	$ 1,867	$ 1,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	172	181
Provision for loan losses	67	249
Net amortization of investment securities	858	629
Gain on sale of bank premises and equipment	-	(9)
Gain on sale of securities	(128)	(9)
Net (gain) loss on sale of other real estate owned	(43)	15
Net change in:		
Accrued interest receivable and prepaid expenses and other assets	62	(234)
Accrued interest payable and other liabilities	9	(32)
Net cash provided by operating activities	2,864	2,373
Cash Flows From Investing Activities		
Proceeds from payments, sales, and maturities of investment securities available for sale	17,823	20,697
Purchases of investment securities	(39,965)	(15,222)
Proceeds from sale of bank premises and equipment	-	15
Net change in loans	7,721	(14,344)
Capital expenditures	(225)	(196)
Recoveries on loans previously charged off	67	80
Proceeds from sale of foreclosed assets	453	147
Net cash used in investing activities	(14,126)	(8,823)
Cash Flows From Financing Activities		
Net change in deposits	15,541	9,241
Dividends paid	(1,054)	(837)
Payment on junior subordinated debenture	-	(515)
Net cash provided by financing activities	14,487	7,889
Net increase in cash and cash equivalents	3,225	1,439
Cash and cash equivalents at beginning of year	15,413	13,974
Cash and cash equivalents at end of year	$ 18,638	$ 15,413
Schedules of Other Cash Flow Information		
Interest paid	$ 397	$ 406
Dividends declared – not yet paid	$ -	$ 250
Schedules of Noncash Activities		
Other assets acquired by foreclosure on loans	$ 46	$ 366
Foreclosed assets sold and financed by the Company	$ 26	$ 40

Notes to the consolidated financial statements form an integral part of these statements.

1. Summary of Significant Accounting Policies

Consolidation
The accompanying consolidated financial statements include the accounts of Blanco National Holdings, Inc. and its wholly owned subsidiary, The Blanco National Bank (the "Bank") (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations
The Company provides a variety of financial services to individuals and small businesses through its main office in Blanco, Texas and its branches in Fredericksburg, Bulverde, and Wimberley, Texas. Its primary deposit products are demand deposit accounts, savings accounts, and term certificate accounts, and its primary lending products are consumer and real estate loans.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

New and Recently Issued Accounting Standards
Accounting Standards Update ("ASU") No. 2014-09, Revenue From Contracts With Customers – ASU No. 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 will be effective for public business entities in 2018 and nonpublic business entities in 2019. The Company is still evaluating the potential impact of this new ASU on its consolidated financial statements.

ASU No. 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities – ASU No. 2016-01 is designed to improve the recognition and measurement of financial instruments through targeted changes to existing accounting standards. The new standard will require equity investments except those that are accounted for under the equity method of accounting or result in consolidation of the investee to be measured at fair value with changes in fair value recognized in net income. It also will require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the consolidated balance sheet or the accompanying notes to the consolidated financial statements. It also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities. The provisions of ASU No. 2016-01 will be effective for public entities in 2018 and nonpublic entities in 2019; however, early adoption upon issuance of the update was allowed for the provision that exempts private companies from having to disclose fair value information about financial instruments measured at amortized cost. Accordingly, the Company has eliminated the disclosures of fair values of financial instruments measured at cost for the year ended December 31, 2015. The Company does not anticipate the adoption of the remaining provisions of this standard will have a material impact on its consolidated financial statements in future years.

ASU No. 2016-02, Leases – The guidance in ASU No. 2016-02 supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard will be effective for public entities in 2019 and for nonpublic entities in 2020. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

Significant Group Concentrations of Credit Risk
Most of the Company's activities are with customers located within Blanco, Comal, Gillespie, and Hays Counties and the surrounding areas. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations in any one industry or customer.

Securities
Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. During the years ended December 31, 2015 and 2014, the Company had no securities classified as trading securities or held to maturity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of held-to-maturity and available-for-sale securities are evaluated to determine whether declines in fair value below their amortized cost are other than temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors including, but not limited to, (1) the length of time and the extent to which the fair value has been less than the amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions, and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.

Restricted Investment Securities
Restricted investment securities include Federal Home Loan Bank stock and Federal Reserve Bank stock, which are carried at cost on the consolidated balance sheets. These equity securities are "restricted" in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other marketable equity securities. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. No other-than-temporary write-downs have been recorded on these securities.

