Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

RECEIVED
MAR 31 2016
NIC UNIT

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, Bart Caraway
Name of the Holding Company Director and Official

President and CEO
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.

Signature of Holding Company Director and Official

Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID 4475473
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

Third Coast Bancshares, Inc.
Legal Title of Holding Company

20202 HWY 59 North, Suite 190
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Humble	TX	77338

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Cecil W. Jones	Partner

214-393-9300
Area Code / Phone Number / Extension

214-393-9301
Area Code / FAX Number

cecil.jones@whitleypenn.com
E-mail Address

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

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

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

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

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

☒ No

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.

For Use By Tiered Holding Companies

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

N/A
Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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City State Zip Code

Physical Location (if different from mailing address)

AMENDED NOV 23 2016

FORM FR Y-6

THIRD COAST BANCSHARES, INC.
HUMBLE, TEXAS
FISCAL YEAR ENDING DECEMBER 31, 2015

Report Item 1: The bank holding company does not prepare an annual report for its shareholders.

Report Item 2(a): Organizational Chart

THIRD COAST BANCSHARES, INC.
HUMBLE, TEXAS
INCORPORATED in TEXAS
LEI: N/A

100%

THIRD COAST BANK SSB
HUMBLE, TEXAS
INCORPORATED in TEXAS
LEI: N/A

Report Item 2(b): Domestic Branch listing provided to the Federal Reserve Bank
Sent via e-mail

Results: A list of branches for your holding company: THIRD COAST BANCSHARES, INC (4475473) of HUMBLE, TX.
The data are as of 12/31/2015. Data reflects information that was received and processed through 04/05/2016.

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)	3630323	THIRD COAST BANK, SSB	20202 HIGHWAY 59 NORTH, SUITE 190	HUMBLE	TX	77338	HARRIS	UNITED STATES	463605	0	THIRD COAST BANK, SSB	3630323	
OK		Full Service	3962668	BEAUMONT BRANCH	229 DOWLEN ROAD, SUITE 13B	BEAUMONT	TX	77706	JEFFERSON	UNITED STATES	493484	3	THIRD COAST BANK, SSB	3630323	
OK		Full Service	4747787	DALLAS BRANCH	8235 DOUGLAS AVENUE SUITE 100	DALLAS	TX	75225	DALLAS	UNITED STATES	Not Required	Not Required	THIRD COAST BANK, SSB	3630323	
OK		Full Service	4475099	GALLERIA BRANCH	1800 WEST LOOP SOUTH, SUITE 100	HOUSTON	TX	77027	HARRIS	UNITED STATES	520820	4	THIRD COAST BANK, SSB	3630323	
OK		Full Service	4977490	PLANO BRANCH	1201 WEST 15TH STREET	PLANO	TX	75075	COLLIN	UNITED STATES	Not Required	Not Required	THIRD COAST BANK, SSB	3630323	
OK		Full Service	4659497	MID COUNTY BRANCH	3260 CENTRAL MALL DRIVE	PORT ARTHUR	TX	77642	JEFFERSON	UNITED STATES	Not Required	Not Required	THIRD COAST BANK, SSB	3630323	

FORM FR Y-6

THIRD COAST BANSCHARES, INC.
HUMBLE, TEXAS
FISCAL YEAR ENDING DECEMBER 31, 2015

Report Item 3: Shareholders
(1)(a)(b)(c) and (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of December 31, 2015			Shareholders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending December 31, 2015		
(1)(a) Name City, State, Country	(1)(b) Country of Citizenship	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name and Address	(2)(b) Country of Citizenship	(2)(c) Number and Percentage of Each Class of Voting Securities
Donald Alton LaBove II Dallas, Texas, USA	USA	147,250 - 4.71% common stock 12,250 - 0.39% options 28,084 - 0.90% warrants	STI Buna, Texas, USA	USA	145,450 - 4.65% common stock
Travis Fox Dallas, Texas, USA	USA	157,360 - 5.03% common stock 22,251 - 0.71% warrants			
FVI, Inc. Dallas, Texas, USA	USA	177,400 - 5.67% common stock			

AMENDED DEC -2 2016

FORM FR Y-6

THIRD COAST BANCSHARES, INC.
HUMBLE, TEXAS
FISCAL YEAR ENDING DECEMBER 31, 2015

Report Item 4: Insiders - page 1 of 3
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Name City, State, Country	Principal Occupation if other than with Holding Company	Title and Position with Bank Holding Company	Title and Position with Subsidiaries	Title and Position with Other Businesses	Percentage of Voting Shares in Bank Holding Company	Percentage of Voting Shares in Subsidiaries	Other >=25% of Companies and voting %
Bart Caraway Porter, Texas, USA	N/A	Director, Chairman, President and CEO	Director, Chairman, President and CEO of Third Coast Bank	None	4.53%	None	N/A
Donald Alton LaBove II Dallas, Texas, USA	Tax Consultant	Director	Advisory Director of Third Coast Bank	Member Avant Global Holdings, LLC	6.00%	None	Avant Global Holdings, LLC 50%
M.A. (Lan) Phelan II Beaumont, Texas, USA	Real Estate Agent	Director	Director of Third Coast Bank	President Phelan Development Corporation	3.98%	None	Phelan Development Corporation 100%
				Managing Member 3105 Executive, LLC			3105 Executive, LLC 32.50%
				Manager West Beaumont Venture, LLC			West Beaumont Venture, LLC 50%
				Partner Oaks Shopping Center Venture, LP			N/A
				President Phelan Ranch, Inc			Phelan Ranch, Inc. 100%
				Manager Jasper Crossroads Management Company, LLC			N/A
				Partner Michael A. and Janey Phelan Partnership			N/A
				Trustee Michael A. and Janey Phelan Children's Trust			N/A
				Manager OSCV, LLC			N/A
				Manager BWV Company, LLC			BWV Company, LLC 50%
				Partner Phelan Equity Partners			N/A
				Partner Phelan Equity Partners II			N/A
				Partner Phelan Equity Partners III			N/A
				Manager Woodville Venture, LLC			Woodville Venture, LLC 50%
				Manager Three P Partners, LLC			Three P Partners, LLC 33.33%
				Partner Phelan Oil & Gas Investments, Ltd.			Phelan Oil & Gas Investments, Ltd. 50%

