Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

MAR 31 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, Rick Day
Name of the Holding Company Director and Official

Vice President
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.

Rick Day
Signature of Holding Company Director and Official

3/30/16
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 4266840
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

Platinum Bancshares of Texas, Inc.
Legal Title of Holding Company

P.O. Box 64179
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Lubbock	TX	79464

6502 Slide Road, Suite 110, Lubbock, 79424
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Rhea Hill — Name
SVP / Controller — Title

806-698-5139
Area Code / Phone Number / Extension

806-771-8697
Area Code / FAX Number

rhill@platinumbanktexas.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:
Report items 4(3)(c) and 4(4)(c)

☒ 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

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.25 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

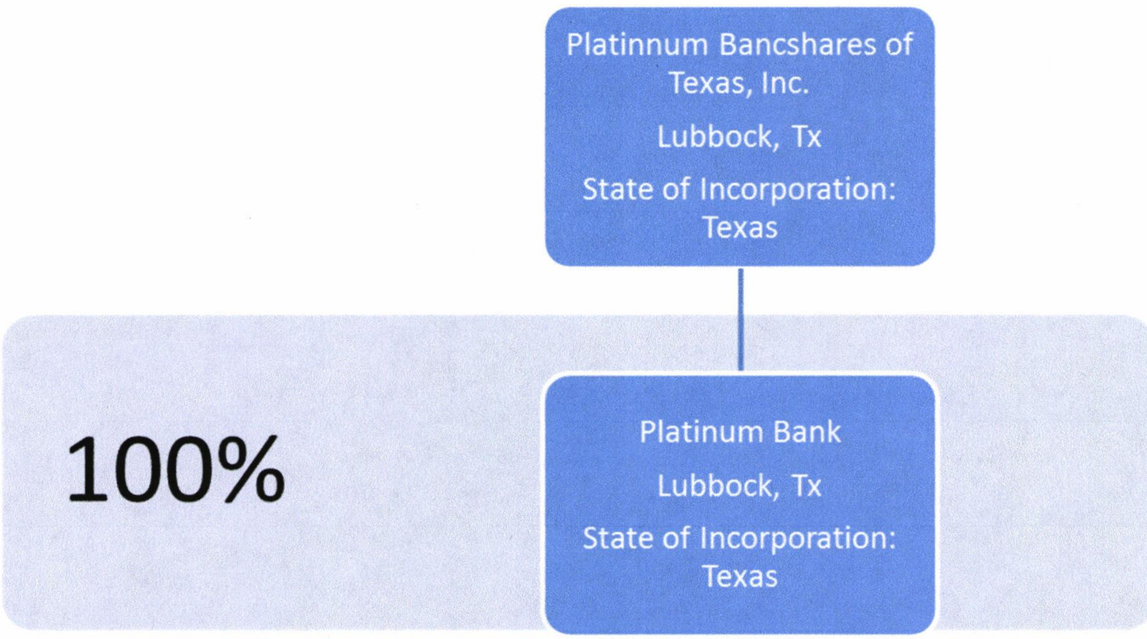
Form FR Y-6

Platinum Bancshares of Texas, Inc.

Lubbock, Texas

Fiscal Year Ending December 31, 2015

Report Item 2: Organizational Chart



Note: Neither entity is required to or has an LEI.

Results: A list of branches for your depository institution: PLATINUM BANK (ID_RSSD: 3560747).
This depository institution is held by PLATINUM BANCSHARES OF TEXAS, INC. (4266840) of LUBBOCK, 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)	3560747	PLATINUM BANK	6502 SLIDE ROAD, SUITE 110	LUBBOCK	TX	79424	LUBBOCK	UNITED STATES	458271	0	PLATINUM BANK	3560747	
OK		Full Service	4274603	LEVELLAND BRANCH	102 NORTH COLLEGE AVENUE	LEVELLAND	TX	79336	HOCKLEY	UNITED STATES	518776	2	PLATINUM BANK	3560747	
OK		Full Service	3849394	ODESSA BRANCH	3650 BILLY HEXT RD	ODESSA	TX	79765	ECTOR	UNITED STATES	482965	3	PLATINUM BANK	3560747	

Form FR Y-6

Platinum Bancshares of Texas, Inc.

Lubbock, Texas

Fiscal Year Ending December 31, 2015

Report Item 3: Securities holders

Item 3 (1):

No shareholder with greater than 5% voting power

The following securities holders have beneficial ownership (including options and warrants) in excess of 5%:

See Attachment II

Item 3 (2) – None

PLATINUM BANCSHARES OF TEXAS, INC.
ATTACHMENT II TO FR Y-6
REPORT ITEM #3

NAME	CITY / STATE	CITIZENSHIP	VOTING SHARES	%	ORGANIZER WARRANTS	%	STOCK OPTIONS GRANTED	%	TOTAL	%
Richard D. Day Teressa L. Day	Lubbock, Texas	US	25,000	0.95%	8,378	11.11%	125,666	37.35%	159,044	5.23%
Greg K. Garrett Nancy Garrett	Lubbock, Texas	US	56,750	2.16%	8,378	11.11%	171,650	51.02%	236,778	7.78%
All Others			2,548,655		58,646		39,143		2,646,444	
Grand Totals										
Count: 158			**2,630,405**		**75,402**		**336,459**		**3,042,266**	

Form FR Y-6
Platinum Bancshares of Texas, Inc.
Fiscal Year Ending December 31, 2015
PUBLIC VERSION

Report Item 4: Insiders

(1) Name, City, State, Country	(2) Principal Occupation	(3)(a) Title & Position with Bank Holding Co.	(3)(b) Title & Position with Subs.	(3)(c) Title & Position with Other Businesses	(4)(a) Percent age of Voting Shares	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c) List of Names of Other Companies if 25% or more voting Securities
Greg Garrett (a) Lubbock, TX, USA	N/A	Director and President	President and CEO	This information can be found in the confidential section of the report	2.16%	N/A	This information can be found in the confidential section of the report
Rick Day (b) Lubbock, TX, USA	N/A	Director, VP and Secretary	EVP and CFO		0.95%	N/A	
Tye Christensen Lubbock, TX, USA	N/A	Advisory Director	EVP and CLO		None	N/A	
William Warnick Austin, TX, USA	Attorney	Chair/Director	N/A		0.76%	N/A	
Lisa Flathers Lubbock, TX, USA	Investments	Director	N/A		0.87%	N/A	
Walt Hanel Lubbock, TX, USA	Investments	Director	N/A		3.00%	N/A	
Ming-Tao Ho, Lubbock, TX, USA	Physician	Director	N/A		1.90%	N/A	
Don W. Nickels Lubbock, TX, USA	Retired	Director	N/A		0.38%	N/A	
Patrick D. Randolph Lubbock, TX, USA	Physician	Director	N/A		1.14%	N/A	
Mickey Travis Brownfield, TX, USA	Investments	Director	N/A		3.51%	N/A	

(a) Shares held jointly by Greg Garrett and wife Nancy Garrett
(b) Shares held jointly by Rick Day and wife Teressa Day

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Platinum Bancshares of Texas, Inc. & Wholly-Owned Subsidiary Platinum Bank

Lubbock, Texas

2015 & 2014

Consolidated Financial Statements

With Supplemental Consolidating Schedules

LAM & COMPANY
Audit Focused CPAs

Platinum Bancshares of Texas, Inc. & Wholly-Owned Subsidiary Platinum Bank

2015 & 2014 Consolidated Financial Statements
With Supplemental Consolidating Schedules

Table of Contents

Independent Auditors' Report

Stockholders, Directors, & Senior Managers
Platinum Bancshares of Texas, Inc. &
Wholly-Owned Subsidiary Platinum Bank
Lubbock, Texas

Lam & Company PC ("**LCPC**") has audited the accompanying *Consolidated Financial Statements* ("**CFS**") of *Platinum Bancshares of Texas, Inc. & Wholly-Owned Subsidiary Platinum Bank* (the "**Company**"), which comprise the consolidated balance sheets as of December 31, 2015 & 2014, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the notes to the CFS.

Company Management's Responsibility for the CFS

It is Company management's responsibility to prepare and fairly present the accompanying CFS in accordance with *accounting principles generally accepted in the United States of America* ("**GAAP**"); which includes responsibility to design, implement, and maintain internal control relevant to prepare and fairly present CFS that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

LCPC's responsibility is to express an opinion on the accompanying CFS based on our audits. LCPC conducted our audits in accordance with *auditing standards generally accepted in the United States of America* ("**GAAS**"). Under GAAS, LCPC is required to plan and perform our audits to obtain reasonable assurance about whether the CFS are free from material misstatement.

A GAAS audit involves procedures to obtain audit evidence about the amounts and disclosures in the CFS. The procedures performed depend on auditor judgments, which include assessment of risks of material misstatement of the CFS, whether due to fraud or error. The auditor considers the Company's internal control, relevant to prepare and fairly present the CFS, to assess the risks of material misstatement of the CFS and then to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Company's internal control. Accordingly, LCPC is not expressing an opinion on the effectiveness of the Company's internal control. In a GAAS audit, the auditor also evaluates whether the Company's accounting policies were appropriate, whether management's significant accounting estimates were reasonable, and the overall presentation of the CFS.

LCPC believes that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In LCPC's opinion, the CFS fairly present, in all material respects, the Company's financial position as of December 31, 2015 & 2014, and the results of operations and cash flows for the years then ended in accordance with GAAP.

Other Matter – Supplemental Consolidating Schedules

LCPC's GAAS audit was conducted to form an opinion on the CFS as a whole. The accompanying Supplemental Consolidating Schedules identified in the preceding *Table of Contents* are presented for purposes of additional analysis and are not a required part of the CFS. These schedules are management's responsibility and were derived from, and relate directly to, the underlying accounting and other records used to prepare the CFS. These schedules have been subjected to the audit procedures applied in LCPC's audit of the CFS and certain additional procedures, which include comparing and reconciling these schedules directly to the underlying accounting and other records used to prepare the CFS or to the CFS, and other additional procedures, in accordance with GAAS. In LCPC's opinion, these schedules are fairly stated, in all material respects, in relation to the CFS as a whole.

Lam & Company PC

June 16, 2016

Platinum Bancshares of Texas, Inc. & Subsidiary
Consolidated Balance Sheets
December 31, 2015 & 2014

	2015	2014
Cash & due from banks	$ 3,694,506	$ 7,477,744
Federal funds sold	15,418,000	4,598,000
Cash & equivalents	19,112,506	12,075,744
Accrued interest receivable	789,598	707,905
Prepaid expenses	374,075	340,675
Bank-owned life insurance, at cash surrender value	1,246,621	1,209,651
AFS securities, at fair value	27,832,901	23,615,121
Loans held for sale, at lower of cost or fair value	649,750	650,000
Loans, net	187,815,649	170,628,890
Foreclosed & repossessed assets, net	301,527	708,087
Federal Home Loan Bank stock, at cost	460,800	369,600
Premises & equipment, net	10,856,733	11,333,721
Goodwill	6,139,227	6,139,227
Other intangible assets, net	13,157	26,733
Other assets	1,472,590	244,638
Assets	$ 257,065,134	$ 228,049,992
Non interest-bearing	$ 23,940,632	$ 24,355,891
Interest-bearing	191,982,055	167,364,635
Deposits	215,922,687	191,720,526
FHLB advances	8,000,000	5,000,000
Accrued interest payable	132,547	90,175
Accrued expenses & other liabilities	480,561	1,129,821
Subordinated promissory notes	5,790,000	2,340,000
Liabilities	230,325,795	200,280,522
Class A common stock, $0.01 par, 10,000,000 shares authorized, 2,548,655 & 2,415,819 shares issued, 2,548,655 & 2,400,819 shares outstanding, respectively	25,487	24,158
Additional paid-in capital	26,158,873	24,359,437
Retained earnings	646,519	3,581,732
Accumulated other comprehensive loss	(91,540)	(90,857)
Treasury stock, at cost, -0- & 15,000 shares, respectively	-	(105,000)
Stockholders' Equity	26,739,339	27,769,470
Liabilities & Stockholders' Equity	$ 257,065,134	$ 228,049,992

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

	2015	2014
Loans, including fees	$ 11,079,023	$ 10,190,341
Federal funds sold	8,675	20,522
AFS securities	515,726	452,484
Interest & dividend income	11,603,424	10,663,347
Deposits	1,811,334	1,522,040
Federal funds purchased	5,155	2,725
Federal Home Loan Bank advances	39,789	52,056
Subordinated promissory notes	183,000	117,000
Interest expense	2,039,278	1,693,821
Interest Margin	9,564,146	8,969,526
Provision for loan & lease losses	4,462,120	687,442
Interest Margin, Net of Provision for Loan & Lease Losses (Recoveries), Net	5,102,026	8,282,084
Service charges on deposit accounts	175,525	187,601
Gain on AFS security sales	26,708	9,371
Gain on loan sales	328,206	36,648
Other	224,783	218,135
Non interest income	755,222	451,755
Compensation & employee benefits	4,311,589	3,864,250
Professional, consulting, & regulatory	699,817	331,248
Other general & administrative	1,183,172	1,019,368
Data processing	330,739	304,844
Computer & software	483,646	416,358
Occupancy & equipment, net of rental income	778,917	643,708
Communication	111,912	95,622
Supplies	131,924	154,671
Foreclosed & repossessed assets, net	1,947,210	(67,577)
Non interest expense	9,978,926	6,762,492
Income (Loss) Before Income Taxes	(4,121,678)	1,971,347
Income tax expense (benefit)	(1,440,431)	627,607
Net Income (Loss)	$ (2,681,247)	$ 1,343,740