Loans
The Company grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout Blanco, Comal, Gillespie, and Hays Counties. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. Commercial and residential real estate loans are subject to underwriting standards that evaluate cash flow and fair value of the collateral. The collectibility of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on collateral, geography, and risk criteria.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets and frequently include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and collect amounts due from their customers.

Consumer loans are originated after evaluation of the credit history and repayment ability of the borrower based on current personal income. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower's income.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal adjusted for any charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

Loan origination fees are recognized as income and loan origination costs are expensed as incurred, as management has determined that capitalization of these items would be immaterial to the consolidated financial statements.

A loan is considered delinquent when principal and/or interest amounts are not current, in accordance with the contractual loan agreement.

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The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Consumer loans are typically charged-off no later than 120 days past due. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 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 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.

Loans are fully or partially charged down to the fair value of the collateral securing the loan when management determines the asset to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy, or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan.

In situations related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include interest rate reductions, payment forbearance, or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for Loan Losses
The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's methodology for the allowance for loan losses includes allowance allocations calculated in accordance with Accounting Standards Codification ("ASC"), *Receivables*, and ASC, *Contingencies*. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools, and specific loss allocations, with adjustments for current events and conditions.

The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations, and loan quality trends, including trends in nonaccrual, past-due, and classified loans; current period loan charge-offs; and recoveries. The determination also includes qualitative aspects, such as changes in local, regional, or national economies or markets, and other factors. Such qualitative factors are highly judgmental and require constant refinement. The Company has an internal and external loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade, and assist senior management in maintaining an adequate allowance for loan losses account by reviewing and refining the methodology, as needed, based on changing circumstances.

The Company's allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with the ASC based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with the ASC based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

Bank Premises and Equipment
Land is carried at cost. Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is recognized on straight-line and accelerated methods over the estimated useful lives of the assets. The estimated useful lives range from 1 to 24 years.

Other Real Estate Owned – Foreclosed Assets
Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of carrying value or fair value, less the cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less the cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other operating expenses.

Income Taxes
The Company, with the consent of its stockholders, has elected under the Internal Revenue Code to be taxed as an S Corporation. The stockholders of an S Corporation are taxed on their proportionate share of the entity's taxable income. Therefore, no provision or liability for federal income taxes has been included in the consolidated financial statements. Certain specific deductions and credits flow through the Company to its stockholders.

The Company is subject to the Texas gross margin tax.

Employees
The Company has an arrangement with Insperity, Inc. ("Insperity"), a third party, to provide personnel management services. This service is provided through a co-employment relationship between the Company and Insperity, under which all Company employees are employed by both the Company and Insperity. In addition, the Company outsources the human resources function to Insperity.

Cash and Cash Equivalents
For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks, and federal funds sold.

Off-Balance Sheet Credit-Related Financial Instruments
In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, standby letters of credit, and credit card commitments. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

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.

Subsequent Events
The Company has evaluated subsequent events through May 10, 2016, the date the consolidated financial statements were available to be issued.

2. Fair Value Measurements

The Company follows the provisions of the ASC, *Fair Value Measurements and Disclosures.* The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a "class" basis, rather than a major category basis for assets and liabilities; and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.

- Level 2 – Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs.

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth on the following page.

Securities Available for Sale – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively-traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities generally include certain United States government and agency securities, corporate debt securities, and certain derivatives. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

The following table summarizes assets measured at fair value by class on a recurring basis as reported on the consolidated balance sheets as of December 31, 2015 and 2014, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	Total Fair Value Measurement at December 31, 2015	Level 1	Level 2	Level 3
Assets:				
State and municipal securities	**$ 26,062**	**$ -**	**$ 26,062**	**$ -**
Mortgage-backed securities	**45,396**	**-**	**45,396**	**-**
	$ 71,458	**$ -**	**$ 71,458**	**$ -**

	Total Fair Value Measurement at December 31, 2014	Level 1	Level 2	Level 3
Assets:				
State and municipal securities	$ 19,622	$ -	$ 19,622	$ -
Mortgage-backed securities	30,513	-	30,513	-
	$ 50,135	$ -	$ 50,135	$ -

There were no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2015 and 2014.

3. Restrictions on Cash and Amounts Due From Banks

The Company is required to maintain average balances on-hand or with the Federal Reserve Bank. At December 31, 2015 and 2014, there was no reserve balance required.

4. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities Available for Sale at December 31, 2015				
State and municipal securities	**$ 25,334**	**$ 735**	**$ 7**	**$ 26,062**
Mortgage-backed securities	**45,748**	**48**	**400**	**45,396**
	$ 71,082	**$ 783**	**$ 407**	**$ 71,458**
Securities Available for Sale at December 31, 2014				
State and municipal securities	$ 19,285	$ 420	$ 83	$ 19,622
Mortgage-backed securities	30,386	231	104	30,513
	$ 49,671	$ 651	$ 187	$ 50,135

At December 31, 2015, the Company had investment securities carried at approximately $15.1 million pledged to secure public funds and for other purposes required or permitted by law ($16.8 million at December 31, 2014).

The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2015 were as follows (dollars in thousands):

	Amortized Cost	Fair Value
Securities available for sale:		
Within one year	$ -	$ -
After one year through five years	-	-
After five years through ten years	**6,892**	**7,148**
Over ten years	**18,442**	**18,914**
	25,334	**26,062**
Mortgage-backed securities	**45,748**	**45,396**
	$ 71,082	**$ 71,458**

For the years ended December 31, 2015 and 2014, proceeds from sales of securities available for sale totaled $9.4 million and $15.6 million, respectively. Gross realized gains totaled $143 thousand and $203 thousand, respectively. Gross realized losses totaled $15 thousand and $194 thousand, respectively.

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, are as follows (dollars in thousands):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities Available for Sale at December 31, 2015						
State and municipal securities	**$ 1,620**	**$ 3**	**$ 605**	**$ 4**	**$ 2,225**	**$ 7**
Mortgage-backed securities	**31,946**	**307**	**6,019**	**93**	**37,965**	**400**
	$ 33,566	**$ 310**	**$ 6,624**	**$ 97**	**$ 40,190**	**$ 407**
Securities Available for Sale at December 31, 2014						
State and municipal securities	$ 2,300	$ 15	$ 3,829	$ 68	$ 6,129	$ 83
Mortgage-backed securities	998	2	9,422	102	10,420	104
	$ 3,298	$ 17	$ 13,251	$ 170	$ 16,549	$ 187

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions, and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery. Declines in the fair value of held-to-maturity and available-for-sale securities below their amortized cost basis that are deemed to be other than temporary are carried at fair value. Any portion of a decline in value associated with credit loss is recognized in earnings as realized losses. As of December 31, 2015 and 2014, the Company did not have any securities with other-than-temporary impairment.

5. Loans and Allowance for Loan Losses

The components of loans in the consolidated balance sheets were as follows (dollars in thousands):

	December 31, 2015	December 31, 2014
Agriculture	$ **835**	$ 820
Real estate:		
Residential	**59,680**	67,318
Commercial	**22,489**	21,266
Commercial	**3,392**	4,510
Consumer	**6,533**	7,088
Other	**508**	415
	93,437	101,417
Unearned income	**(272)**	(318)
Allowance for loan losses	**(1,252)**	(1,311)
	$ 91,913	$ 99,788

Included in other loans are overdrafts that have been reclassified as loans totaling $176 thousand and $49 thousand for the years ended December 31, 2015 and 2014, respectively.

During the year ended December 31, 2015, the Company purchased a loan from a nonrelated bank totaling $2 million. There were no loans sold to nonrelated banks. During the year ended 2014, the Company did not purchase or sell any loans to nonrelated banks.

As part of its on-going monitoring of the credit quality of the Company's loan portfolio, management assigns risk grades to loans as follows:

- ***Pass*** – loans to borrowers with acceptable credit quality and risk.
- ***Pass Watch*** – loans to borrowers that have potential weaknesses that warrant management's attention. A loan may be rated "Pass Watch" even though performance is adequate.
- ***Other Assets Especially Mentioned ("OAEM")*** – loans to borrowers whose credit quality may have deteriorated since origination and are at risk of further decline unless measures are taken to correct the situation.
- ***Substandard*** – loans to borrowers with well-defined credit quality weaknesses, which make payment default or principal exposure possible, but not yet certain. Such loans are individually evaluated for a specific valuation allowance.
- ***Doubtful*** – loans to borrowers in which payment default or principal exposure is probable. Such loans are individually evaluated for a specific valuation allowance.