AMENDED DEC -2 2016

FORM FR Y-6

THIRD COAST BANCSHARES, INC.
HUMBLE, TEXAS
FISCAL YEAR ENDING DECEMBER 31, 2015

Report Item 4: Insiders - Continued page 2 of 3
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Name City, State, Country	Principal Occupation if other than with Holding Company	Title and Position with Bank Holding Company	Title and Position with Subsidiaries	Title and Position with Other Businesses	Percentage of Voting Shares in Bank Holding Company	Percentage of Voting Shares in Subsidiaries	Other >=25% of Companies and voting %
M.A. (Lan) Phelan II	Continued from page 1	Continued from page 1	Continued from page 1	Vice President Magnolia Cemetery Company	Continued from page 1	Continued from page 1	N/A
				Partner - Indirect Jasper Crossroads Partnership, LP			N/A
				Partner - Indirect Beaumont Westfield Venture, LP			Beaumont Westfield Venture, LP 38%
				Managing Member Trident Advanced Capital Solutions, LLC			Trident Advanced Capital Solutions, LLC 25%
				Trustee Reynolds Family Insurance Trust			N/A
Troy Glander San Antonio, Texas, USA	Attorney	Director	Director of Third Coast Bank	Partner Allan, Nava, Glander & Holland	0.51%	None	Allan, Nava, Glander & Holland 25%
Dr. Martin Basaldua Kingwood, Texas, USA	Doctor	Director	Director of Third Coast Bank	President Basaldua & Heller, P.A.	1.03%	None	Basaldua & Heller, P.A. 60%
				Board Member Diagnostic Affiliates of Northeast Texas, PLLC			Diagnostic Affiliates of Northeast Texas, PLLC 33%
				Principal PES Imaging, LLC			PES Imaging, LLC 50%
				Principal Optimal Skin & Lacer, PLLC			Optimal Skin & Lacer, PLLC 50%
Joe Stunja Kingwood, Texas, USA	Real Estate Agent	Director	Director & EVP/Business Development of Third Coast Bank	Vice President Stunja Properties, Inc.	2.15%	None	Stunja Properties, Inc. 36%
				Member AJ Nuts, LLC			AJ Nuts, LLC 50%
John McWhorter Houston, Texas, USA	N/A	CFO	CFO & EVP of Third Coast Bank	None	0.58%	None	N/A
Sarah Natho Humble, Texas, USA	N/A	Treasurer	Controller, Cashier & SVP of Third Coast Bank	None	0.00%	None	N/A
Lea Ann Capel Dallas, Texas, USA	N/A	None	COO of Third Coast Bank	None	0.26%	None	N/A
Audrey A. Duncan Dallas, Texas, USA	N/A	None	CCO of Third Coast Bank	None	0.16%	None	N/A
Norma Galloway Humble, Texas, USA	N/A	None	Houston Regional President of Third Coast Bank	None	0.10%	None	N/A
Donald Legato Beaumont, Texas, USA	N/A	None	Southeast Regional President of Third Coast Bank	None	0.50%	None	N/A

AMENDED
DEC -2 2016

FORM FR Y-6

THIRD COAST BANCSHARES, INC.
HUMBLE, TEXAS
FISCAL YEAR ENDING DECEMBER 31, 2015

Report Item 4: Insiders - Continued page 3 of 3
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Name City, State, Country	Principal Occupation if other than with Holding Company	Title and Position with Bank Holding Company	Title and Position with Subsidiaries	Title and Position with Other Businesses	Percentage of Voting Shares in Bank Holding Company	Percentage of Voting Shares in Subsidiaries	Other >=25% of Companies and voting %
J. Lane Nalley Humble, Texas, USA	N/A	None	CCO of Third Coast Bank	None	0.08%	None	N/A

THIRD COAST BANK SSB

www.thirdcoastbankssb.com

March 28, 2016

Federal Reserve Bank of Dallas
Banking Supervision Department
2200 North Pearl Street
Dallas, TX 75201

Enclosed please find the original and one photocopy of the Annual Report of Bank Holding Company (FR Y-6) for Third Coast Bancshares, Inc. for the year ended December 31, 2015. We will mail the audited financial statements for December 31, 2015 as soon as they are available.

If additional information is needed, please do not hesitate to contact me. Very

truly yours,

THIRD COAST BANCSHARES, INC.

Bart Caraway
President and CEO

20202 Hwy 59 N. Ste 190, Humble, TX 77338 Phone: 281.446.7000 Fax: 281.446.1546

THIRD COAST BANK SSB

www.thirdcoastbankssb.com

March 31, 2016

Federal Reserve Bank of Dallas
Banking Supervision Department
2200 North Pearl Street
Dallas, TX 75201

Enclosed please find Third Coast Bancshares, Inc. audited financial statement for December 31, 2015 when the FR-Y6 was mailed this audited financial statement was not available..

If additional information is needed, please do not hesitate to contact me.

Sincerely,

THIRD COAST BANCSHARES, INC.

Sarah Natho

Sarah Natho
Controller/Cashier/SVP

20202 Hwy 59 N. Ste 190, Humble, TX 77338 Phone: 281.446.7000 Fax: 281.446.1546

4475473

THIRD COAST BANK SSB

Jonathan D. Finley
Chief Supervisory Analyst
Texas Department of Savings and Mortgage Lending
2601 North Lamar Boulevard, Suite 201
Austin, Texas 78705

March 30, 2016

RE: Annual Independent Audit

Dear Mr. Finley,

Included herewith please find an original copy of our independent audit report prepared by Whitley Penn LLP. Their audit did not justify a "Management Letter" since no accounting differences were found. Also included herewith, is the Whitley Penn SAS 114 and 115 letters which noted no significant deficiencies or material weakness.

After reviewing the documentation enclosed if you have any questions, please feel free to contact me at (713) 485-8318 or by e-mail jmcwhorter@tcbssb.com.