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

	2015	2014
Net Income (Loss)	$ (2,681,247)	$ 1,343,740
Change in net unrealized gain (loss) on AFS securities	16,944	671,095
Net unrealized gain realized & reclassed to Earnings	(17,627)	(6,101)
Other Comprehensive Income (Loss), Net of Income Taxes	(683)	664,994
Comprehensive Income (Loss)	$ (2,681,930)	$ 2,008,734

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2015 & 2014

	Common Stock, at Par		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury Stock, at Cost		
	Shares	Dollars	Capital	Earnings	Loss	Shares	Stock	Totals
December 31, 2013	2,125,567	$ 21,255	$ 20,780,955	$ 2,237,992	$ (755,851)	-	$ -	$ 22,284,351
Net income	-	-	-	1,343,740	-	-	-	1,343,740
Other comprehensive income, net of income taxes	-	-	-	-	664,994	-	-	664,994
Treasury stock purchased	-	-	-	-	-	(15,000)	(105,000)	(105,000)
Stock option compensation	-	-	148,185	-	-	-	-	148,185
Common stock issued	290,252	2,903	3,430,297	-	-	-	-	3,433,200
December 31, 2014	2,415,819	24,158	24,359,437	3,581,732	(90,857)	(15,000)	(105,000)	27,769,470
Net loss	-	-	-	(2,681,247)	-	-	-	(2,681,247)
Other comprehensive loss, net of income taxes	-	-	-	-	(683)	-		(683)
Treasury stock issued	-	-	(105,000)	-	-	15,000	105,000	-
Dividends paid	-	-	-	(253,966)	-	-	-	(253,966)
Stock option compensation	-	-	132,221	-	-	-	-	132,221
Common stock issued	132,836	1,329	1,772,215	-	-	-	-	1,773,544
December 31, 2015	2,548,655	$ 25,487	$ 26,158,873	$ 646,519	$ (91,540)	-	$ -	$ 26,739,339

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

Platinum Bancshares of Texas, Inc. & Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 & 2014

	2015	2014
Net income (loss)	$ (2,681,247)	$ 1,343,740
Adjustments to reconcile net income (loss) to cash from operating activities:		
Amortize premiums, accrete discounts on AFS securities, net	309,546	283,286
Realized gain on AFS securities, net	(26,708)	(9,371)
Provision for loan & lease losses	4,462,120	687,442
Provision for losses on foreclosed & repossessed assets held	2,853,834	-
Realized (gain) loss on foreclosed & repossessed asset sales, net	895	(91,291)
Depreciation on premises & equipment	725,146	654,120
Realized (gain) loss on premises & equipment sales, net	3,378	7,873
Earnings on bank-owned life insurance	(36,970)	(35,604)
Amortize intangible assets	13,576	13,575
Amortize purchase fair value adjustments, net	26,469	76,606
Realized (gain) loss on sale of loans, net	(328,206)	(36,648)
Loan sale proceeds	17,538,985	1,667,899
Loans originated for sale	(17,427,779)	(2,406,151)
Stock option compensation	132,221	148,185
(Increase) decrease in accrued interest receivable & other assets	(1,343,045)	464,464
Increase (decrease) in accrued interest payable & other liabilities	(618,801)	119
Cash from Operating Activities	3,603,414	2,768,244
AFS security sales proceeds	3,167,859	5,412,335
AFS security maturities, prepayments & calls	13,275,416	22,511,101
AFS security purchases	(20,932,663)	(28,283,237)
Loan originations, collections, & write-offs, net	(24,217,845)	(50,410,934)
Capital improvements to foreclosed & repossessed assets	(177,104)	-
Foreclosed & repossessed asset sale proceeds	488,682	1,571,364
Federal Home Loan Bank stock sales proceeds (purchases), net	(91,200)	236,300
Premises & equipment purchases	(251,536)	(801,503)
Cash from Investing Activities	(28,738,391)	(49,764,574)

(continued on next page)

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

	2015	2014
Net change in deposits	24,202,161	45,162,313
Net change in federal funds purchased and repurchase agreements	-	(601,000)
Proceeds from FHLB advances	8,000,000	21,000,000
Payments on FHLB advances	(5,000,000)	(25,000,000)
Subordinated promissory notes proceeds	3,450,000	-
Stock issue proceeds	1,773,544	3,433,200
Stock repurchase & retirement	-	(105,000)
Dividends paid	(253,966)	-
Cash from Financing Activities	32,171,739	43,889,513
Increase (Decrease) in Cash & Equivalents	7,036,762	(3,106,817)
Cash & equivalents:		
Beginning of period	12,075,744	15,182,561
End of year	$ 19,112,506	$ 12,075,744
Supplemental Disclosure of Cash Flow Information:		
Interest paid on deposits & borrowed funds	$ 1,996,906	$ 1,687,200
Income taxes paid	725,354	73,279
Loan collateral foreclosed & repossessed	2,759,747	961,206
Loans originated for sale transferred to retained loans	217,250	124,900

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

Note 1: Nature of Organization

Organization. *Platinum Bancshares of Texas, Inc.* ("**PBT**") is a Texas corporation and registered bank holding company legally formed November 8, 2010. *Platinum Bank* (the "**Bank**"), a wholly-owned Texas chartered bank subsidiary of PBT, began operation on June 25, 2007. The Bank acquired a branch in Odessa, Texas, from another bank in 2013. The Bank also opened a *loan production office* ("**LPO**") in Midland, Texas, in 2013, and another in Southlake, Texas, in 2015. The consolidated entity is referred to herein as the "**Company**."

Operations. The Bank provides a variety of financial services to individuals, businesses, and other entities through its locations in Lubbock, Levelland, Odessa, Southlake, and Midland, Texas. Its primary lending products are commercial and residential real estate, commercial working capital and asset acquisition, oil and gas production and related service businesses, other commercial operations, individual consumer, and agriculture. Its primary deposit products are interest and non interest-bearing demand deposit accounts, savings accounts, and term certificates. The Bank may use brokered deposits as a source of funds.

Note 2: Summary of Significant Accounting Policies

Accounting Standards Codification. Since 1973, the *Financial Accounting Standards Board* ("**FASB**") has been the private sector organization designated to establish standards for financial accounting and presentation of financial statements known as *accounting principles generally accepted in the United States of America* ("**GAAP**"). GAAP are officially recognized as authoritative by the *Securities and Exchange Commission* ("**SEC**"), the *American Institute of Certified Public Accountants* ("**AICPA**"), and the banking regulators. The SEC has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934; although, throughout its history, the SEC's policy has been to rely on the FASB and its predecessors for this function.

The FASB's *Accounting Standards Codification*™ ("**ASC**") constitutes GAAP in its entirety. All other accounting literature (not included in ASC) are nonauthoritative. FASB issues *Accounting Standards Updates* ("**ASU**") which serve to update ASC and provide background information about the guidance and the basis for conclusions.

Basis of Presentation. Management strives to prepare and present *these notes and the accompanying statements* (collectively referred to herein as "**CFS**") in accordance with GAAP, in all material respects. The Company consolidates (*a*) subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control, when the subsidiary is material and benefits outweigh costs, and (*b*) *variable interest entities* ("**VIE**") in which the Company is the primary beneficiary. All significant intercompany balances and transactions are eliminated in consolidation.

Comprehensive Income. GAAP defines *comprehensive income* ("**CI**") as the change in stockholders' equity of a business enterprise during a period from transactions and other events and circumstances, other than from stockholder sources. Therefore, CI includes all changes in stockholders' equity for a specified period (e.g., a year) except those resulting from investments by stockholders and distributions to stockholders; CI is comprised of *net income or loss* ("**Earnings**") and *other comprehensive income or loss* ("**OCI**"). GAAP generally requires that recognized revenue, expenses, gains, and losses be included in the determination of Earnings. However, certain changes in assets and liabilities are classified as OCI and presented as a separate component of comprehensive income; *accumulated OCI* ("**AOCI**") is reported as a separate component of stockholders' equity. AOCI, OCI, and components of OCI are presented net of income taxes. Relevant examples of OCI items follow:

- unrealized holding gains and losses on investment securities available for sale,
- unrealized holding gains and losses that result from a debt security being transferred into the *available for sale* ("**AFS**") category from the *held to maturity* ("**HTM**") category, or
- other than credit loss component of other-than-temporary-impairment on AFS and HTM securities.

Reclassification adjustments for components of OCI are recognized to avoid double counting items in CI that are presented as part of Earnings for a year that also had been presented as part of OCI in that year or earlier years.

Note 2: Summary of Significant Accounting Policies (continued)

Use of Estimates. The preparation of CFS in conformity with GAAP 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 CFS. 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: (*a*) impairments of: (*i*) loans and the *allowance for loan & lease losses* ("**ALLL**") and *provision for loan & lease losses* ("**PLLL**"), (*ii*) investment securities, and (*iii*) foreclosed & repossessed assets; and (*b*) fair values. The Company uses fair values to measure certain assets, determine Earnings and OCI, value underlying collateral to estimate impairments of loans and foreclosed and repossessed assets, and for financial instrument disclosures. Fair value estimates involve uncertainties and other matters requiring management to exercise significant judgments; changes in assumptions, market conditions, or myriad other factors could significantly affect fair value estimates.

Fair Value. *Fair value*, as defined by GAAP and used herein, is the price that would be received to sell an asset or paid to transfer a liability in an *orderly transaction* between *market participants* in the *principal market* for the asset or liability or, in the absence of a principal market, the *most advantageous market* for the asset or liability. The objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an *exit price* as opposed to a *transaction* or *entry price*). A fair value measurement for assets assumes the *highest and best use* of the asset by market participants. A fair value measurement for liabilities assumes transfer of the liability to a market participant at the measurement date (the liability to the counterparty continues; it is not settled) and that the *nonperformance risk* for that liability is the same before and after its transfer.

- An *orderly transaction* is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction (e.g. it is not a forced liquidation or distress sale).

- The *principal market* is the market in which the Company would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability. The *most advantageous market* is the market in which the Company would sell the asset or transfer the liability with the price that maximizes the amount that would be received for the asset or minimizes the amount that would be paid to transfer the liability, considering transaction costs in the respective market(s).

- *Market participants* are buyers and sellers in the *principal market* that are (*a*) independent, (*b*) knowledgeable, (*c*) able to transact, and (*d*) willing to transact.

- The *principal* (or *most advantageous*) *market* and *market participants* are determined from the Company's perspective (not the potential party purchasing assets or assuming liabilities). When an asset is acquired or a liability is assumed in an exchange transaction, the *transaction price* represents the price paid to acquire the asset or received to assume the liability (an *entry price*). In contrast, the fair value of the asset or liability represents the price that would be received to sell the asset or paid to transfer the liability (an *exit price*). Conceptually, entry prices and exit prices are different. Assets are not necessarily sold at the prices paid to acquire them; similarly, liabilities are not necessarily transferred at the prices received to assume them. The price in the *principal* (or *most advantageous*) *market* used to measure fair value is not adjusted for transaction costs.

- *Highest and best use* refers to the use of an asset by market participants that would maximize the value of the asset or the group of assets within which the asset would be used and considers the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date.

- *Nonperformance risk* refers to the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred.

Valuation techniques that are consistent with the *market approach*, the *income approach,* and/or the *cost approach,* and are consistently applied are required.

- The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities.

- The *income approach* uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis.

- The *cost approach* is based on the amount that currently would be required to replace the service capacity of an asset.

Note 2: Summary of Significant Accounting Policies (continued)

Fair Value (continued). Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be:

- *observable*, meaning those that reflect the assumptions *market participants* would use in pricing the asset or liability developed based on market data obtained from independent sources, or
- *unobservable*, meaning those that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In that regard, the fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 Inputs: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.), or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs: Unobservable inputs for determining the fair values of assets or liabilities that reflect the Company's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Fair Value Option. The Company has the option to choose to measure many financial instruments (including financial assets and financial liabilities) and certain other items, that are not required to be measured at fair value, at fair value (the "**FVO**") to improve financial reporting by reduced volatility in reported Earnings caused by measuring related assets and liabilities differently. The FVO:

- May be applied instrument by instrument at specified *election dates* without electing the FVO for other identical items, with a few exceptions;
- Is irrevocable, unless a new election date occurs; and
- Is applied only to entire instruments and not to portions of instruments.