At December 31, 2015 and 2014, the Company's loan portfolio risk grades by loan segment were as follows (dollars in thousands):

	Pass	Pass Watch	OAEM	Substandard	Doubtful	Total Loans
December 31, 2015						
Agriculture	**$ 778**	**$ -**	**$ -**	**$ 57**	**$ -**	**$ 835**
Real estate:						
Residential	**58,290**	**137**	**-**	**1,253**	**-**	**59,680**
Commercial	**20,257**	**1,796**	**75**	**361**	**-**	**22,489**
Commercial	**1,934**	**-**	**926**	**532**	**-**	**3,392**
Consumer	**6,163**	**-**	**-**	**355**	**15**	**6,533**
Other	**508**	**-**	**-**	**-**	**-**	**508**
	$ 87,930	**$ 1,933**	**$ 1,001**	**$ 2,558**	**$ 15**	**$ 93,437**
December 31, 2014						
Agriculture	$ 746	$ 20	$ -	$ 54	$ -	$ 820
Real estate:						
Residential	66,081	-	-	1,237	-	67,318
Commercial	19,229	-	957	1,080	-	21,266
Commercial	2,699	523	939	349	-	4,510
Consumer	6,786	2	-	291	9	7,088
Other	415	-	-	-	-	415
	$ 95,956	$ 545	$ 1,896	$ 3,011	$ 9	$ 101,417

An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2015 and 2014 is as follows (dollars in thousands):

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
December 31, 2015						
Agriculture	**$ 22**	**$ -**	**$ 22**	**$ 813**	**$ 835**	**$ -**
Real estate:						
Residential	**762**	**15**	**777**	**58,903**	**59,680**	**15**
Commercial	**-**	**-**	**-**	**22,489**	**22,489**	**-**
Commercial	**12**	**-**	**12**	**3,380**	**3,392**	**-**
Consumer	**374**	**8**	**382**	**6,151**	**6,533**	**8**
Other	**-**	**-**	**-**	**508**	**508**	**-**
	$ 1,170	**$ 23**	**$ 1,193**	**$ 92,244**	**$ 93,437**	**$ 23**

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
December 31, 2014						
Agriculture	$ 34	$ -	$ 34	$ 786	$ 820	$ -
Real estate:						
Residential	1,041	9	1,050	66,268	67,318	-
Commercial	244	-	244	21,022	21,266	-
Commercial	80	-	80	4,430	4,510	-
Consumer	249	42	291	6,797	7,088	30
Other	-	-	-	415	415	-
	$ 1,648	$ 51	$ 1,699	$ 99,718	$ 101,417	$ 30

Loans are considered impaired and placed on nonaccrual status when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due. An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2015 and 2014 is as follows (dollars in thousands):

	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
December 31, 2015					
Agriculture	**$ 4**	**$ -**	**$ 4**	**$ -**	**$ 5**
Real estate:					
Residential	**317**	**-**	**317**	**-**	**348**
Commercial	**-**	**-**	**-**	**-**	**-**
Commercial	**18**	**-**	**18**	**-**	**21**
Consumer	**16**	**-**	**16**	**-**	**15**
Other	**-**	**-**	**-**	**-**	**-**
	$ 355	**$ -**	**$ 355**	**$ -**	**$ 389**

	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
December 31, 2014					
Agriculture	$ 5	$ -	$ 5	$ -	$ 2
Real estate:					
Residential	379	-	379	-	556
Commercial	-	-	-	-	67
Commercial	25	-	25	-	38
Consumer	13	-	13	-	9
Other	-	-	-	-	-
	$ 422	$ -	$ 422	$ -	$ 672

During the years ended December 31, 2015 and 2014, the Company did not recognize any significant interest income on impaired and nonaccrual loans.

Included in impaired and nonaccrual loans above are loans totaling $30 thousand and $304 thousand at December 31, 2015 and 2014, respectively, that have been modified in a troubled debt restructuring and consist primarily of residential real estate loans and commercial loans. These loans are generally modified by allowing the borrower concessions that delay the payment of principal or interest beyond contractual requirements, but not the forgiveness of either principal or interest. The Company has evaluated any possible impairment loss on such loans consistent with its accounting for impaired loans and recognized such loss through a charge-off to the allowance for loan loss account.