Sincerely,

John McWhorter
Chief Financial Officer

20202 Hwy 59 N. Ste 190, Humble, TX 77338 Phone: 281.446.7000 Fax: 281.446.1546

whitleypenn

Dallas Office
8343 Douglas Avenue
Suite 400
Dallas, Texas 75225
214.393.9300 Main
whitleypenn.com

March 29, 2016

To the Audit Committee of the Board of Directors
Third Coast Bancshares, Inc. and Subsidiary

We have audited the consolidated financial statements of Third Coast Bancshares, Inc. and Subsidiary (the "Company") for the year ended December 31, 2015, and have issued our report thereon dated March 29, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 13, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Third Coast Bancshares, Inc. are described in Note 1 to the consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Institution during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

- Allowance for loans losses
- Reserves and accruals
- Contingencies and litigation

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 28, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Institution's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Institution's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

* * * * * * * * * * * * *

This information is intended solely for the use of the Audit Committee of the Board of Directors and management of Third Coast Bancshares, Inc. and Subsidiary and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Whitley Penn LLP

March 29, 2016

THIRD COAST BANK SSB

March 29, 2016

Whitley Penn, LLP
8343 Douglas Avenue
Suite 400
Dallas, Texas 75225

This representation letter is provided in connection with your audit of the consolidated financial statements of Third Coast Bancshares, Inc. and subsidiaries, which comprise the balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the consolidated financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of March 29, 2016, the following representations made to you during your audit.

Financial Statements

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 13, 2015, including our responsibility for the preparation and fair presentation of the financial statements.

2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.

3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6) Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

7) All of the following have been properly recorded or disclosed in the financial statements as applicable:

   a) Related party relationships and transactions and related amounts receivable or payable, including loans, deposits, sales, purchases, transfers, leasing arrangements, and guarantees.

   b) Contingent assets and liabilities, including loans charged off and outstanding letters of credit.

   c) Commitments to originate, purchase, or sell loans and participations.

   d) Commitments to purchase or sell securities, including commitments to purchase or sell securities under forward-placement, financial-futures contracts, and standby commitments.

   e) Positions in financial futures contracts or other derivative securities.

   f) The status of the institution's capital plan filed with regulators.

   g) Sales of loans or other transfers of financial assets.

   h) The following information about financial instruments with concentrations of credit risk:

      i) The common activity, region, or characteristic that identifies the concentration.

      ii) The maximum loss that could result if the counterparties completely failed to perform their obligations and any collateral for the amounts due were worthless to the institution.

      iii) The institution's policy of requiring collateral to minimize the risk, the nature of this collateral, and information about the institution's access to the collateral.

   i) Lease obligations under long-term leases.

8) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

9) We have disclosed to you all of our—

   a) Nonperforming assets.

   b) Intentions to foreclose or repossess property.

10) If applicable, provision has been made for:

   a) Losses, costs, or expenses that may be incurred in the collection of securities, loans, leases, and real estate.

   b) Losses, costs, or expenses that may be incurred in the disposition of other real estate owned.

   c) Liabilities for interest on deposits and other indebtedness, including subordinated capital notes and participation loans.

   d) Other than temporary declines in the value of investment securities and other investment assets.

11) We agree with the findings of appraisers used and have adequately considered the qualifications of the appraisers in determining the amounts and disclosures in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to appraisers regarding the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the appraisers.

12) The classification of securities and other investment assets as held-to-maturity, available-for-sale, or trading correctly reflects management's ability and intent.

13) No transactions or activities are planned that would result in any recapture of the base-year, tax-basis bad debt reserve.

14) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.

15) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

16) Material concentrations have been properly disclosed in accordance with U.S. GAAP.

17) Guarantees, whether written or oral, under which the institution is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

18) The institution has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Institution—Specific

19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Information Provided

20) We have provided you with:

  a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

  b) Additional information that you have requested from us for the purpose of the audit.

  c) Unrestricted access to persons within the institution from whom you determined it necessary to obtain audit evidence.

  d) Minutes of the meetings of stockholders, directors, committees of directors, credit/loan committee, asset/liability management committee, other relevant committees or summaries of actions of recent meetings for which minutes have not yet been prepared.

  e) All regulatory or examination reports, supervisory correspondence, and similar materials from applicable regulatory agencies, including communications about supervisory actions or noncompliance with, or deficiencies in, rules and regulations or supervisory actions.

21) In regard to the preparation of the financial statements and preparation of the tax services performed by you, we have—

  a) Assumed all management responsibilities.

  b) Designated an individual (within senior management) with suitable skill, knowledge, or experience to oversee the services.

  c) Evaluated the adequacy and results of the services performed.

  d) Accepted responsibility for the results of the services.

22) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

23) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

24) We have no knowledge of any fraud or suspected fraud that affects the institution and involves:

  a) Management,

  b) Employees who have significant roles in internal control, or

  c) Others where the fraud could have a material effect on the financial statements.

25) We have no knowledge of any allegations of fraud or suspected fraud affecting the institution's financial statements communicated by employees, former employees, analysts, regulators, or others.

26) We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

27) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations, or supervisory actions, whose effects should be considered when preparing financial statements.

28) We have disclosed to you all known actual or possible litigation, claims, and assessments, including any liabilities resulting from acting in a fiduciary capacity, whose effects should be considered when preparing the financial statements.

29) We have disclosed to you the identity of the institution's related parties and all the related party relationships and transactions of which we are aware.

30) Related party transactions (including insider loans) have been entered into in compliance with existing regulations.

31) The institution has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral or deposited in escrow as security.

32) There are no regulatory examinations currently in progress for which we have not received examination reports.

33) We acknowledge our responsibility for presenting the consolidated financial statements in accordance with U.S. GAAP, and we believe the consolidated financial statements, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the consolidated financial statements have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the consolidated financial statements.

Signature: ______________________
Bart Caraway

Title: Chief Executive Officer

Signature: ______________________
John McWhorter

Title: Chief Financial Officer

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To the Audit Committee and Senior Management of
Third Coast Bancshares, Inc. and Subsidiary

In planning and performing our audit of the consolidated financial statements of Third Coast Bancshares, Inc. and Subsidiary (the "Company") as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

* * * * * * * * * * * *

This communication is intended solely for the information and use of the management, Audit Committee of the Board of Directors of Third Coast Bancshares, Inc. and Subsidiary, and others within the Company, and is not intended to be and, should not be, used by anyone other than these specified parties.