The Company may elect the FVO for each eligible item on the date (election date) that one of the following occurs:

- The eligible item is first recognized by the Company.
- An eligible firm commitment is entered by the Company.
- Financial assets that have been reported at fair value with unrealized gains and losses included in Earnings because of specialized accounting principles cease to qualify for that specialized accounting.
- The accounting treatment for an equity investment in another entity changes because:
  - The investment becomes subject to the equity method of accounting; or
  - The Company ceases to consolidate a subsidiary or VIE, but retains an interest.
- An event that requires an eligible item to be measured at fair value at the time of the event, but does not require fair value measurement at each subsequent reporting date, excluding events of impairment recognition under lower-of-cost-or-market or other-than-temporary-impairment accounting.

Unrealized gain and loss from changes in fair value of items where the FVO has been elected are recognized in Earnings. Upfront costs and fees related to items for which the FVO is elected are recognized in Earnings as incurred. When the FVO is elected, the Company will report those items in a manner that separates those fair values from reported amounts for similar assets and liabilities measured with another measurement attribute.

The Company has not elected the FVO for any eligible items to date and has no plans to do so for the foreseeable future.

Note 2: Summary of Significant Accounting Policies (continued)

Cash & Equivalents. The Company presents all cash on hand and balances due from other banks, interest-bearing deposits and term certificates of other banks, federal funds sold, and securities purchased under agreements to resell, which have original maturities less than three months, as cash & equivalents. Federal regulations require banks to set aside specified amounts of cash as reserves against transaction and time deposits, which fluctuate daily. These reserves may be held as vault cash, in a non interest-bearing account with a district Federal Reserve Bank, or as deposits with correspondents. Management believes that the Bank complies with these requirements.

Interest-Bearing Deposits in Other Banks. From time-to-time, the Bank invests in interest-bearing deposits and term certificates of other banks. These deposits are carried at cost with interest income thereon recognized on the accrual basis. There were no interest-bearing deposits in other banks at December 31, 2015 or 2014.

Investment Securities. Under GAAP, investment securities may be classified into trading, HTM, or AFS portfolios. Securities that are held principally for resale in the near term, if any, are classified as trading and recorded at fair value with changes in fair value included in Earnings. Debt securities that management has the ability and positive intent to hold to maturity, if any, are classified as HTM and are recorded at amortized cost. Securities not classified as trading or HTM, if any, are AFS and are reported at fair value with unrealized gains and losses excluded from Earnings, but included in the determination of OCI. AFS securities facilitate asset/liability management strategy; they may be sold in response to changes in liquidity needs, interest rates, resultant prepayment risk changes, and other factors.

Interest and dividend income from securities are included in Earnings when earned or declared, respectively. Purchase premiums and discounts on debt securities, if any, are recognized as an adjustment to interest income over the term of the related securities under the straight-line method which approximates the effective interest method. Gains and losses on security sales are recorded on the trade date and are determined under the specific identification method.

Other-Than-Temporary-Impairments ("**OTTI**") of Debt Securities. Individual AFS and HTM securities are *impaired* when fair value is less than the amortized cost basis; impairment can be <u>temporary</u> or <u>other-than-temporary</u> and is comprised of "credit loss" and "other loss" (e.g., losses due to increased market interest rates; highly volatile, disorderly, or inactive markets; increased prepayment speeds, or other factors).

The impairment is considered temporary unless there is a *credit loss* component to the impairment. *Credit loss* is identified as the difference between (*a*) the amortized cost basis and (*b*) the present value of the principal cash flows currently expected over the remaining term of the security discounted at the effective interest rate implicit in the security at acquisition.

If there is a *credit loss* component to the impairment, the impairment is *other-than-temporary* and OTTI is the difference between the amortized cost basis and the fair value. The credit loss component of OTTI is realized in Earnings and the other loss component of OTTI is recognized in OCI. However, if the Company intends to sell, or it is more-likely-than-not that the Company will have to sell, prior to recovery of the other loss component, the other loss component is charged to Earnings.

Federal Home Loan Bank Stock. The Company owns an equity interest in the *Federal Home Loan Bank* ("**FHLB**"). FHLB stock does not have a readily determinable fair value because ownership is restricted and it lacks a market; it can only be sold back to the FHLB at its par value ($100 per share). Therefore, the Company carries its investment in FHLB stock at cost; management does not believe the value is impaired. FHLB stock is generally pledged as collateral for FHLB advances when any are outstanding.

Loans Held-for-Sale. Loans originated and intended for sale in the secondary market, if any, are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to Earnings

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off. The majority of loans and leases (loans and leases are collectively referred to hereinafter as "**loans**") are made to customers to finance asset acquisitions, to provide working capital to finance business operations, and other purposes in exchange for interest on outstanding principal balances from origination to maturity or pay-off. Additionally, origination fees are generally charged when warranted by related costs. Decisions about whether to extend credit to customers are based on anticipated sources of repayment, credit history, availability of collateral, and other considerations. At origination, *loans and leases that management has the ability and intent to hold for the foreseeable future or until maturity or pay-off* ("**Retained Loans**") are recorded at the amount of cash advanced.

The fair value of Retained Loans is subject to changes in market interest rates and credit quality. The carrying value of a Retained Loan is not adjusted for changes in market interest rates unless its credit quality is also impaired, but management seeks to manage risks associated with changes in market interest rates on selected loans through adjustable, minimum, and/or maximum rates specified in their loan agreements.

The ALLL is a recognized credit risk valuation account that, at periodic reporting dates, reduces outstanding loan balances to the estimated amount expected to be collected. Earnings are reduced for estimated credit losses through PLLL that are added to the ALLL. When losses due to credit risks are confirmed, the losses are recognized as reductions of the outstanding principal balance and the ALLL (a "**Charge-Off**") which has no effect on Earnings, assets, or capital. Subsequent recoveries of amounts previously charged-off against the ALLL ("**Recoveries**"), if any, are added back to the ALLL and do not directly affect Earnings.

Prior to charge-off, a loan is considered **impaired** when, based on current information and events, it is **probable** (interpreted as "likely to occur" which is a higher likelihood than "more likely than not" but does not require virtual certainty) that scheduled payments of principal or interest will not be collected when due according to the contractual terms of the loan agreement. The amount of **impairment** on a specifically identified *impaired* loan is the estimated amount of *probable* loss of the *recorded investment* based on current information and events at the corresponding reporting date. The **recorded investment** in a loan includes the outstanding principal, adjusted as applicable for accrued interest, direct partial charge-offs, and deferred fees or costs on originated loans.

Loans are routinely restructured to accommodate changes in borrower needs and circumstances and market terms. However, when a restructure involves a *concession* to the borrower for economic or legal reasons related to the borrower's financial difficulties that would not otherwise be considered, a *troubled debt restructuring* ("**TDR**") has occurred. A **concession** results when, as a result of the restructure, the Bank does not expect to collect all amounts due, including interest accrued at the original contract rate. A restructuring that results in an insignificant delay in payment is not a TDR. A TDR is indicated by interest rates below market for similar credits, extensions or other reductions in debt service requirements outside of market terms (e.g., conversion to interest only or no payments for a period of time or an extended amortization period that exceeds market norms), or forgiveness of principal or accrued interest. The Bank enters TDR's to minimize its losses or to otherwise increase the likelihood of eventual recovery.

A TDR is an *impaired* loan and is evaluated for impairment if it has not already been done. However, in years after the restructuring, the restructured loan will not be classified as a TDR or impaired loan if:

- The restructuring agreement specifies an interest rate equal to or greater than a market rate at the time of the restructuring; and
- The restructured loan is not impaired at that time based on the restructured terms.

Otherwise, the restructured loan will continue to be reported as an *impaired* Retained Loan.

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). The ALLL represents management's best estimate of *impairment* in the existing loan portfolio as a whole at periodic reporting dates based on current information and events (consideration of expectations for or projections of economic and environmental factors is precluded by GAAP). Management considers the diversification of the loan portfolio and related experience of the Bank and its personnel, extent of geographic and dollar concentrations, prevailing economic and environmental conditions and experience from comparable historical periods, and the effects of adverse circumstances on borrower and guarantor ability to pay and estimated value of underlying collateral, along with any other factors identified as relevant to the current circumstances.

Management develops its estimate of an appropriate ALLL at periodic reporting dates based upon aggregation of loan impairment for *i*) specifically identified loans and *ii*) groups of remaining loans with similar risk characteristics. While management attributes portions of the allowance to specific portfolio segments and individual *impaired* loans, the entire allowance is available to absorb credit losses inherent in the total loan portfolio.

Management routinely identifies ***significant credits*** (individual loans or relationships that are not part of groups of smaller balance homogenous type loans with similar credit risks) to evaluate collectability based on consideration of the following:

- Dollar amounts of individual loans and total loans by borrower, guarantor, or other indicators of relationships;
- Payment status and overdrafts of related borrower deposit accounts;
- Borrower requests for concessions to alleviate cash constraints;
- Other evidence or risks of declining credit quality identified by loan officers, independent internal and external reviews (including outsourced reviews, financial statement audits, and regulatory examinations), members of management and the board, or information from other sources;
- Historical, environmental, and economic conditions that indicate increased risks of declining credit quality in certain industries, geographic areas, or types of loans; and
- Any other available information deemed relevant to the current circumstances.

When a *significant credit* has been identified for evaluation, management considers factors specific to that *significant credit* that include scheduled timing and amounts of principal and interest payments in relation to actual payment status (past due status is based on contractual terms) and demonstrated and projected sources of repayment to determine whether that specific loan or relationship is *impaired*. Loans that experience insignificant payment delays or shortfalls are not necessarily considered *impaired*, but loans that have not yet experienced payment delays or shortfalls may be considered *impaired* if identifiable and expected sources of repayment appear inadequate or otherwise unlikely to comply with the schedule specified by the contractual terms of the loan agreement. The significance of payment delays and shortfalls are considered on a case-by-case basis. All of the circumstances surrounding the loan and the borrower are considered, 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. *Probable* foreclosure on collateral generally indicates *impaired* status since it is not repayment in accordance with the schedule in the loan agreement and requires actions and costs that are not incurred in routine receipt of borrower payments.

Significant credits that have been identified as *impaired* are then individually evaluated to measure the amount of *impairment*, if any. *Impairment* for *significant credits* is measured by either *i*) the present value of expected future cash flows discounted at the loan's effective interest rate, *ii*) the loan's obtainable market price or *iii*) the fair value of the collateral, if foreclosure is *probable* or the loan is otherwise considered *collateral dependent*. A loan is ***collateral dependent*** when repayment of the loan is expected to be provided solely by the underlying collateral. Regulatory guidance requires use of the collateral method for loans that are *collateral dependent* and the collateral method is the predominant method used by management. In general, any portion of the *recorded investment* in a *collateral dependent* loan in excess of the fair value of the collateral is recognized as *impairment*. If repayment of a *collateral dependent* loan depends on the sale of the collateral, the fair value of the collateral is reduced by estimated selling costs to measure *impairment*.

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). To facilitate timely identification of *i*) declining credit quality in *significant credits* to manage credit risk in the loan portfolio and ii) *impaired* loans to be evaluated for *impairment* in the periodic estimation of the ALLL, management periodically reviews and classifies *significant credits* into the credit quality categories that follow:

Acceptable Classifications

Pass/Watch ("**P/W**"). Loans with financial factors or nature of collateral that are considered reasonable credit risks in the normal course of lending. This includes top rated businesses and individuals with large financial reserves in the Company's lending area. These borrowers generally present a financial statement that would support a significant amount of unsecured borrowing availability with collateral taken as an abundance of caution.

Other Assets Especially Mentioned ("**OAEM**"). Loans with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the credit position at some future date. Examples of these potential weaknesses, although not all-inclusive, include:

- Poor lending practices that result in significant defects in the loan agreement, security agreement, guarantee agreement, or other documentation and the deteriorating condition of or lack of control over collateral. In other words, these are conditions that may jeopardize the Company's ability to enforce loan terms or that reduce the protection afforded by secondary repayment sources.
- Lack of information about the borrower or guarantors, including stale financial information or lack of current collateral valuations.
- Economic or market conditions that in the future may affect the borrower's ability to meet scheduled repayments. These may be evidenced by adverse profitability, liquidity, or leverage trends in the borrower's financial statements.

Adverse Classifications – Criticized or Classified

*Substandard ("**SubStd**")*. Loan is inadequately protected by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize collection and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected.

Impaired

*Substandard Impaired ("**SubImp**")*. Same as SubStd, except that these loans are impaired because it has become probable that all principal and interest will not be collected as scheduled in the contract terms of the loan agreement; i.e., the likelihood of loss has become **probable**.

Doubtful. Loans with all the weaknesses inherent in the SubStd classification with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values highly questionable and improbable.

Loss. Considered uncollectible and of such little value that its continuance on the books is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer writing off an essentially worthless asset (or portion thereof), even though partial recovery may occur in the future. Loans classified as "loss" should be *charged-off*.

* The preceding definitions for SubStd, Doubtful, and Loss correspond with the FDIC's classification system. The definitions of P/W and OAEM are provided by the AICPA in its Accounting and Audit Guide titled *Depository & Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies*. Although Federal regulators do not require banks to adopt identical classification definitions, they are instructed to classify their loans using a system that can easily be reconciled with the regulators' classification system.