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2015 and 2014 were as follows (dollars in thousands):

	Agriculture	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Other	Total
Year Ended December 31, 2015							
Balance at beginning of year	**$ -**	**$ 586**	**$ 515**	**$ 101**	**$ 31**	**$ 78**	**$ 1,311**
Provision (credit) for loan losses	**-**	**(30)**	**(30)**	**-**	**126**	**1**	**67**
Charge-offs	**-**	**-**	**-**	**(51)**	**(108)**	**(34)**	**(193)**
Recoveries	**-**	**-**	**7**	**3**	**36**	**21**	**67**
Net (charge-offs) recoveries	**-**	**-**	**7**	**(48)**	**(72)**	**(13)**	**(126)**
Balance at end of year	**$ -**	**$ 556**	**$ 492**	**$ 53**	**$ 85**	**$ 66**	**$ 1,252**
Allocation:							
Individually evaluated for impairment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Collectively evaluated for impairment	**-**	**556**	**492**	**53**	**85**	**66**	**1,252**
Year Ended December 31, 2014							
Balance at beginning of year	$ -	$ 422	$ 463	$ 89	$ 73	$ 82	$ 1,129
Provision for loan losses	-	165	52	11	17	4	249
Charge-offs	-	(3)	-	(24)	(91)	(29)	(147)
Recoveries	-	2	-	25	32	21	80
Net (charge-offs) recoveries	-	(1)	-	1	(59)	(8)	(67)
Balance at end of year	$ -	$ 586	$ 515	$ 101	$ 31	$ 78	$ 1,311
Allocation:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	-	586	515	101	31	78	1,311

During the year ended December 31, 2015, the Bank did not implement any significant changes to its allowance for loan loss methodology.

The Company's recorded investment in loans as of December 31, 2015 and 2014 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows:

	Agriculture	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Other	Total
Year Ended December 31, 2015							
Loans individually evaluated for impairment	$ 4	$ 317	$ -	$ 18	$ 16	$ -	$ 355
Loans collectively evaluated for impairment	831	59,363	22,489	3,374	6,517	508	93,082
	$ 835	$ 59,680	$ 22,489	$ 3,392	$ 6,533	$ 508	$ 93,437
Year Ended December 31, 2014							
Loans individually evaluated for impairment	$ 5	$ 379	$ -	$ 25	$ 13	$ -	$ 422
Loans collectively evaluated for impairment	815	66,939	21,266	4,485	7,075	415	100,995
	$ 820	$ 67,318	$ 21,266	$ 4,510	$ 7,088	$ 415	$ 101,417

6. Bank Premises and Equipment

Components of Bank premises and equipment included in the consolidated balance sheets were as follows (dollars in thousands):

	December 31, 2015	December 31, 2014
Land	$ 111	$ 111
Buildings	2,624	2,392
Equipment and furniture	1,546	1,784
Bank-owned vehicles	88	88
Construction in progress	-	86
	4,369	4,461
Less accumulated depreciation	3,319	3,465
	$ 1,050	$ 996

Depreciation expense for the years ended December 31, 2015 and 2014 totaled $172 thousand and $181 thousand, respectively.

The Company has two operating leases for branches, which terminate in 2020 and 2023.

Rental expense is amortized using the straight-line method. Rental expense for the year ended December 31, 2015 totaled $124 thousand ($145 thousand in 2014). The future minimum rental commitments under these leases are as follows (dollars in thousands):

Year ending December 31,	
2016	$ 121
2017	121
2018	121
2019	121
2020	100
Thereafter	86
	$ 670

7. Deposits

The aggregate amount of certificates of deposit ("CDs"), in denominations of $250 thousand or more, was approximately $3.7 million at December 31, 2015 ($3.8 million in 2014).

At December 31, 2015, the scheduled maturities of CDs were as follows (dollars in thousands):

Year ending December 31,	
2016	$ 21,485
2017	2,960
2018	1,155
2019	255
2020	1,000
Thereafter	1,752
	$ 28,607

8. Off-Balance Sheet Activities

Credit-Related Financial Instruments

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following financial instruments, whose contract amounts represent credit risk, were outstanding (dollars in thousands):

	Contract Amount	
	December 31,	
	2015	2014
Unfunded commitments under lines of credit	**$ 16,273**	$ 18,620
Unfunded commitments under credit card agreements	**1,091**	1,252
Standby letters of credit	**20**	20

Unfunded commitments under lines of credit include revolving credit lines, straight credit lines, and interim construction loans, which are commitments for possible future extensions of credit to existing customers. These lines of credit, along with credit card agreements, may not be drawn upon to the total extent to which the Company is committed.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Company's credit evaluation of the customer. Collateral held varies, but may include cash; securities; accounts receivable; inventory; property, plant, and equipment; and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, if deemed necessary.

9. Federal Income Taxes

Taxable income is reported on the federal tax returns of the Company's stockholders. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

The Company files a United States federal income tax return, as well as a state return in Texas. With few exceptions, the Company is no longer subject to United States federal or Texas state tax examinations by tax authorities for years before 2012.