Whitley Penn LLP

Dallas, Texas
March 29, 2016

THIRD COAST BANCSHARES, INC.
AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2015 and 2014

whitleypenn

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Independent Auditor's Report

To the Board of Directors
Third Coast Bancshares, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Third Coast Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Third Coast Bancshares, Inc. and Subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Dallas, Texas
March 29, 2016

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheet

December 31,

ASSETS	2015	2014
Cash and cash equivalents:		
Cash and due from banks	$ 47,757,652	$ 38,947,411
Federal funds sold	2,448,619	24,204,639
Total cash and cash equivalents	50,206,271	63,152,050
Interest bearing time deposits in other banks	3,078,154	3,817,091
Loans held for sale	-	283,916
Loans, net	340,511,805	275,831,995
Accrued interest receivable	1,108,752	816,880
Premises and equipment, net	1,383,143	988,939
Other real estate owned	547,200	616,200
Bank-owned life insurance	5,856,282	5,707,608
Federal Home Loan Bank stock	3,421,100	114,800
Deferred tax asset, net	870,942	124,548
Other assets	1,856,421	509,845
Total assets	$ 408,840,070	$ 351,963,872

LIABILITIES AND STOCKHOLDERS' EQUITY	2015	2014
Deposits:		
Noninterest bearing	$ 59,920,912	$ 56,249,948
Interest bearing	308,198,077	259,507,837
Total deposits	368,118,989	315,757,785
Accrued interest payable	512,132	351,193
Other liabilities	810,236	670,929
Note payable	2,000,000	-
Total liabilities	371,441,357	316,779,907
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $1,000 liquidation value; 1,000,000 shares authorized; 8,673 shares Series A issued and outstanding	8,673,000	8,673,000
Common stock, $1 par value; 20,000,000 shares authorized; 2,750,687 issued and outstanding at December 31, 2015 and 2014	2,750,687	2,750,687
Additional paid-in capital	26,033,997	26,009,189
Retained earnings	354,345	(1,835,595)
Treasury stock: at cost; 40,406 shares at December 31, 2015 and 2014	(413,316)	(413,316)
Total stockholders' equity	37,398,713	35,183,965
Total liabilities & stockholders' equity	$ 408,840,070	$ 351,963,872

See accompanying notes to consolidated financial statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statement of Income and Comprehensive Income

For the Years Ended December 31,

	2015	2014
Interest income:		
Loans, including fees	$ 17,640,341	$ 14,998,881
Federal funds sold and time deposits in other banks	141,964	118,513
Total interest income	17,782,305	15,117,394
Interest expense on deposit accounts	2,593,250	2,250,982
Net interest income	15,189,055	12,866,412
Provision for loan losses	360,000	1,843,140
Net interest income after provision for loan losses	14,829,055	11,023,272
Noninterest income:		
Services charges and fees	435,972	319,102
Gain on sales of SBA loans	361,024	309,188
Gain on insurance claim on other real estate owned	-	842,311
Gain on disposal of purchased credit impaired loans	66,435	206,087
Other	190,903	188,504
Total noninterest income	1,054,334	1,865,192
Noninterest expense:		
Salaries and employee benefits	8,816,531	6,237,672
Data processing and network expense	962,673	678,361
Occupancy and equipment expense	1,297,463	1,130,144
Legal and professional	690,651	502,706
Loan operations and other real estate owned expense	344,810	777,858
Regulatory assessments	305,385	256,389
Other	1,231,184	1,014,885
Total noninterest expense	13,648,697	10,598,015
Net income before income tax expense	2,234,692	2,290,449
Income tax benefit	41,978	-
Net income and comprehensive income	$ 2,276,670	$ 2,290,449

See accompanying notes to consolidated financial statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders' Equity

For the Years Ended December 31, 2015 and 2014

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balances, January 1, 2014	$ 8,673,000	$ 2,450,687	$ 22,842,685	$ (4,039,314)	$ (333,316)	$ 29,593,742
Net income	-	-	-	2,290,449	-	2,290,449
Common stock issued	-	300,000	3,000,000	-	-	3,300,000
Stock warrants issued	-	-	2,110	-	-	2,110
Treasury stock purchased	-	-	-	-	(80,000)	(80,000)
Share-based compensation	-	-	164,394	-	-	164,394
Preferred dividends declared	-	-	-	(86,730)	-	(86,730)
Balances, December 31, 2014	**8,673,000**	**2,750,687**	**26,009,189**	**(1,835,595)**	**(413,316)**	**35,183,965**
Net income	**-**	**-**	**-**	**2,276,670**	**-**	**2,276,670**
Share-based compensation	**-**	**-**	**24,808**	**-**	**-**	**24,808**
Preferred dividends declared	**-**	**-**	**-**	**(86,730)**	**-**	**(86,730)**
Balances, December 31, 2015	**$ 8,673,000**	**$ 2,750,687**	**$ 26,033,997**	**$ 354,345**	**$ (413,316)**	**$ 37,398,713**

See accompanying notes to consolidated financial statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statement of Cash Flows

For the Years Ended December 31,

	2015	2014
Cash flows from operating activities:		
Net income	$ 2,276,670	$ 2,290,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	360,000	1,843,140
Changes in deferred tax asset, net	(746,394)	-
Share based compensation expense	24,808	166,504
Gain on sales of SBA loans	(361,024)	(309,188)
Writedowns of other real estate owned	-	391,275
Proceeds from other real estate owned insurance settlement	69,000	-
Gain on sales of other real estate owned	-	(5,589)
Loans held for sale purchased	-	(283,916)
Depreciation, amortization and accretion	392,373	360,755
Earnings on bank-owned life insurance	(148,674)	(153,049)
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(1,638,448)	(381,881)
Accrued interest payable and other liabilities	300,246	269,118
Net cash provided by operating activities	528,557	4,187,618
Cash flows from investing activities:		
Net decrease in interest bearing deposits in other banks	738,937	921,388
Increase in Federal Home Loan Bank stock	(3,306,300)	-
Investment securities available-for-sale activity:		
Purchases	(215,000,061)	(17,999,897)
Maturities, calls and principal paydowns	215,000,000	18,000,000
Loans purchased, net of premiums and discounts	(3,608,449)	(3,968,169)
Net loans held for investment originated	(60,786,421)	(43,303,300)
Net additions to bank premises and equipment	(786,516)	(242,899)
Proceeds from sales of foreclosed assets	-	655,589
Net cash used in investing activities	(67,748,810)	(45,937,288)
Cash flows from financing activities:		
Net increase in deposits	52,361,204	60,093,178
Dividends on preferred stock	(86,730)	(86,730)
Proceeds from issuance of long term debt	2,000,000	-
Proceeds from issuance of common stock	-	3,300,000
Purchase of treasury stock	-	(80,000)
Net cash provided by financing activities	54,274,474	63,226,448
(Decrease) increase in cash and cash equivalents	(12,945,779)	21,476,778
Cash and cash equivalents at beginning of year	63,152,050	41,675,272
Cash and cash equivalents at end of year	$ 50,206,271	$ 63,152,050
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 2,432,311	$ 2,150,157
Cash paid for income taxes	$ 1,115,000	$ -
Supplemental Disclosure of Noncash Investing Activities:		
Loans held for sale transferred to loans held for investment	$ 283,916	
Loans transferred to other real estate owned, net	$ -	$ 350,000