As significant credits progress down the above classification scheme, the frequency of review increases and, when adversely classified, they are reviewed at least at each quarterly reporting date. Significant credits evaluated and classified as SubStd or better (i.e., not impaired) are not specifically evaluated for *impairment*. Significant credits evaluated and classified as *impaired*, but judged to have no *impairment*, are excluded from any other *impairment* calculations in accordance with GAAP.

Aside from *significant credits* identified as *impaired*, it is *probable* that the Company will not collect all the principal or interest due on all the *other loans* in the portfolio in accordance with the contractual terms of those loan agreements. Therefore, the portfolio includes *impaired* loans other than the *significant credits* individually identified as *impaired*, even though they are not specifically identified, and additional *impairment* in the portfolio is *probable*. Accordingly, *impairment* on any remaining Retained Loans that are not *impaired significant credits* is determined in aggregate for groups of loans with similar risk characteristics, including loans classified as SubStd. *Impairment* determined in aggregate for groups of loans is not specific to individually identifiable loans or relationships.

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). The Company's management has identified the following segments and *classes* (segment subgroups) of the loan portfolio based on borrower categories and the nature and purpose of loans and underlying collateral as groups of loans with similar risk characteristics that are used to develop the estimated *impairment* in the loan portfolio for Retained Loans that are not specifically identified as *impaired*:

Real Estate.... *Loans secured by real estate* ("**R/E**"). The source of repayment for these loans may be from sale of or rents from the underlying R/E, business operations in the R/E, or other sources. The repayment sources and R/E collateral values are sensitive to economic and other environment factors which may vary based on the type of R/E or related operations, geographically or both, as well as the quality of borrowers and other managers responsible for operations. Construction & development loans also present risks related to existence of collateral that should result from advances for construction or development activities and require additional monitoring.

Construction, development, & other land........ To finance land under development or to be developed, or on-site construction of industrial, commercial, residential, or farm buildings.

Farmland.. Secured by farmland and improvements thereon, as evidenced by mortgages or other liens. Includes land known to be used or usable for agricultural purposes, such as crop and livestock production. Includes grazing or pasture land, whether tillable or not and whether wooded or not. Excludes loans for farm property construction and land development purposes.

1-4 family residential property......................... Secured by mortgages or other liens on dwelling units including single family residences, vacation homes, condominiums, interest in individual cooperative housing units, and mobile homes. Loans in this class are considered to be part of a group of smaller balance relatively homogenous loans that are not individually evaluated for classification as *impaired*, although unusually significant loans in this class may be evaluated if they are identified as presenting risk of loss that would be an outlier compared to the historical range of loss.

Multifamily (5+) residential property................ Secured by mortgages or other liens on dwelling units for five or more family units such as apartments.

Owner-occupied commercial property........... Secured by nonfarm, nonresidential property including business & industrial, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, association buildings, group homes for aged persons and orphans, golf courses, recreational facilities, and other similar properties that are occupied by the owner (e.g., not rental properties).

Other commercial property............................ Same as previous, except not occupied by the owner (e.g., rental properties).

Other............. All other loans not secured by real estate present additional risks related to uncertainties about the existence, continuing utility, and values of non R/E collateral. Sources of repayment vary widely, but are generally related to cash flows reflected by the nature of the classes below. Accordingly, these sources of repayment are sensitive to economic and other environmental factors, as well as the quality of the borrowers and other managers that oversee the operations.

Commercial & industrial ("**C&I**")...................... Loans for commercial and industrial purposes to legal entities (corporations, partnerships, limited liability entities, sole proprietorships, and other business enterprises and individuals (except for loans to individuals for investing or personal expenditures), but not to nonprofit organizations. Includes loans to finance construction that are not secured by real estate and loans to farmers for business purposes other than farming. **Leases to and factoring of receivables for the same types of borrowers for C&I purposes are segregated into separate classes.**

Agricultural production.................................. Loans to finance agricultural production, regardless of the borrower. Agricultural production includes growing and storing of crops; marketing and carrying of ag products by the producers thereof; breeding, raising, fattening, or marketing of livestock; fisheries; and forestries. Includes loans to purchase related equipment, machinery, or implements.

Consumer.. Loans to individuals for household, family, and other personal expenditures, except home mortgages (1-4 family residential) and loans to purchase or carry investment securities. Includes credit cards and other revolving credits, passenger and recreational vehicles, household appliances and furnishings, and others. Includes leases to the same types of borrowers for the same purposes. Loans in this class are considered to be part of a group of smaller balance relatively homogenous loans that are not individually evaluated for classification as *impaired*.

All others... Loans to financial institutions (banks and other depository institutions and other associations, companies, and financial intermediaries whose primary business is to accept deposits and to extend credit); US, State & local governments & subdivisions (other than investment securities, loans to United States government and agencies, the fifty states and District of Columbia, and their municipalities, school and other districts, Puerto Rico and US territories and possessions and their political subdivisions and Indian tribes in the US); foreign governments & institutions; and loans to individuals for investment purposes (other than loans secured by real estate).

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). Identification and classification of *significant credits* and determination of *impairment* is inherently subjective and requires judgments and estimates that are susceptible to significant revision as more information becomes available due to changing circumstances and/or the passage of time. Judgments by knowledgeable professionals are subject to variations, even given the same facts and circumstances. The Bank's regulators routinely review the adequacy of the Bank's ALLL and may require the Bank to increase its ALLL based on their policies and/or judgments about individual borrowers, economic conditions, and other factors available to them at the time of their examinations.

The portfolio of Retained Loans is reported at its ***net carrying amount***: outstanding principal balances adjusted for charge-offs, the ALLL, and any deferred fees or costs on originated loans.

Interest income is accrued on outstanding principal balances. Management places loans on *nonaccrual status* ("**NonAccrual**") and discontinues accrual of interest income when collection of principal or interest is considered doubtful, including:

- When the financial condition of the borrower has deteriorated to the point the loan is maintained on the cash basis or specific *impairment* has been identified; or

- When principal or interest has been in default for a period of 90 days or more[3] under its contractual terms, unless the loan is *well-secured*[1] and *in the process of collection*[2].[3 4]

  1 A loan is *well-secured* if it is secured by: *i*) collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or *ii*) the guarantee of a financially responsible person.

  2 A loan is *in the process of collection* if collection is proceeding in due course either i) through legal action, including judgment enforcement procedures, or ii) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

  3 This criterion is established by regulation and is considered to comply with GAAP in all material respects.

  4 Loans placed on NonAccrual are also moved to an *impaired* classification since management does not expect to collect interest and, therefore, it is *probable* that all principal and interest will not be collected according to the contractual terms of the loan agreement. Management may not suspend accrual of interest on *impaired* loans if all principal and interest are expected to be collected, just not according to the contractual terms of the loan agreement. An example of this circumstance and of an *impaired* loan with no *impairment* would be a loan where all principal and interest will be collected through foreclosure and liquidation of collateral, net of selling costs. Accordingly, NonAccrual loans are *impaired*, but *impaired* loans are not necessarily NonAccrual. However, *impaired* loans with identified *impairment* are NonAccrual since management does not expect to collect all principal and, therefore, does not expect to collect interest.

All interest accrued but not collected when a loan is placed on NonAccrual or is *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, if ever. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, generally through demonstrated performance.

Loan origination fees are recognized as income when received. Management believes this method approximates GAAP as loan origination fees charged are materially consistent with certain direct origination costs.

Credit-Related Financial Instruments. In the ordinary course of business, the Company enters into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit.

Note 2: Summary of Significant Accounting Policies (continued)

Transfers of Financial Assets. Transfers of financial assets must be evaluated to determine whether the transfer meets all of the following conditions to qualify for sale accounting: (*a*) isolation of the transferred assets from the transferor, (*b*) the transferee has the right to pledge or exchange the assets received and (*c*) the transferor's lack of effective control over the transferred assets. In general, a loan participation must have all of the following characteristics to meet the definition of a participating interest and qualify for sale treatment:

- It must represent a proportionate (pro rata) ownership interest in an entire financial asset;
- All cash flows received from the entire financial asset, except any cash flows allocated as compensation for servicing or other services performed (which must not be subordinated and must not significantly exceed an amount that would fairly compensate a substitute service provider should one be required), must be divided proportionately among the participating interest holders in an amount equal to their share of ownership;
- The rights of each participating interest holder (including the lead lender) must have the same priority, no interest is subordinated to another interest, and no participating interest holder has recourse to the lead lender or another participating interest holder other than standard representations and warranties and ongoing contractual servicing and administration obligations; and
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

If a transfer of a portion of a financial asset does not meet the definition of a participating interest, the lead lender transferring the participation and the party acquiring the participation must account for the transaction as a secured borrowing.

"Last-in, first-out" ("**LIFO**") participations in which all principal cash flows collected on the loan are paid first to the party acquiring the participation do not meet the definition of a participating interest. Similarly, "first-in, first-out" ("**FIFO**") participations in which all principal cash flows collected on the loan are paid first to the lead lender do not meet the definition of a participating interest. As a result, neither LIFO nor FIFO participations qualify for sale accounting and are reported as secured borrowings.

Upon the completion of a transfer of a participating interest that satisfies the conditions to be accounted for as a sale, the transferor (seller) must allocate the previous carrying amount of the entire financial asset between the participating interests sold and any that are retained based on their relative fair values at the transfer date, derecognize the participating interests sold, recognize and initially measure at fair value servicing assets (or servicing liabilities) and any other assets obtained and liabilities incurred in the sale, recognize in Earnings any gain or loss on the sale, and report any retained participating interests as the difference between the previous carrying amount of the entire financial asset and the amount derecognized.

Foreclosed & Repossessed Assets. Assets acquired through, or in lieu of, loan *foreclosure or repossession* ("**F&R**"), if any, are held for sale and are initially recorded at fair value less cost to sell at the date of F&R, establishing a cost basis for the asset(s). Differences between the loan investment carrying value and the cost basis of the F&R asset(s) are charged against the ALLL. Subsequent to F&R, capital improvements to F&R assets that increase the value, if any, are added to the F&R cost basis and management performs periodic valuations and the assets are carried at the lower of the F&R cost basis or estimated fair value less cost to sell. Revenue and expenses from holding and/or operating foreclosed assets and changes in the valuation allowance are netted and included in Earnings.

Premises & Equipment. Acquisitions are recorded at cost. Land is carried at cost. Depreciation on depreciable assets is provided over the estimated useful life of the asset, except for assets under capital lease obligations, which are depreciated over the shorter of the non-cancelable lease term or the estimated useful life of the leased asset, under the straight-line method. Maintenance, repairs, renewals, and betterments that do not significantly extend the useful life of the asset are recognized as expense as incurred. Book value (cost less accumulated depreciation at disposal) of asset disposals are removed from the accounts and the difference between the proceeds, if any, and the book value are netted and reported as gain or loss in Earnings for the corresponding period. The proceeds from trade-ins are added to the cost basis of the new asset and any difference between the proceeds and book value of the trade-in is reflected as gain or loss in Earnings.

Note 2: Summary of Significant Accounting Policies (continued)

Bank as Lessor. The Bank leases space in its building to third party tenants under noncancelable operating leases. Lease payments are due at the beginning of the month and income is recognized in the month earned. Lease receivables are insignificant and there is no provision for uncollectable rents.

Bank as Lessee. The Bank leases space for the LPO's in Midland and Southlake under noncancelable operating leases. Lease payments are due monthly and expense is recognized in the month incurred.

Goodwill. Goodwill represents the excess of the cost of the branch acquired at inception of the Bank over the fair value of the net assets acquired. Goodwill has been assigned to the banking operations reporting unit and is tested for impairment if an annual qualitative assessment (of whether it is likely that the fair value of the reporting unit is less than its carrying value) indicates the need for an impairment test, but may be tested for impairment if any event occurs or circumstances change that would more-likely-than-not reduce the fair value of the reporting unit below its carrying value.

Other Intangible Assets. The fair value of in-place and above-market leases acquired with the Bank's building were amortized over the remaining initial terms of the related leases on the straight-line method; amortization expense is included in *other general & administrative* in the accompanying consolidated statements of net income. These intangibles were fully amortized in 2013. The bank acquired a core deposit intangible with the branch acquired in June 2013. This intangible is being amortized over three years on the straight line method; amortization expense is included in *other general & administrative* in the accompanying consolidated statements of net income. The remaining useful lives and potential impairment of other intangible assets are evaluated annually.

Advertising Costs. Advertising costs are recognized when incurred. Advertising costs in 2015 & 2014 were $113,342 & $140,585, respectively.

Income Taxes. Effective July 1, 2012, PBT and the Bank voluntarily revoked their Subchapter S election with the Internal Revenue Service. As a result, PBT became a taxable C Corporation on that same date. PBT files a consolidated Federal income tax return (Form 1120) that includes the Bank and pays *Federal income taxes* ("**FIT**") at a maximum rate of 34%. The Company recognizes current and deferred FIT based on the expected statutory rate up to 34%.

The Company recognizes FIT for the tax effects of the transactions reported in the CFS. FIT expense or benefit in Earnings consists of taxes currently due or refunds receivable plus deferred tax effects from differences between the basis of assets and liabilities for CFS and FIT purposes, except that the deferred FIT expense or benefit on components of OCI are netted against those items. Deferred tax assets and liabilities represent the future Federal income tax return consequences of those differences, which will be deductible or taxable when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense. The Company accounts for interest or penalties related to IRS assessments, if any, as income tax expense.