10. Legal Contingencies

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

11. Related Party Transactions

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates. Annual activity, as of and for the years ended December 31, 2015 and 2014, consisted of the following (dollars in thousands):

	2015	2014
Beginning balance	**$ 529**	$ 590
New loans	**-**	20
Repayments	**(79)**	(81)
Ending balance	**$ 450**	$ 529

Deposits from related parties held by the Bank at December 31, 2015 amounted to $3.0 million ($2.9 million in 2014).

12. Employee Benefits

The Company has adopted a Savings Incentive Match Plan for Employees, structured as an individual retirement account for the benefit of substantially all employees. Employees are allowed to make contributions to their accounts in an amount not to exceed the minimum limits established by the Internal Revenue Service. The Company makes a matching contribution to each eligible employee's account, up to a limit of 3% of the employee's salary reduction contribution. The total contributions made by the Company for the year ended December 31, 2015 were $52 thousand ($53 thousand in 2014).

13. Junior Subordinated Debenture

In December 2003, the Company established the Blanco Statutory Trust I (the "Trust") with capital of $93 thousand. On December 17, 2003, the Trust issued $3 million in Floating Rate Capital Securities ("Trust Preferred Securities") to private market investors. The Trust Preferred Securities accrued interest annually at a rate of 4.12% until March 17, 2004, after which the rate is a floating rate equal to the three-month London Interbank Offered Rate plus 2.95% per annum. The Trust Preferred Securities mature and are due and payable on December 17, 2033. The Company issued Trust Preferred Securities as a method of increasing regulatory capital.

In connection with this transaction, the Company issued a Floating Rate Junior Subordinated Deferrable Interest Debenture ("Debenture") to the Trust for $3.1 million, with interest and maturity terms identical to the Trust Preferred Securities. During 2014, the Company made a principal payment of $515 thousand. In accordance with ASC, the Trust is not consolidated in the accompanying consolidated financial statements. Instead, the investment in the Trust is included in "prepaid expenses and other assets," and the Debenture is shown as "junior subordinated debenture" on the consolidated balance sheets. Interest expense on the Debenture is reported in the consolidated statements of income.

14. Restrictions on Retained Earnings

The Bank, as a national bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. As of December 31, 2015, the dividends the Bank could declare without the approval of the Comptroller of the Currency totaled $1.9 million ($1.2 million in 2014).

15. Capital and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about component classification, risk weighting, and other factors.

The Basel III capital rules became effective for the Bank on January 1, 2015, subject to a four-year phase-in period. Quantitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table on the following page) of Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital to Risk-Weighted Assets, and of Tier 1 Capital to Average Assets. In connection with the adoption of the Basel III capital rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital.

Management believes, as of December 31, 2015 and 2014, that the Bank met all capital adequacy requirements to which it is subject. As of December 31, 2015, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The following table presents actual and required capital ratios as of December 31, 2015 for the Bank under the Basel III capital rules. The minimum required capital amounts present the minimum required levels as of December 31, 2015 based on the phase-in of the Basel III capital rules and the minimum required as of January 1, 2019 when the phase-in is complete. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

	Actual		Minimum Required Basel III Current Phase-In		Minimum Required Basel III Full Phase-In		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015								
Common Equity Tier 1 Capital to Risk-Weighted Assets	**$17,459**	**17.1%**	**$4,589**	**4.5%**	**$7,139**	**7.0%**	**$6,629**	**6.5%**
Tier 1 Capital to Risk-Weighted Assets	**$17,459**	**17,1%**	**$6,119**	**6.0%**	**$8,669**	**8.5%**	**$8,159**	**8.0%**
Total Capital to Risk-Weighted Assets	**$18,712**	**18,4%**	**$8,159**	**8.0%**	**$10,709**	**10.5%**	**$10,199**	**10.0%**
Tier 1 Capital to Average Assets	**$17,459**	**9.5%**	**$7,327**	**4.0%**	**$7,327**	**4.0%**	**$9,159**	**5.0%**

The following table presents actual and required capital ratios as of December 31, 2014 for the Bank under regulatory capital rules then in effect:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total Capital to Risk-Weighted Assets	$ 17,704	15.3%	$ 9,236	8.0%	$ 11,545	10.0%
Tier 1 Capital to Risk-Weighted Assets	$ 16,392	14.2%	$ 4,618	4.0%	$ 6,927	6.0%
Tier 1 Capital to Average Assets	$ 16,392	9.9%	$ 6,623	4.0%	$ 8,278	5.0%