See accompanying notes to consolidated financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Third Coast Bancshares, Inc. and Subsidiary (the "Company") provides general consumer and commercial banking services through its seven branch offices located in Humble, Beaumont, Port Arthur, Houston, Dallas, Plano and Fort Worth, Texas. The Company is subject to competition from other financial institutions, is subject to the regulations of certain government agencies and undergoes periodic examinations by those regulatory authorities.

The accounting and reporting policies of the Company and the methods of applying those policies that materially affect the accompanying consolidated financial statements conform with accounting principles generally accepted in the United States of America ("GAAP") and prevailing banking industry practices. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet dates and revenues and expenses for the periods shown. Actual results could differ from the estimates and assumptions used in the consolidated financial statements including, the allowance for loan losses, the fair values of financial instruments and the status of contingencies.

The Company has evaluated all subsequent events for potential recognition and disclosure through March 29, 2016, the date of which the consolidated financial statements were available to be issued.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Third Coast Bancshares, Inc. ("Bancshares") and its wholly-owned subsidiary, Third Coast Bank, SSB (the "Bank") and its wholly-owned subsidiary Third Coast Commercial Capital, Inc., collectively referred to as the Company. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions that have initial maturities of less than 90 days when acquired by the Company and federal funds sold.

Interest Bearing Time Deposits in Other Banks

Interest bearing time deposits in other banks are carried at cost and generally mature between 90 days to one year from purchase date.

Investment Securities Available-For-Sale

Investment securities available-for-sale consists of bonds, notes, and debentures that are not classified as trading securities or held-to-maturity securities. Investment securities available-for-sale are held for indefinite periods of time and carried at fair value, with the unrealized holding gains and losses reported as a component of other comprehensive income, net of tax. Management determines the appropriate classification of investment securities at the time of purchase.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

Investment Securities Available-For-Sale – continued

Interest income includes amortization of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is recognized using the simple-interest method on the daily balances of the principal amounts outstanding. Deferred fees and costs associated with originating loans are recognized in income and expense generally in the period in which the fees were received and/or costs were incurred. Under GAAP, such fees and costs generally are deferred and recognized over the life of the loan as an adjustment of yield. For the years ended December 31, 2015 and 2014, management believes that not deferring such fees and costs and amortizing them over the life of the related loans does not materially affect the financial position or results of operations of the Company.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. Reserves on impaired loans are primarily measured based on the fair value of the underlying collateral. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Company will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance for loan losses includes specific reserves for impaired loans and an estimate of losses inherent in the loan portfolio at the balance sheet date, but not yet identified with specific loans. Loans deemed to be uncollectible are charged against the allowance when management believes that the collectability of the principal is unlikely and subsequent recoveries, if any, are credited to the allowance. Management's periodic evaluation of the adequacy of the allowance is based on an assessment of the current loan portfolio, including known inherent risks, adverse situations that may affect the borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions.

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. To date, these troubled debt restructurings have been such that, after considering economic and business conditions and collection efforts, the collection of interest is doubtful and therefore the loan has been placed on non-accrual. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

Loans and Allowance for Loan Losses – continued

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing, and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. Agricultural loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farmland, cattle, or equipment, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are generally diverse in terms of type and geographic location, throughout Southeast Texas. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally, real estate loans are owner occupied which further reduces the Company's risk.

The Company utilizes methodical credit standards and analysis to supplement its policies and procedures in underwriting consumer loans. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimizes the Company's risk.

Certain Acquired Loans

During 2015 and 2014, the Company acquired a group of loans through a purchase from a third party. Acquired loans are recorded at their estimated fair value at the acquisition date, and are initially classified as either purchase credit impaired ("PCI") loans (i.e. loans that reflect credit deterioration since origination and it is probable at acquisition that the Company will be unable to collect all contractually required payments) or purchased non-impaired loans ("acquired performing loans").

Acquired performing loans are accounted for under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310-20. Performance of certain loans may be monitored and based on management's assessment of the cash flows and other facts available, portions of the accretable difference may be delayed or suspended if management deems appropriate. The Company's policy for determining when to discontinue accruing interest on acquired performing loans and the subsequent accounting for such loans is essentially the same as the policy for originated loans described above.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

Certain Acquired Loans – continued

An ALLL is calculated using a methodology similar to that described for originated loans. Acquired performing loans are subsequently evaluated for any required allowance at each reporting date. Such required allowance for each loan is compared to the remaining fair value discount for that loan. If greater, the excess is recognized as an addition to the allowance through a provision for loan losses. If less than the discount, no additional allowance is recorded. Charge-offs and losses first reduce any remaining fair value discount for the loan and once the discount is depleted, losses are applied against the allowance established for that loan.

PCI loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The Company estimates the amount and timing of expected principal, interest and other cash flows for each loan meeting the criteria above, and determines the excess of the loan's scheduled contractual principal and contractual interest payments over all cash flows expected to be collected at acquisition as an amount that should not be accreted. These credit discounts ("nonaccretable marks") are included in the determination of the initial fair value for acquired loans; therefore, an allowance for loan losses is not recorded at the acquisition date. Differences between the estimated fair values and expected cash flows of acquired loans at the acquisition date that are not credit-based ("accretable marks") are subsequently accreted to interest income over the estimated life of the loans using a method that approximates a level yield method if the timing and amount of the future cash flows is reasonably estimable. Subsequent to the acquisition date for PCI loans, increases in cash flows over those expected at the acquisition date result in a move of the discount from nonaccretable to accretable. Decreases in expected cash flows after the acquisition date are recognized through the provision for loan losses.