Texas franchise taxes are considered income taxes for financial reporting purposes. Texas franchise taxes due annually in May are based on the preceding calendar year's income and expenses; accrued expenses & other liabilities in the accompanying CFS include an accrual for estimated Texas franchise taxes. Related deferred taxes are insignificant.

Reclassifications. Certain prior year amounts were reclassified to conform with the current year presentation.

Subsequent Events. Company management evaluated subsequent events for potential recognition and/or disclosure through June 16, 2016, the date these CFS were available to be issued.

Note 3: Investment Securities

Portfolio Composition. Composition of the Bank's AFS security portfolio follows:

	Amortized Cost	Gross Unrealized Amounts Recognized in AOCI, net of FIT: Gains	Gross Unrealized Amounts Recognized in AOCI, net of FIT: Losses	Fair Value
State & municipal	$ 9,716,087	$ 82,884	$ 90,733	$ 9,708,238
GSE RMBS's	8,137,223	9,781	63,114	8,083,890
US Government Agency RMBS	3,898,244	—	34,929	3,863,315
US Government Agency Notes	2,541,921	—	28,093	2,513,828
Corporate Bonds	2,017,077	—	15,248	2,001,829
GSE CMO	1,661,046	755	—	1,661,801
December 31, 2015	$ 27,971,598	$ 93,420	$ 232,117	$ 27,832,901
State & municipal	$ 8,036,586	$ 20,887	$ 130,512	$ 7,926,961
GSE RMBS's	7,423,134	25,128	39,890	7,408,372
US Government Agency RMBS	5,427,895	9,423	29,681	5,407,637
GSE CMO	1,902,172	—	13,182	1,888,990
US Government Agency Notes	975,260	7,901	—	983,161
December 31, 2014	$ 23,765,047	$ 63,339	$ 213,265	$ 23,615,121

"**GSE**" stands for *government sponsored enterprise,* formed by the US Government, but does not have "full faith and credit" of US Government backing credit; considered higher risk than US Government agencies per SEC Staff Guidance. "**RMBS**" stands for *residential mortgage-backed securities*; issued by GSE's and US Government agencies, collateralized by underlying residential mortgages. "**CMO**" stands for *collateralized mortgage obligations*; which may be issued by GSE's, US Government agencies & private entities, a MBS with separate pools of pass-through rates for different classes of holders and maturities (tranches).

AFS Securities Pledged. At December 31, 2015 & 2014, the Bank had pledged securities with carrying values of approximately $1.8 million & $1.9 million, respectively, to secure public deposits, Federal funds purchased, repurchase agreements, and to meet other purposes required by law.

Contractual Maturities. Amortized cost and fair value of AFS securities by contractual maturity follow:

	December 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ —	$ —	$ —	$ —
1 to 5 years	2,609,717	2,601,484	—	—
5 to 10 years	3,102,364	3,136,328	2,835,706	2,841,750
Over 10 years	8,563,004	8,486,083	6,176,140	6,068,372
Subtotal	14,275,085	14,223,895	9,011,846	8,910,122
RMBS's	12,035,467	11,947,205	12,851,029	12,816,009
CMO's	1,661,046	1,661,801	1,902,172	1,888,990
Totals	$ 27,971,598	$ 27,832,901	$ 23,765,047	$ 23,615,121

Temporary Impairments. Additional information follows on the Bank's securities that are temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

Dollars in $000's	December 31, 2015				December 31, 2014			
	< One Year		> One Year		< One Year		> One Year	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
State & municipal	$ 9	$ 1,279	$ 82	$ 2,848	$ 1	$ 336	$ 130	$ 5,044
GSE RMBS's	24	2,936	39	2,254	—	—	40	3,661
US Government Agency RMBS	6	1,772	29	2,092	5	810	24	2,637
US Government Agency Notes	28	2,514	—	—	—	—	—	—
Corporate Bonds	15	2,002	—	—	—	—	—	—
GSE CMO	—	—	—	—	13	1,889	—	—
AFS Securities	$ 82	$ 10,503	$ 150	$ 7,194	$ 19	$ 3,035	$ 194	$ 11,342

The impairments detailed above are due to increased market interest rates, not credit quality. Although these securities are AFS, the Company does not intend to sell them prior to recovery to their amortized cost bases and it is more likely than not that the Company will not be required to sell these securities prior to recovery to their amortized cost bases, including maturity, and the losses are considered temporary.

Note 4: Loans Held to Maturity or Pay-Off ("Retained Loans")

Recorded Investments in Retained Loans. *Net carrying amounts*, accrued interest, and *recorded investments* in Retained Loans by portfolio segment and class follow:

Dollars in $000's *Amounts may not foot due to rounding*	December 31, 2015			December 31, 2014		
	Loans	Accrued Interest	**Recorded Investment**	Loans	Accrued Interest	**Recorded Investment**
Construction, land development, & other land $	22,109	$ 93	**$ 22,202**	$ 14,730	$ 63	**$ 14,793**
Farmland	3,693	40	**3,733**	980	45	**1,026**
1-4 family residential property	35,165	107	**35,272**	24,539	79	**24,618**
Multifamily (5+) residential property	692	1	**693**	929	1	**931**
Owner-occupied commercial property	22,741	58	**22,799**	23,278	68	**23,346**
Other commercial property	73,742	194	**73,936**	53,168	162	**53,330**
Real estate	158,142	492	**158,635**	117,625	418	**118,043**
C&I-factoring	6,643	9	**6,652**	19,736	5	**19,740**
C&I-leasing	823	8	**830**	4,491	20	**4,512**
C&I-other	23,067	83	**23,149**	28,348	99	**28,447**
Agricultural production	719	7	**726**	1,041	20	**1,061**
Consumer	1,598	6	**1,604**	1,610	7	**1,617**
Other	32,850	113	**32,963**	55,226	151	**55,377**
Retained Loans, Gross	190,992			172,851		
Accrued Interest		$ 605			$ 570	
Retained Loans, Recorded Investment			**$ 191,597**			**$ 173,420**
ALLL	3,176			2,222		
Retained Loans, Net Carrying Amount	**$ 187,816**			**$ 170,629**		

Note 4: Loans Held to Maturity or Pay-Off ("Retained Loans") (continued)

Credit Quality Indicators. Management considers payment status to be a significant indicator of credit quality. The payment status of *recorded investments* in Retained Loans by portfolio segment and class follows:

Dollars in $000's	Retained Loans Accruing Interest Income				
Amounts may not foot due to rounding * "**DPD**" is Days Past Due.	Current to 29 DPD*	30-89 DPD*	90+ DPD*	NonAccrual	Totals
Construction, land development, & other land	$ 22,202	$ —	$ —	$ —	$ 22,202
Farmland	3,733	—	—	—	3,733
1-4 family residential property	35,154	117	—	—	35,272
Multifamily (5+) residential property	693	—	—	—	693
Owner-occupied commercial property	22,447	—	—	352	22,799
Other commercial property	73,936	—	—	—	73,936
Real estate	158,165	117	—	352	158,635
C&I-factoring	6,652	—	—	—	6,652
C&I-leasing	561	270	—	—	830
C&I-other	20,653	—	—	2,497	23,149
Agricultural production	726	—	—	—	726
Consumer	1,592	12	—	—	1,604
Other	30,184	282	—	2,497	32,963
December 31, 2015	$ 188,349	$ 399	$ —	$ 2,849	$ 191,597
Construction, land development, & other land	$ 14,756	$ —	$ —	$ 38	$ 14,793
Farmland	1,026	—	—	—	1,026
1-4 family residential property	23,703	915	—	—	24,618
Multifamily (5+) residential property	931	—	—	—	931
Owner-occupied commercial property	23,186	160	—	—	23,346
Other commercial property	52,901	429	—	—	53,330
Real estate	116,502	1,504	—	38	118,043
C&I-factoring	19,740	—	—	—	19,740
C&I-leasing	4,267	245	—	—	4,512
C&I-other	27,728	155	428	135	28,447
Agricultural production	1,058	3	—	—	1,061
Consumer	1,617	—	—	—	1,617
Other	54,411	403	428	135	55,377
December 31, 2014	$ 170,913	$ 1,906	$ 428	$ 173	$ 173,420

Note 4: Loans Held to Maturity or Pay-Off ("Retained Loans") (continued)

Credit Quality Indicators (continued). *Recorded investments* in Retained Loans categorized based on managements' evaluation of credit quality by portfolio *segment* and *class* follow:

Dollars in $000's *Amounts may not foot due to rounding*	Impairment Evaluated				
	Collectively			Specifically	
	Acceptable		Criticized/Classified		
	P/W*	OAEM	SubStd	Impaired	Total
Construction, land development, & other land	$ 22,202	$ —	$ —	$ —	$ 22,202
Farmland	871	2,862	—	—	3,733
1-4 family residential property	34,501	269	501	—	35,272
Multifamily (5+) residential property	693	—	—	—	693
Owner-occupied commercial property	20,680	1,767	—	352	22,799
Other commercial property	70,651	—	—	3,285	73,936
Real estate	149,599	4,898	501	3,637	158,635
C&I-factoring	6,289	—	—	364	6,652
C&I-leasing	385	176	270	—	830
C&I-other	19,577	616	459	2,497	23,149
Agricultural production	400	327	—	—	726
Consumer	1,547	—	56	—	1,604
Other	28,198	1,118	785	2,860	32,963
December 31, 2015	$ 177,797	$ 6,016	$ 1,287	$ 6,498	$ 191,597
Construction, land development, & other land	$ 14,736	$ —	$ 58	$ —	$ 14,793
Farmland	1,026	—	—	—	1,026
1-4 family residential property	23,294	1,136	91	98	24,618
Multifamily (5+) residential property	931	—	—	—	931
Owner-occupied commercial property	22,786	183	377	—	23,346
Other commercial property	50,665	—	69	2,597	53,330
Real estate	113,436	1,319	594	2,694	118,043
C&I-factoring	19,740	—	—	—	19,740
C&I-leasing	4,512	—	—	—	4,512
C&I-other	27,570	—	199	678	28,447
Agricultural production	1,061	—	—	—	1,061
Consumer	1,617	—	—	—	1,617
Other	54,500	—	199	678	55,377
December 31, 2014	$ 167,936	$ 1,319	$ 793	$ 3,372	$ 173,420

* The P/W category includes loans that have not been reviewed and classified by credit quality categories.

Allowance for Loan & Lease Losses. Annual ALLL activity follows:

Dollars in $000's *Amounts may not foot due to rounding*	2015		2014	
Beginning		$ 2,222		$ 1,613
Provision for Loan & Lease Losses		4,462		687
Real estate	$ (14)		$ (75)	
Other	(3,508)		(14)	
Charge-Offs		(3,522)		(89)
Real estate	12		—	
Other	2		11	
Recoveries		14		11
ALLL		$ 3,176		$ 2,222

Note 4: Loans Held to Maturity or Pay-Off ("Retained Loans") (continued)

Allowance for Loan & Lease Losses (continued). The *recorded investment* in Retained Loans and ALLL disaggregated by segment/class and *impairment* methodology at year end follows:

Dollars in $000's	ALLL			Recorded Investment		
Amounts may not foot due to rounding	Individually[1]	Collectively[2]	Total	Individually[3]	Collectively[4]	Total
Construction, land development, & other land ......$	—	$ 267	$ 267	$ —	$ 22,202	$ 22,202
Farmland	—	32	32	—	3,733	3,733
1-4 family residential property	—	174	174	—	35,272	35,272
Multifamily (5+) residential property	—	4	4	—	693	693
Owner-occupied commercial property	—	192	192	352	22,447	22,799
Other commercial property	521	631	1,152	3,285	70,651	73,936
Real estate	521	1,300	1,820	3,637	154,998	158,635
C&I-factoring	—	97	97	364	6,289	6,652
C&I-leasing	—	37	37	—	830	830
C&I-other	746	444	1,189	2,497	20,652	23,149
Agricultural production	—	7	7	—	726	726
Consumer	—	26	26	—	1,604	1,604
Other	746	611	1,356	2,860	30,101	32,963
December 31, 2015 .....$	1,266	$ 1,910	$ 3,176	$ 6,498	$ 185,100	$ 191,597
Construction, land development, & other land ......$	—	$ 125	$ 125	$ —	$ 14,794	$ 14,793
Farmland	—	4	4	—	1,026	1,026
1-4 family residential property	—	102	102	98	24,521	24,618
Multifamily (5+) residential property	—	4	4	—	931	931
Owner-occupied commercial property	—	104	104	—	23,346	23,346
Other commercial property	569	225	794	2,597	50,734	53,330
Real estate	569	564	1,133	2,694	115,349	118,043
C&I-factoring	—	343	343	—	19,740	19,740
C&I-leasing	—	144	144	—	4,512	4,512
C&I-other	205	370	575	678	27,769	28,447
Agricultural production	—	2	2	—	1,061	1,061
Consumer	—	25	25	—	1,617	1,617
Other	205	884	1,089	678	54,699	55,377
December 31, 2014 .....$	774	$ 1,448	$ 2,222	$ 3,372	$ 170,048	$ 173,420

1 *Impairment* on *impaired* Retained Loans determined individually in accordance with ASC§310-10, *Receivables*.