For PCI loans after acquisition, cash flows expected to be collected are recast for each loan periodically as determined appropriate by management. If the present value of expected cash flows for a loan is less than its carrying value, impairment is reflected by an increase in the ALLL and a charge to the provision for loan losses. If the present value of the expected cash flows for a loan is greater than its carrying value, any previously established ALLL is reversed and any remaining difference increases the accretable yield, which will be taken into income over the remaining life of the loan. Loan dispositions may include sales of loans, receipt of payments in full from the borrower, or foreclosure. Write-downs are not recorded on the PCI loan until actual losses exceed the remaining non-accretable difference. To date, no write-downs have been recorded for the PCI loans held by the Company. Loans that were considered troubled debt restructurings by the third party prior to the acquisition date are not required to be classified as troubled debt restructurings in the Company's consolidated financial statements unless or until such loans would subsequently meet criteria to be classified as such, since acquired loans were recorded at their estimated fair values at the time of the acquisition.

Loans Held for Sale and Servicing Assets

Certain Small Business Administration ("SBA") loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains or losses recognized upon the sale of loans are determined on a specific identification basis and are included in non-interest income. SBA loan transfers are accounted for as sales when control over the loan has been surrendered. Control over such loans is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

Loans Held for Sale and Servicing Assets – continued

The Company has adopted guidance issued by the FASB that clarifies the accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities, in which, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. To calculate the gain or loss on sale of loans, the Company's investment in the loan is allocated among the retained portion of the loan, the servicing retained the interest-only strip and the sold portion of the loan, based on the relative fair market value of each portion. The gain or loss on the sold portion of the loan is recognized based on the difference between the sale proceeds and the allocated investment. As a result of the relative fair value allocation, the carrying value of the retained portion is discounted, with the discount accreted to interest income over the life of the loan.

Servicing assets are amortized over an estimated life using a method that is in proportion to the estimated future servicing income. In the event future prepayments exceed management's estimates and future cash flows are inadequate to cover the servicing asset, additional amortization would be recognized. The portion of servicing fees in excess of the contracted servicing fees is reflected as interest-only strips receivable, which are classified as available for sale and are carried at fair value. At December 31, 2015 and 2014, the Company was servicing loans previously sold of approximately $9,058,000 and $6,719,000, respectively. The related servicing assets receivable were not material to the consolidated financial statements at December 31, 2015 and 2014.

Premises and Equipment

Leasehold improvements, furniture and fixtures, and equipment are carried at cost, less accumulated depreciation, computed principally by the straight-line method based on the estimated useful lives of the related asset. Major replacements and betterments are capitalized while maintenance and repairs are charged to expense when incurred. Gains or losses on dispositions are reflected in income as incurred.

Other Real Estate Owned

Other real estate owned represents properties acquired through or in lieu of loan foreclosure and are initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan losses. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent adjustments to the value are expensed. Operating and holding expenses of such properties, net of related income, are included in loan operations and other real estate owned expense on the accompanying consolidated statement of income and comprehensive income. Gains or losses on dispositions are reflected in income as incurred.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain employees. These bank-owned life insurance ("BOLI") policies are recorded in the accompanying consolidated balance sheet at their cash surrender values. Income from these policies and changes in the cash surrender values are reported in the accompanying consolidated statement of income and comprehensive income.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period, except those resulting from transactions with stockholders. Other than net income, comprehensive income includes the net effect of changes in the fair value of securities available-for-sale. Comprehensive income is reported in the accompanying consolidated statement of income and comprehensive income.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

Advertising Expenses

Advertising consists of the Company's advertising in its local market area and is expensed as incurred. Advertising expense was $425,780 and $347,256 for the years ended December 31, 2015 and 2014, respectively, and is included in other noninterest expense in the accompanying consolidated statement of income and comprehensive income.

Income Taxes

The Company files a consolidated income tax return with its subsidiary. Federal income tax expense or benefit is allocated on a separate return basis.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and 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 the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Share-Based Compensation

Compensation expense for stock options is based on the fair value of the award on the measurement date, which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. The fair value of stock options is estimated using the Black-Scholes option-pricing model.

Reclassification

Certain amounts in prior period consolidated financial statements may have been reclassified to conform to current period presentation. These reclassifications are immaterial and have no effect on net income, total assets or stockholders' equity.

2. Loans and Allowance for Loan Losses

Loans in the accompanying consolidated balance sheet consisted of the following:

	December 31, 2015	December 31, 2014
Real estate loans:		
Non-farm non-residential owner occupied	**$ 103,887,638**	$ 84,003,121
Non-farm non-residential non-owner occupied	**37,963,864**	34,770,255
Residential	**28,050,319**	17,531,714
Construction, development & vacant	**36,232,859**	31,442,701
Farmland	**2,456,268**	3,755,852
Commercial & industrial	**128,552,254**	105,625,227
Consumer	**4,904,467**	1,005,892
Other	**2,270,628**	1,244,163
	344,318,297	279,378,925
Allowance for loan losses	**(3,806,492)**	(3,546,930)
Loans, net	**$ 340,511,805**	$ 275,831,995

<u>Non-accrual and Past Due Loans</u>

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. As mentioned in Note 1, the accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. Non-accrual loans segregated by class of loans were as follows:

	December 31, 2015		December 31, 2014	
	Non-accrual	**Accruing loans past due more than 90 days**	Non-accrual	Accruing loans past due more than 90 days
Real estate loans:				
Non-farm non-residential owner occupied	**$ -**	**$ -**	$ -	$ 393,485
Non-farm non-residential non-owner occupied	**1,290,006**	**-**	-	-
Residential	**-**	**-**	152,990	-
Construction, development & vacant	**-**	**-**	-	-
Farmland	**-**	**-**	-	-
Commercial & industrial	**1,566,764**	**-**	316,394	-
Consumer	**-**	**-**	-	-
Other	**-**	**-**	-	-
	$ 2,856,770	**$ -**	$ 469,384	$ 393,485

2. Loans and Allowance for Loan Losses – continued

Non-accrual and Past Due Loans – continued

An age analysis of past due loans, segregated by class of loans, were as follows:

	December 31, 2015					
	30-59 days	60-89 days	Over 90 days	Total past due	Total current	Total loans
Real estate loans:						
Non-farm non-residential owner occupied	$ -	$ -	$ -	$ -	$ 103,887,638	$ 103,887,638
Non-farm non-residential non-owner occupied	1,290,006	-	-	1,290,006	36,673,858	37,963,864
Residential	-	-	-	-	28,050,319	28,050,319
Construction, development & vacant	-	-	-	-	36,232,859	36,232,859
Farmland	-	-	-	-	2,456,268	2,456,268
Commercial & industrial	1,133,932	5,740,983	1,710,072	8,584,987	119,967,267	128,552,254
Consumer	-	2,880	144,589	147,469	4,756,998	4,904,467
Other	-	-	-	-	2,270,628	2,270,628
	$ 2,423,938	$ 5,743,863	$ 1,854,661	$ 10,022,462	$ 334,295,835	$ 344,318,297

	December 31, 2014					
	30-59 days	60-89 days	Over 90 days	Total past due	Total current	Total loans
Real estate loans:						
Non-farm non-residential owner occupied	$ 393,485	$ -	$ -	$ 393,485	$ 83,609,636	$ 84,003,121
Non-farm non-residential non-owner occupied	-	-	-	-	34,770,255	34,770,255
Residential	119,319	-	152,990	272,309	17,259,405	17,531,714
Construction, development & vacant	-	-	-	-	31,442,701	31,442,701
Farmland	-	-	-	-	3,755,852	3,755,852
Commercial & industrial	-		316,394	316,394	105,308,833	105,625,227
Consumer	-	-	-	-	1,005,892	1,005,892
Other	-	-	-	-	1,244,163	1,244,163
	$ 512,804	$ -	$ 469,384	$ 982,188	$ 278,396,737	$ 279,378,925

2. Loans and Allowance for Loan Losses – continued

Impaired Loans

The following tables present impaired loans by class of loans:

	December 31, 2015					
	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
Real estate loans:						
Non-farm non-residential						
owner occupied	$ 821,082	$ 821,082	$ -	$ 821,082	$ -	$ 921,928
Non-farm non-residential						
non-owner occupied	1,290,006	-	1,290,006	1,290,006	349,506	645,003
Residential	-	-	-	-	-	-
Construction, development						
& vacant	-	-	-	-	-	-
Farmland	-	-	-	-	-	-
Commercial & industrial	1,949,223	-	1,949,223	1,949,223	401,899	2,392,624
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	$ 4,060,311	$ 821,082	$ 3,239,229	$ 4,060,311	$ 751,405	$ 3,959,555

	December 31, 2014					
	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
Real estate loans:						
Non-farm non-residential						
owner occupied	$ 1,524,967	$ 1,524,967	$ -	$ 1,524,967	$ -	$ 921,928
Non-farm non-residential						
non-owner occupied	-	-	-	-	-	-
Residential	-	-	-	-	-	-
Construction, development						
& vacant	-	-	-	-	-	-
Farmland	-	-	-	-	-	-
Commercial & industrial	3,436,025	-	2,836,025	2,836,025	1,265,520	2,495,440
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	$ 4,960,992	$ 1,524,967	$ 2,836,025	$ 4,360,992	$ 1,265,520	$ 3,417,368

2. Loans and Allowance for Loan Losses – continued

Interest payments received on impaired loans are recorded as interest income unless collections of the remaining recorded investment are doubtful, at which time payments received are recorded as reductions of principal. Interest income collected on impaired loans was approximately $68,000 and $229,000 during the year ended December 31, 2015 and 2014, respectively.

Troubled Debt Restructuring

During the year ended December 31, 2015 and 2014, the terms of certain loans were modified as troubled debt restructurings. The following tables present modifications of loans that the Company considers to be troubled debt restructured loans:

	31-Dec-15			
		Loan modifications		
	Number of loans	Adjusted interest rate	Payment deferral	Combined rate and payment deferral
Real estate loans:				
Non-farm non-residential owner occupied	-	$ -	$ -	$ -
Non-farm non-residential non-owner occupied	-	-	-	-
Residential	-	-	-	-
Construction, development & vacant	-	-	-	-
Farmland	-	-	-	-
Commercial & industrial	3	-	1,115,870	-
Consumer	-	-	-	-
Other	-	-	-	-
	3	$ -	$ 1,115,870	$ -

	December 31, 2014			
		Loan modifications		
	Number of loans	Adjusted interest rate	Payment deferral	Combined rate and payment deferral
Real estate loans:				
Non-farm non-residential owner occupied	1	$ -	$ 527,810	$ -
Non-farm non-residential non-owner occupied	-	-	-	-
Residential	-	-	-	-
Construction, development & vacant	-	-	-	-
Farmland	-	-	-	-
Commercial & industrial	2	-	381,022	-
Consumer	-	-	-	-
Other	-	-	-	-
	3	$ -	$ 908,832	$ -

2. Loans and Allowance for Loan Losses – continued

Troubled Debt Restructuring – continued

During the years ended December 31, 2015 and 2014, there were no defaults on loans restructured. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral. These loans have no unfunded commitments.

Credit Quality Indicators

The majority of the loan portfolio is comprised of loans to businesses and individuals throughout Southeast Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. The risks created by this concentration have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at December 31, 2015 and 2014.

Credit Quality Indicators. From a credit risk standpoint, the Company classifies its loans in one of six categories: (i) pass, (ii) special mention, (iii) substandard, (iv) doubtful, or (v) loss.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The Company's methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

(i) The Company has several pass credit grades that are assigned to loans based on varying levels of credits, ranging from credits that are secured by cash or marketable securities, to watch credits that have all the characteristics of an acceptable credit risk but warrant more than the normal level of supervision.