2 *Impairment* on Retained Loans determined collectively in accordance with ASC§450-20, *Loss Contingencies*.

3 *Recorded investment* in *impaired* Retained Loans individually evaluated for *impairment* in accordance with ASC§310-10, *Receivables*.

4 *Recorded investment* in Retained Loans collectively evaluated for *impairment* in accordance with ASC§450-20, *Loss Contingencies*.

Note 4: Loans Held to Maturity or Pay-Off ("Retained Loans") (continued)

Identified Impaired Retained Loans. Management evaluates *significant credits* identified as *impaired* to measure *impairment* on those loans. Information on identified *impaired* loans and related *impairment* by portfolio segment and class follows:

Dollars in $000's *Amounts may not foot due to rounding*	**[A]** Total Unpaid Contractual Principal Balance	**[B]** Total	**[C]** Recorded Investments in Identified Impaired Retained Loans – Without Impairment	**[D]** With Impairment	**[E]** Impairment on Identified Impaired Retained Loans
Owner-occupied commercial property	$ 372	$ 352	$ 352	$ —	$ —
Other commercial property	3,285	3,285	776	2,509	521
Real Estate	3,657	3,637	1,128	2,509	521
C&I-factoring	664	364	364	—	—
C&I-other	4,099	2,497	589	1,908	746
Other	4,764	2,860	952	1,908	746
December 31, 2015	$ 8,421	$ 6,498	$ 2,081	$ 4,417	$ 1,266
1-4 family residential property	$ 98	$ 98	$ 98	$ —	$ —
Other commercial property	2,597	2,597	—	2,597	569
Real Estate	2,695	2,694	98	2,597	569
C&I-other	677	678	120	557	205
Other	677	678	120	557	205
December 31, 2014	$ 3,372	$ 3,372	$ 218	$ 3,154	$ 774

[A] = [B] + Past Partial Charge-Offs of Loans in [B]
[B] = [C] + [D]
[E] is impairment on Loans in [D]

The annual average *recorded investments* in identified *impaired* Retained Loans and related interest income recognized thereon by portfolio segment and class follows:

Dollars in $000's *Amounts may not foot due to rounding*	2015		2014	
	Average Recorded Investments In Identified Impaired Retained Loans	Interest Income On Recorded Investments In Identified Impaired Retained Loans	Average Recorded Investments In Identified Impaired Retained Loans	Interest Income On Recorded Investments In Identified Impaired Retained Loans
1-4 family residential property	$ 49	$ 5	$ 48	$ 5
Owner-occupied commercial property	176	2	—	—
Other commercial property	2,553	136	2,692	103
Real Estate	2,557	143	2,740	108
C&I-factoring	182	263	—	—
C&I-other	1,407	208	363	35
Other	1,407	471	363	35
Totals	$ 3,964	$ 614	$ 3,103	$ 143

Note 5: Premises & Equipment

Composition of premises & equipment follows:

	Estimated Useful Life	December 31, 2015	December 31, 2014
Buildings & improvements	3 - 30 yrs	$ 6,846,159	$ 6,818,768
Furniture & fixtures	5 – 15 yrs	2,526,541	1,005,601
Equipment	5 – 10 yrs	468,520	1,902,045
Computers	3 – 5 yrs	848,903	819,703
Software	3 yrs	165,421	42,792
Depreciable premises & equipment, at cost		10,855,544	10,638,909
Less: accumulated depreciation		3,077,377	2,352,233
Depreciable premises & equipment, net		7,778,167	8,286,676
Land		2,995,855	2,995,855
Construction in process		82,711	51,190
Premises & Equipment, Net		$ 10,856,733	$ 11,333,721

The Bank leased space for the Midland and Southlake LPOs in 2015 under lease agreements with terms of 15 and 38 months, respectively. Rent expense for these locations was $31,554 & $1,250 in 2015 & 2014. Future lease payments to be made under these agreements for 2016, 2017, & 2018 are $69,623, $57,725, & $48,899, respectively.

The Bank leases office space in its Lubbock building to third party tenants. The cost of the land, building, and accumulated depreciation thereon at December 31, 2015, was $1,840,760, $3,344,104, & $702,681, respectively (net book value of $4,482,183). Lease income of $624,969 & $672,913 in 2015 & 2014, respectively, is included in *occupancy & equipment expense, net of rental income* in the accompanying consolidated statements of income. Building tenants include: Greg Garrett Realtors, owner is the Bank's President and a stockholder, with rents of $22,357 & $23,629; and a Company director/stockholder with rents of $30,079 & $50,794 in 2015 & 2014, respectively. Greg Garrett Realtors' lease term expires June 30, 2017, and the Company director's lease term expires April 30, 2017. Minimum future lease payments to be received on non cancelable operating leases as of December 31, 2015, follow (non cancelable lease terms range from 2 to 59 months):

2016	$ 303,852
2017	182,979
2018	71,203
2019	28,061
2020	17,539
Minimum Future Lease Payments to be Received	$ 603,634

Note 6: Intangible Assets

Recognized intangible assets are comprised follows:

	Estimated Useful Life	December 31, 2015	December 31, 2014
Goodwill	N/A	$ 6,139,277	$ 6,139,227
Core deposit intangibles	3 years	$ 40,727	$ 40,727
Less: accumulated amortization		35,070	21,494
Amortizable intangible assets, net		5,657	19,233
Trademark	N/A	7,500	7,500
Other Intangible Assets, Net		$ 13,157	$ 26,733

Amortization expense related to intangible assets, other than goodwill, was $13,576 & $13,575 in 2015 & 2014, respectively. Management believes the remaining useful lives of the amortizable intangible assets are appropriate and that there is no impairment of any intangible asset at December 31, 2015.

Note 7: Time Deposits

Composition of time deposits follows:

	December 31, 2015	December 31, 2014
Brokered deposits	$ —	$ —
Other	40,664,567	41,374,265
Denominations of $250,000 or more	40,664,567	41,374,265
Brokered deposits	14,355,040	4,172,349
Other	61,149,920	61,108,241
Denominations less than $250,000	75,504,960	65,280,590
Time Deposits	$ 116,169,527	$ 106,654,855

Time deposit scheduled maturities as of December 31, 2015 follow:

2016	$ 81,996,366
2017	17,241,065
2018	2,577,056
2019	—
Brokered deposits	14,355,040
Time Deposits	$ 116,169,527

Note 8: Income Taxes

Income tax expense is comprised as follows:

	2015	2014
Current	$ (544,100)	$ 544,445
Deferred	(915,538)	54,662
Federal income tax (benefit) expense	(1,459,638)	599,107
Texas franchise tax expense	19,207	28,500
Income Tax (Benefit) Expense in Net Income	(1,440,431)	627,607
Deferred tax expense (benefit) on change in net unrealized gain on securities available for sale	20,993	351,197
Deferred tax benefit on net unrealized gain realized & reclassed to Earnings	(9,081)	(3,270)
Income Tax Expense (Benefit) in Other Comprehensive Income (Loss)	11,912	347,927
Income Tax Expense (Benefit) in Comprehensive Income (Loss)	$ (1,428,519)	$ 975,534

A reconciliation of the expected Federal income tax expense on income before income taxes to actual Federal income tax expense follows:

	2015	2014
(Loss) Income before income taxes	$ (4,121,678)	$ 1,971,347
Statutory Federal income tax rate	34%	34%
Expected Federal income tax (benefit) expense	(1,401,371)	670,258
Tax effects of:		
Tax exempt municipal interest income	(59,737)	(76,700)
Other items, net	1,470	5,549
Federal Income Tax (Benefit) Expense	$ (1,459,638)	$ 599,107

During 2015 & 2014, the Company had no significant income tax related interest or penalties and had accrued $-0- for the payment of income tax related interest and penalties at December 31, 2015 & 2014.

Income taxes currently payable, included in accrued expenses & other liabilities is comprised of the following:

	December 31,	
	2015	2014
Federal income tax payable	$ —	$ 544,439
Texas franchise tax payable	20,000	29,059
Current Income Tax Payable	$ 20,000	$ 573,498

At December 31, 2015, a Federal income tax refund receivable of $709,161 was included in other assets.

Note 8: Income Taxes (continued)

Deferred Texas franchise taxes are insignificant. Net deferred Federal income tax assets (liabilities), included in other assets (accrued expenses & other liabilities), follow:

	December 31,	
	2015	2014
Tax basis of loans exceeds book value	$ 1,083,632	$ 790,642
Tax basis of other real estate exceeds book value	628,121	—
Tax basis of non-qualified stock options	156,834	196,202
Tax basis of net operating loss carryforwards	225,037	—
Tax basis of AFS securities exceeds book value	47,157	59,569
Miscellaneous book/tax basis differences	190,202	207,331
Deferred tax assets	2,330,983	1,253,744
Book value of intangible assets exceeds tax basis	1,202,474	998,440
Book value of accrued expenses exceeds tax basis	20,215	36,258
Book value of premises & equipment exceeds tax basis	432,302	448,508
Miscellaneous book/tax basis differences	2,328	—
Deferred tax liabilities	1,657,319	1,483,206
Net Deferred Tax Asset (Liability)	$ 673,664	$ (229,462)

Management is not aware of any tax positions where it is considered reasonably possible that the total amount of unrecognized tax liabilities or benefits will vary significantly from the amounts reported herein. The Company is no longer subject to Federal income tax examinations by the IRS for years before 2012. The Company is no longer subject to Texas franchise tax examinations by the state of Texas for years before 2011.

Note 9: Commitments & Contingent Liabilities

The Bank has filed a claim against various parties, including a former officer of the Bank, in an effort to recover losses incurred and recognized. In response, the Bank, among others, was named in a counterclaim by certain defendants in the Bank's suit. At this early stage of the litigation, management and counsel are unable to determine the likelihood or magnitude of an unfavorable outcome, if any. Management is not aware of any other asserted or any unasserted claims that would be material to the Company's CFS, however, various legal claims arise from time-to-time in the normal course of business and management may not be aware of potential claims that have not been asserted.

Note 10: Regulatory Matters

PBT and Bank are subject to various regulatory capital requirements administered by the state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on PBT's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, PBT and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

In July 2013, the Federal Reserve Board published final rules for the adoption of the *Basel III regulatory capital framework* ("**Basel III**"). Basel III, among other things, (i) introduced a new capital measure called *Common Equity Tier 1* ("**CET1**"), (ii) specified that Tier 1 capital consists of CET1 and additional tier 1 capital instruments meeting specified requirements, (iii) defined CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expanded the scope of the deductions/adjustments as compared to existing regulations. Basel III was effective for PBT and Bank on January 1, 2015, with certain transition provisions fully phased-in on January 1, 2019. Management does not anticipate a material impact on PBT or Bank.

Note 10: Regulatory Matters (continued)

Quantitative measures established by regulation to ensure capital adequacy require PBT and Bank to maintain minimum amounts and ratios (set forth in the following tables) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 & 2014, that PBT and Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2015, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since December 31, 2015, that management believes have changed the Bank's category.

PBT's and Bank's actual capital amounts and ratios as of December 31, 2015 & 2014, follow:

Dollars in $000's	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015:						
Total Risk-Based Capital to Risk-Weighted Assets:						
PBT	$ 23,435	12.0%	$ 15,667	8.0%	$ N/A	N/A %
Bank	27,716	13.6	16,351	8.0	20,439	10.0
Tier I Capital to Risk-Weighted Assets:						
PBT	20,259	10.3	11,750	6.0	N/A	N/A
Bank	24,540	12.0	12,263	6.0	16,351	8.0
Common Tier 1 (CET1):						
PBT	21,694	10.3	8,813	4.5	N/A	N/A
Bank	24,540	12.0	9,198	4.5	13,285	6.5
Tier I Capital to Adjusted Average Assets:						
PBT	20,259	9.1	8,944	4.0	N/A	N/A
Bank	24,540	9.6	10,235	4.0	12,793	5.0
December 31, 2014:						
Total Risk-Based Capital to Risk-Weighted Assets:						
PBT	$ 23,941	13.3%	$ 14,405	8.0%	$ N/A	N/A%
Bank	25,488	14.2	14,379	8.0	17,974	10.0
Tier I Capital to Risk-Weighted Assets:						
PBT	21,694	12.0	10,804	6.0	N/A	N/A
Bank	23,241	12.9	10,784	6.0	14,379	8.0
Common Tier 1 (CET1):						
PBT	21,694	12.0	8,103	4.5	N/A	N/A
Bank	23,241	12.9	8,088	4.5	11,683	6.5
Tier I Capital to Adjusted Average Assets:						
PBT	21,694	9.7	8,943	4.0	N/A	N/A
Bank	23,241	10.4	8,943	4.0	11,178	5.0

State banking regulations place certain restrictions on the Bank's dividend payments to PBT. Dividends paid by the Bank would be prohibited if the effect of the dividends would cause the Bank's capital to be reduced below applicable minimum capital requirements.

In June 2016, the Bank received a request for informal commitments with regulatory authorities whereby the Bank would obtain approval prior to declaration of cash dividends, and submit budgets, various plans, staffing evaluations, and progress reports. Furthermore, the Bank would agree to maintain minimum capital ratios as follow: 8% Tier 1 Leverage Capital Ratio, 10% Tier 1 Risk Based Capital Ratio, and 12% Total Risk Based Capital Ratio. These commitments would remain in effect until terminated by the regulatory authorities.

Note 11: Financial Instruments with Off-Balance Sheet Risk

Credit-Related Financial Instruments. In the normal course of business, to meet the financing needs of its customers, the Bank is a party to credit-related financial instruments with off-balance sheet risk. These instruments include commitments to extend credit: standby letters of credit and commercial letters of credit which involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying CFS. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. Management applies the same policies in making decisions to extend credit under on- and off-balance sheet instruments.

The following off-balance sheet financial instruments, whose contract amounts represent credit risk, were outstanding (at contract amounts):

	December 31,	
	2015	2014
Unfunded lines of credit	$ 31,810,00	$ 35,873,000
Commercial and standby letters of credit	836,000	2,486,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit and other revolving credit arrangements are commitments for possible future extensions of credit to existing customers. These lines of credit may be uncollateralized, might not contain a specified maturity date, and might not be drawn upon to the total extent of the commitment.

Commercial and standby letters of credit are conditional commitments issued 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. Substantially 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 loans to customers and collateral is generally held supporting those commitments, as management deems necessary.

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

Note 12: Subordinated Debt Securities

The Company issued $3,800,000 in subordinated debt securities during 2015. Interest is due quarterly, at 5.0% per annum, and mature five years from the issue date. These securities are unsecured and may be called by the Company at any time two years after the closing date of the notes.

In previous years, the Company issued $800,000 & $1,540,000 in subordinated debt securities during 2012 & 2011, respectively. One note issued in 2011 was cancelled and replaced with a new note as part of the 2015 issuance. Interest is due annually, at 5.0% per annum, and mature five years from the issue date. These securities are unsecured and may be called by the Company at any time.

No subordinated debt securities have been called.

Note 13: Employee Benefits

401(k) Plan. The Bank established a 401(k) Plan ("**401(k)**") effective June 25, 2007. Bank employees that (i) have attained the age of 21, and (ii)(a) were employed on June 25, 2007, or (ii)(b) provided six months of service may enter the 401(k) on the immediately following or coincident first day of the month and are eligible to participate in employer contributions. Participants can elect to start salary deferrals on the first day of the month coinciding with or next following the date of eligibility. The Bank matches 100% of employee salary deferrals up to 5% of compensation, as defined. Participants are always vested in salary deferrals, employer matching, and earnings thereon; participants vest in all other employer contributions on a six-year graded vesting schedule. Participants must complete 1,000 hours of service in a year to obtain credit for a year of service. The Bank recognized $2,750 & $2,270 of 401(k) administrative expenses in 2015 & 2014, respectively. Bank matching contributions to the 401(k) were $102,249 & $88,436 in 2015 & 2014, respectively.

Employee Insurance Benefits. The Bank sponsors health, dental, and vision plans, which provide medical, prescription drug, dental, and vision benefits. The Bank pays a significant portion of the premiums for health, dental, and vision insurance based on the coverage selected by the employee. Employees are eligible on the first of the month following 60 days of service. The Bank provides life insurance at no cost to the employee in the amount of $50,000 for non-officers and $100,000 for officers. Additional life insurance is available for purchase, at the employee's expense. The Bank also provides short-term and long-term disability to employees at no cost. The Bank's premium expense was $239,334 & $207,342 in 2015 & 2014, respectively. Employees also have the option to participate in a health savings account. The Bank contributes $100 a month for participating employees and contributed $6,000 & $5,600 in 2015 & 2014, respectively.

Note 14: Share-Based Payments

Stock Warrants. During the initial organization of the Bank, certain shareholders ("**Organizers**") of the Bank funded organizational and pre-opening expenses with cash advances to Lubbock Southwest Holdings, Inc. ("**LSHI**"), which was dissolved subsequent to opening the bank. Upon the formation of the Bank, organizer advances were applied to their total stock purchases in the Bank's initial stock offering. If the Bank had failed to open, the Organizers would have lost the amount of cash advances spent by LSHI. Due to the risk of loss borne by the Organizers, each organizer received one warrant for every $10 of funds advanced to and spent by LSHI; 75,402 warrants were awarded to the Organizers and they were all outstanding as of December 31, 2015. Each warrant was redeemable for one share of the Bank's common stock at $10 per share over a ten-year exercise period and was fully vested upon issuance. In connection with the stock exchange on July 1, 2011, the warrants are now redeemable for one share of PBT's common stock. The weighted-average remaining contractual life of the outstanding warrants was 1.5 years at December 31, 2015.

The stock warrant fair value on the grant date was estimated to be $3.25, which was determined under the Black-Scholes-Merton option-pricing model ("**BSM**") with the assumptions that follow: 5.01% risk free interest rate, seven-year expected life, 14.65% expected volatility, and 0.0% expected dividend yield. Since the warrants were awarded as payment for risk of loss on organizer cash advances spent by LSHI, the related $245,057 of stock warrant expense was recognized by the Bank in 2007 as *interest expense* in Earnings and as *additional paid-in-capital* in the Bank's stockholders' equity.

2015 Stock Option Awards. Certain officers and directors of the Bank were awarded 70,186 stock options on June 26, 2015, with an exercise price of $11.59 per option. These options are redeemable for PBT's common stock shares. The options vest ratably over a three-year period and are exercisable for 10 years. None of these options were exercised or forfeited in 2015, but 5,000 were forfeited March 15, 2016 due to an employee termination. The weighted-average remaining contractual life of the outstanding options was 9.49 years at December 31, 2015.

The stock option fair value on the grant date was estimated to be $1.20, which was determined under the BSM with the assumptions that follow: 2.83% risk free interest rate, ten-year expected life, 10.15% expected volatility and 1.1% expected dividend yield. Stock option compensation expense of $14,038 was recognized in 2015, as *salaries & employee benefits expense*, in the accompanying consolidated statement of income and as *additional paid-in-capital* in the accompanying consolidated balance sheet.

Note 14: Share-Based Payments (continued)

2014 Stock Option Awards. Certain officers and employees of the Bank were awarded 43,952 stock options on June 30, 2014, with an exercise price of $11.12 per option. These options are redeemable for PBT's common stock shares. The options vest ratably over a three-year period and are exercisable for 10 years. 3,600 of the options were forfeited in prior years, 935 additional options were forfeited in 2015, and 3,333 were forfeited March 15, 2016 due to an employee termination. None of these options were exercised in 2015. The weighted-average remaining contractual life of the outstanding options was 8.50 years at December 31, 2015.

The stock option fair value on the grant date was estimated to be $4.04, which was determined under the BSM with the assumptions that follow: 2.53% risk free interest rate, ten-year expected life, 9.68% expected volatility and 0.0% expected dividend yield. Stock option compensation expense of $54,829 & $30,461 was recognized in 2015 & 2014, respectively, as *salaries & employee benefits expense* in the accompanying consolidated statement of income and as *additional paid-in-capital* in the accompanying consolidated balance sheets.

2013 Stock Option Awards. Certain officers and a Director of the Bank were awarded 43,830 stock options on August 22, 2013, with an exercise price of $10.00 per option. These options are redeemable for PBT's common stock shares. The options vest ratably over a three-year period and are exercisable for 10 years. 2,730 of these options have been forfeited since awarded and 1,667 were forfeited March 15, 2016 due to an employee termination. None of these options were exercised or forfeited in 2015. The weighted-average remaining contractual life of the outstanding options was 7.65 years at December 31, 2015.

The stock option fair value on the grant date was estimated to be $4.62, which was determined under the BSM with the assumptions that follow: 3.63% risk free interest rate, ten-year expected life, 10.41% expected volatility and 0.0% expected dividend yield. Stock option compensation expense of $63,354 & $76,894 was recognized in 2015 & 2014, respectively, as *salaries & employee benefits expense* in the accompanying consolidated statements of income and as *additional paid-in-capital* in the accompanying consolidated balance sheets.

2012 Stock Option Awards. Certain officers of the Bank were awarded 33,596 stock options on June 20, 2012, with an exercise price of $10.38 per option. These options are redeemable for PBT's common stock shares. The options vest ratably over a three-year period and are exercisable for 10 years. None of these options were exercised or forfeited in 2015. The weighted-average remaining contractual life of the outstanding options was 6.48 years at December 31, 2015.

The stock option fair value on the grant date was estimated to be $2.77, which was determined under the BSM with the assumptions that follow: 1.67% risk free interest rate, ten-year expected life, 15.67% expected volatility and 0.0% expected dividend yield. Stock option compensation expense of $14,813 & $31,070 was recognized in 2015 & 2014, respectively, as *salaries & employee benefits expense* in the accompanying consolidated statements of income and as *additional paid-in-capital* in the accompanying consolidated balance sheets.

2011 Stock Option Awards. Certain officers of the Bank were awarded 31,656 stock options on June 23, 2011, with an exercise price of $10 per option. These options are redeemable for PBT's common stock shares. The options are vested and are exercisable for through June 23, 2021. None of these options were exercised or forfeited in 2015. The weighted-average remaining contractual life of the outstanding options was 5.48 years at December 31, 2015.

The stock option fair value on the grant date was estimated to be $1.92, which was determined under the BSM with the assumptions that follow: 2.19% risk free interest rate, seven-year expected life, 10.91% expected volatility and 0.0% expected dividend yield. Stock option compensation expense of $9,670 was recognized in 2014, as *salaries & employee benefits expense* in the accompanying consolidated statements of income and as *additional paid-in-capital* in the accompanying consolidated balance sheets.

Note 14: Share-Based Payments (continued)

2010 Stock Option Awards. Certain officers of the Bank were awarded 31,656 stock options on June 24, 2010, with an exercise price of $10 per option. These options are redeemable for PBT's common stock shares. The options are vested and are exercisable through June 24, 2020. None of these options were exercised or forfeited in 2015. The weighted-average remaining contractual life of the outstanding options was 4.48 years at December 31, 2015.

The stock option fair value on the grant date was estimated to be $1.59, which was determined under the BSM with the assumptions that follow: 2.59% risk free interest rate, seven-year expected life, 14.71% expected volatility and 0.0% expected dividend yield.2009 Stock Option Awards. Certain officers of the Bank were awarded 29,300 stock options on June 18, 2009 with an exercise price of $10 per option. These options are redeemable for PBT's common stock shares. The options are vested and are exercisable through June 18, 2019. None of these options were exercised or forfeited in 2015. The weighted-average remaining contractual life of the outstanding options was 3.47 years at December 31, 2015.

The stock option fair value on the grant date was estimated to be $3.55, which was determined under the BSM with the assumptions that follow: 3.51% risk free interest rate, seven-year expected life, 25.06% expected volatility and 0.0% expected dividend yield.

2008 Stock Option Awards. Certain officers of the Bank were awarded 27,300 stock options on June 19, 2008, with an exercise price of $10 per option. These options are redeemable for PBT's common stock shares. The options are vested and are exercisable through June 19, 2018. None of these options have been exercised or forfeited since awarded. The weighted-average remaining contractual life of the outstanding options was 2.47 years at December 31, 2015.

The stock option fair value on the grant date was estimated to be $2.86, which was determined under the BSM with the assumptions that follow: 3.89% risk free interest rate, seven-year expected life, 14.86% expected volatility and 0.0% expected dividend yield.

2007 Stock Option Awards. Certain officers of the Bank were awarded 26,000 stock options on June 25, 2007, with an exercise price of $10 per option. These options are redeemable for PBT's common stock shares. The options are vested and are exercisable through June 25, 2017. None of these options have been exercised or forfeited since awarded. The weighted-average remaining contractual life of the outstanding options was 1.48 years at December 31, 2015.

The stock option fair value on the grant date was estimated to be $3.25, which was determined under the BSM with the assumptions that follow: 5.01% risk free interest rate, seven-year expected life, 14.65% expected volatility and 0.0% expected dividend yield.

Note 15: Related Party Transactions

The Bank enters into transactions with related parties in the ordinary course of business, including its directors, officers, and employees. Outstanding loans, either directly or indirectly, and unused lines of credit to this group were approximately $1,177,000 & $712,500 and $27,000 & 25,000 at December 31, 2015 & 2014, respectively. There were no charge-offs related to these loans during these years and advance and repayment activity was routine. Related party deposits, including officers, directors, and employees were approximately $4,235,000 & $4,788,000 at December 31, 2015 & 2014, respectively. Also see Note 5.

Note 16: Fair Value Measurements

AFS securities are the only assets measured and reported at fair value on a recurring basis in the accompanying CFS. No liabilities are measured and reported at fair value on a recurring basis in the accompanying CFS. AFS securities fair values were all determined using level 2 inputs at December 31, 2015 & 2014.

The methods and assumptions used to estimate the fair value of each class of financial instrument, for which it is practical to estimate that value, follow:

Cash & equivalents. Carrying amounts approximate fair value.

AFS securities. Fair value is based on quoted market price, if available. If a quoted market price is not available, then a model that matches quoted prices for similar assets adjusted for tranche type, collateral coupon, and the appropriate prepayment speeds is used. AFS securities are measured and reported at fair value on a recurring basis in periods subsequent to initial recognition.

Loans. Specifically identified impaired loans are included in these CFS at the estimated *fair value of the underlying collateral less cost to sell.* Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Management discounts the future cash flows of loans that are not specifically identified as impaired at current rates at which similar loans would be made to borrowers with similar credit ratings for comparable maturities and then deducts ALLL general reserves to estimate fair value on these loans. The sum of these values, for specifically identified impaired loans and loans that are not specifically identified as impaired, would not vary materially from the fair value of the loan portfolio as a whole and is the value reported below.

Federal Home Loan Bank stock. Carrying amounts approximate fair value.

Bank-owned life insurance. Bank-owned life insurance is carried at its cash surrender value.

Deposit liabilities. The carrying amounts of demand deposits approximate fair value. The carrying amounts of variable-rate time deposits approximate fair value. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently offered on time deposits with comparable maturities.

Accrued interest. Carrying amounts approximate fair value.

FHLB advances. Carrying amounts approximate fair value.

Off-Balance-Sheet instruments. These financial instruments have contractual interest rates at or above current market rates and the deferred income amounts arising from unrecognized financial instruments are not significant. Therefore, no market value disclosure is provided for these items.

The carrying and fair values of the Bank's financial assets and liabilities that are not measured and reported at fair value on recurring or non-recurring bases follow:

Dollars in $000's	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans, net	$ 187,816	$ 189,020	$ 170,629	$ 170,826
Financial Liabilities				
Fixed rate time deposits	$ 101,814	$ 101,484	$ 102,482	$ 101,970

Note 17: Concentrations

The Company's deposit and lending activities are concentrated in the West Texas area and in commercial and residential real estate, commercial operations including oil and gas production and related service businesses, individual consumer, and agriculture. The ability of the Company's debtors to honor their contracts is dependent upon cash flows from business operations, including real estate, and other sources which are dependent upon general economic conditions in this area and in the agricultural, health care, education and oil and gas industries. Additional information on the types of loans in which the Company invests is included in Note 4. The Company does not have any significant concentrations of credit risk to any one customer other than the U.S. government or its agencies or sponsored entities (including guaranties of borrower credits by these agencies).

The Company holds its primary liquid assets in the form of demand deposits in, and Federal funds sold to, other commercial banks. These amounts routinely exceed FDIC insurance limits and, at times, by significant amounts. Management monitors the safety and soundness of its correspondents and does not believe these institutions present significant credit risk.

Platinum Bancshares of Texas, Inc. &
Wholly-Owned Subsidiary
Platinum Bank

2015 & 2014 Supplemental Consolidating Schedules

	Platinum Bank	Platinum Bancshares of Texas, Inc.	*Eliminating Entries* Ref	*Eliminating Entries* Dr (Cr)	Consolidated
Cash & due from banks	$ 3,694,506	$ 1,169,234	[1]	$ (1,169,234)	$ 3,694,506
Federal funds sold	15,418,000	-			15,418,000
Cash & equivalents	19,112,506	1,169,234			19,112,506
Accrued interest receivable	789,598	-			789,598
Prepaid expenses	374,075	-			374,075
BOLI, at cash surrender value	1,246,621	-			1,246,621
AFS securities, at fair value	27,832,901	-			27,832,901
Investment in subsidiary	-	30,928,348	[2]	(30,928,348)	-
Loans held for sale, at lower of cost or fair value	649,750	-		-	649,750
Loans, net	187,815,649	-			187,815,649
Foreclosed & repossessed assets, net	301,527	-			301,527
Federal Home Loan Bank stock, at cost	460,800	-			460,800
Premises & equipment, net	10,856,733	-			10,856,733
Goodwill	6,139,227	-			6,139,227
Other intangible assets, net	13,157	-			13,157
Other assets	985,604	505,789	[1]	(18,803)	1,472,590
Assets	$ 256,578,148	$ 32,603,371			$ 257,065,134
Non interest-bearing	$ 25,109,866	$ -	[1]	1,169,234	$ 23,940,632
Interest-bearing	191,982,055	-			191,982,055
Deposits	217,091,921	-			215,922,687
Federal funds purchased	-	-		-	-
FHLB advances	8,000,000	-			8,000,000
Accrued interest payable	77,318	55,229			132,547
Accrued expenses & other liabilities	480,561	18,803	[1]	18,803	480,561
Subordinated promissory notes	-	5,790,000			5,790,000
Liabilities	225,649,800	5,864,032			230,325,795
Class A common stock	1,580,947	25,487	[2]	$ 1,580,947	25,487
Additional paid-in capital	28,171,439	26,158,873	[2]	28,171,439	26,158,873
Retained earnings	1,267,502	646,519	[2]	1,267,502	646,519
Accumulated other comprehensive loss	(91,540)	(91,540)	[2]	(91,540)	(91,540)
Treasury stock, at cost	-	-			-
Stockholders' Equity	30,928,348	26,739,339			26,739,339
Liabilities & Stockholders' Equity	$ 256,578,148	$ 32,603,371		$ -	$ 257,065,134

[1] Eliminate intercompany accounts.
[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report*.

	Platinum Bank	Platinum Bancshares of Texas, Inc.	Eliminating Entries Ref	Eliminating Entries Dr (Cr)	Consolidated
Loans, including fees	$ 11,079,023	$ -		$	$ 11,079,023
Federal funds sold	8,675	-			8,675
AFS Securities	515,726	-			515,726
Interest & dividend income	11,603,424	-			11,603,424
Deposits	1,811,334	-			1,811,334
Federal funds purchased	5,155	-			5,155
Federal Home Loan Bank advances	39,789	-			39,789
Subordinated promissory notes	-	183,000			183,000
Interest expense	1,856,278	183,000			2,039,278
Interest Margin	9,747,146	(183,000)			9,564,146
Provision for loan & lease losses	4,462,120	-			4,462,120
Interest Margin, Net of Provision	5,285,026	(183,000)			5,102,026
Service charges on deposit accounts	175,525	-			175,525
Gain on AFS security sales	26,708	-			26,708
Gain on loan sales	328,206	-			328,206
Other	224,783	-			224,783
Equity in subsidiary earnings	-	(2,337,089)	[2]	(2,337,089)	-
Non interest income	755,222	(2,337,089)			755,222
Compensation & employee benefits	4,179,368	132,221			4,311,589
Professional, consulting & regulatory	699,817	-			699,817
Other general & administrative	991,751	191,421			1,183,172
Data processing	330,739	-			330,739
Computer & software	483,646	-			483,646
Occupancy & equipment, net of rental income	778,917	-			778,917
Communication	111,912	-			111,912
Supplies	131,924	-			131,924
Foreclosed & repossessed assets, net	1,947,210	-			1,947,210
Non interest expense	9,655,284	323,642			9,978,926
Loss Before Income Taxes	(3,615,036)	(2,843,731)			(4,121,678)
Income tax benefit	(1,277,947)	(162,484)			(1,440,431)
Net Loss	$ (2,337,089)	$ (2,681,247)		$ (2,337,089)	$ (2,681,247)

[1] Eliminate intercompany activity.
[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report* .

		Platinum Bank		Platinum Bancshares of Texas, Inc.	Eliminating Entries Ref		Dr (Cr)		Consolidated
Net Loss	$	(2,337,089)	$	(2,681,247)		$	(2,337,089)	$	(2,681,247)
Change in net unrealized gain on AFS securities		16,944		16,944	[2]		16,944		16,944
Net unrealized loss realized & reclassed to earnings		(17,627)		(17,627)	[2]		(17,627)		(17,627)
Other Comprehensive Loss, Net of Income Taxes		(683)		(683)					(683)
Comprehensive Income	$	(2,337,772)		(2,681,930)		$	(2,337,772)	$	(2,681,930)

[1] Eliminate intercompany activity.

[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report* .

	Platinum Bank	Platinum Bancshares of Texas, Inc.	Eliminating Entries Ref	Eliminating Entries Dr (Cr)	Consolidated
Cash & due from banks	$ 7,477,744	$ 495,748	[1]	$ (495,748)	$ 7,477,744
Federal funds sold	4,598,000	-		-	4,598,000
Cash & equivalents	12,075,744	495,748			12,075,744
Accrued interest receivable	707,905	-			707,905
Prepaid expenses	340,675				340,675
BOLI, at cash surrender value	1,209,651				1,209,651
AFS securities, at fair value	23,615,121	-			23,615,121
Investment in subsidiary	-	29,316,120	[2]	(29,316,120)	-
Loans HFS, at lower of cost or fair value	650,000	-			650,000
Loans, net	170,628,890	-			170,628,890
Foreclosed & repossessed assets, net	708,087	-			708,087
Federal Home Loan Bank stock, at cost	369,600	-			369,600
Premises & equipment, net	11,333,721	-			11,333,721
Goodwill	6,139,227	-			6,139,227
Other intangible assets, net	26,733				26,733
Other assets	256,550	-	[1]	(11,912)	244,638
Assets	$ 228,061,904	$ 29,811,868			$ 228,049,992
Non interest-bearing	$ 24,851,639	$ -	[1]	495,748	$ 24,355,891
Interest-bearing	167,364,635	-			167,364,635
Deposits	192,216,274	-			191,720,526
FHLB advances	5,000,000	-			5,000,000
Accrued interest payable	65,634	24,541			90,175
Accrued expenses & other liabilities	1,463,876	(322,143)	[1]	11,912	1,129,821
Subordinated promissory notes	-	2,340,000			2,340,000
Liabilities	198,745,784	2,042,398			200,280,522
Class A common stock	1,580,947	24,158	[2]	1,580,947	24,158
Additional paid-in capital	24,221,439	24,359,437	[2]	24,221,439	24,359,437
Retained earnings	3,604,591	3,581,732	[2]	3,604,591	3,581,732
Accumulated other comprehensive loss	(90,857)	(90,857)	[2]	(90,857)	(90,857)
Treasury stock, at cost	-	(105,000)			(105,000)
Stockholders' Equity	29,316,120	27,769,470			27,769,470
Liabilities & Stockholders' Equity	$ 228,061,904	$ 29,811,868		$ -	$ 228,049,992

[1] Eliminate intercompany accounts.
[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report*.

	Platinum Bank	Platinum Bancshares of Texas, Inc.	Eliminating Entries Ref	Eliminating Entries Dr (Cr)	Consolidated
Loans, including fees	$ 10,190,341	$ -		$	$ 10,190,341
Federal funds sold	20,522	-			20,522
AFS Securities	452,484	-			452,484
Interest & dividend income	10,663,347	-			10,663,347
Deposits	1,522,040	-			1,522,040
Federal funds purchased	2,725	-			2,725
Federal Home Loan Bank advances	52,056	-			52,056
Subordinated promissory notes	-	117,000			117,000
Interest expense	1,576,821	117,000			1,693,821
Interest Margin	9,086,526	(117,000)			8,969,526
Provision for loan & lease losses	687,442	-			687,442
Interest Margin, Net of Provision	8,399,084	(117,000)			8,282,084
Service charges on deposit accounts	187,601	-			187,601
Gain on AFS security sales	9,371	-			9,371
Gain on loan sales	36,648	-			36,648
Other	218,135	-			218,135
Equity in subsidiary earnings	-	1,607,100	[2]	1,607,100	-
Non interest income	451,755	1,607,100			451,755
Compensation & employee benefits	3,716,064	148,186			3,864,250
Professional, consulting & regulatory	331,248	-			331,248
Other general & administrative	885,524	133,844			1,019,368
Data processing	304,844	-			304,844
Computer & software	416,358	-			416,358
Occupancy & equipment, net of rental income	643,708	-			643,708
Communication	95,622	-			95,622
Supplies	154,671	-			154,671
Foreclosed & repossessed assets, net	(67,577)	-			(67,577)
Non interest expense	6,480,462	282,030			6,762,492
Income Before Income Taxes	2,370,377	1,208,070			1,971,347
Income tax expense (benefit)	763,277	(135,670)			627,607
Net Income	$ 1,607,100	$ 1,343,740		$ 1,607,100	$ 1,343,740

[1] Eliminate intercompany activity.
[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report* .

	Platinum Bank	Platinum Bancshares of Texas, Inc.	Eliminating Entries Ref	Eliminating Entries Dr (Cr)	Consolidated
Net Income	$ 1,607,100	$ 1,343,740		$ 1,607,100	$ 1,343,740
Change in net unrealized gain on AFS securities	671,095	671,095	[2]	671,095	671,095
Net unrealized loss realized & reclassed to earnings	(6,101)	(6,101)	[2]	(6,101)	(6,101)
Other Comprehensive Income, Net of Income Taxes	664,994	664,994			664,994
Comprehensive Income	$ 2,272,094	$ 2,008,734		$ 2,272,094	$ 2,008,734

[1] Eliminate intercompany activity.
[2] Eliminate investment in subsidiary.

See accompanying *Independent Auditors' Report* .