(ii) Special mention loans are loans that still show sufficient cash flow to service their debt, but show a declining financial trend with potential cash flow shortages if trends continue. This category should be treated as a temporary grade. If cash flow deteriorates further to become negative, then a substandard grade should be given. If cash flow trends begin to improve then an upgrade back to Pass would be justified. Nonfinancial reasons for rating a credit special mention include management problems, pending litigation, an ineffective loan agreement or other material structure weakness.

(iii) A substandard loan has material weakness in the primary repayment source such as insufficient cash flow from operations to service the debt. However, other weaknesses such as limited paying capacity of the obligor or the collateral pledged could justify a substandard grade. Substandard loans must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt.

(iv) A loan classified as doubtful has all the weaknesses of a substandard loan 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. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Because of high probability of loss, non-accrual status is required on doubtful loans.

2. Loans and Allowance for Loan Losses – continued

Credit Quality Indicators – continued

(v) Loans classified as loss are considered uncollectible and of such little value that their continuance as banking assets are not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. With loans classified as loss, the underlying borrowers are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Once an asset is classified as loss, there is little prospect of collecting either its principal or interest. When access to collateral, rather than the value of the collateral, is a problem, a less severe classification may be appropriate. However, the Company does not maintain an asset on the balance sheet if realizing its value would require long-term litigation or other lengthy recovery efforts. Losses are to be recorded in the period an obligation becomes uncollectible.

The following tables summarize the Company's internal ratings of its loans:

	December 31, 2015					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate loans:						
Non-farm non-residential owner occupied	$ 101,833,944	$ 933,021	$ 1,120,673	$ -	$ -	$ 103,887,638
Non-farm non-residential non-owner occupied	36,673,858	-	1,290,006	-	-	37,963,864
Residential	26,573,369	-	1,476,950	-	-	28,050,319
Construction, development & vacant	36,232,859	-	-	-	-	36,232,859
Farmland	2,456,268	-	-	-	-	2,456,268
Commercial & industrial	124,782,146	1,859,692	1,910,416	-	-	128,552,254
Consumer	4,904,467	-	-	-	-	4,904,467
Other	2,270,628	-	-	-	-	2,270,628
	$ 335,727,539	$ 2,792,713	$ 5,798,045	$ -	$ -	$ 344,318,297

	December 31, 2014					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate loans:						
Non-farm non-residential owner occupied	$ 75,188,246	$ 8,445,592	$ 369,283	$ -	$ -	$ 84,003,121
Non-farm non-residential non-owner occupied	34,770,255	-	-	-	-	34,770,255
Residential	17,378,724	-	152,990	-	-	17,531,714
Construction, development & vacant	31,442,701	-	-	-	-	31,442,701
Farmland	3,755,852	-	-	-	-	3,755,852
Commercial & industrial	102,085,002	1,895,403	1,644,822	-	-	105,625,227
Consumer	1,005,892	-	-	-	-	1,005,892
Other	1,244,163	-	-	-	-	1,244,163
	$ 266,870,835	$ 10,340,995	$ 2,167,095	$ -	$ -	$ 279,378,925

2. Loans and Allowance for Loan Losses – continued

Allowance for Loan Losses

The majority of the loan portfolio is comprised of loans to businesses and individuals in the Houston, Dallas, Beaumont-Port Arthur metropolitan areas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. The risks created by this concentration has been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at December 31, 2015 and 2014.

The following tables detail the activity in the allowance for loan losses by portfolio segment:

	December 31, 2015				
	Beginning balance	Provision for loan loss	Charge-offs	Recoveries	Ending balance
Real estate loans:					
Non-farm non-residential owner occupied	$ 539,662	$ 200,033	$ -	$ -	$ 739,695
Non-farm non-residential non-owner occupied	278,987	231,035	-	-	510,022
Residential	69,297	34,361	-	-	103,658
Construction, development & vacant	347,987	(213,790)	-	-	134,197
Farmland	11,268	(3,464)	-	-	7,804
Commercial & industrial	2,283,069	89,933	(141,408)	40,970	2,272,564
Consumer	12,875	(4,005)	-	-	8,870
Other	3,785	25,897	-	-	29,682
	$ 3,546,930	$ 360,000	$ (141,408)	$ 40,970	$ 3,806,492

	December 31, 2014				
	Beginning balance	Provision for loan loss	Charge-offs	Recoveries	Ending balance
Real estate loans:					
Non-farm non-residential owner occupied	$ 441,383	$ 98,279	$ -	$ -	$ 539,662
Non-farm non-residential non-owner occupied	231,085	47,902	-	-	278,987
Residential	67,107	2,190	-	-	69,297
Construction, development & vacant	204,517	143,470	-	-	347,987
Farmland	7,824	3,444	-	-	11,268
Commercial & industrial	1,582,232	1,560,369	(932,725)	73,193	2,283,069
Consumer	23,053	(5,178)	(5,000)	-	12,875
Other	11,121	(7,336)	-	-	3,785
	$ 2,568,322	$ 1,843,140	$ (937,725)	$ 73,193	$ 3,546,930

2. Loans and Allowance for Loan Losses – continued

Allowance for Loan Losses – continued

The following tables summarize the allocation of the allowance for loan losses, by portfolio segment, for loans evaluated for impairment individually and collectively:

	December 31, 2015		
	Period end amounts of ALLL allocated to loans evaluated for impairment:		
	Individually	**Collectively**	**Total**
Real estate loans:			
Non-farm non-residential owner occupied	$ -	$ 739,695	$ 739,695
Non-farm non-residential non-owner occupied	349,506	160,516	510,022
Residential	-	103,658	103,658
Construction, development & vacant	-	134,197	134,197
Farmland	-	7,804	7,804
Commercial & industrial	401,899	1,870,665	2,272,564
Consumer	-	8,870	8,870
Other	-	29,682	29,682
	$ 751,405	$ 3,055,087	$ 3,806,492

	December 31, 2014		
	Period end amounts of ALLL allocated to loans evaluated for impairment:		
	Individually	Collectively	Total
Real estate loans:			
Non-farm non-residential owner occupied	$ -	$ 539,662	$ 539,662
Non-farm non-residential non-owner occupied	-	278,987	278,987
Residential	-	69,297	69,297
Construction, development & vacant	-	347,987	347,987
Farmland	-	11,268	11,268
Commercial & industrial	1,265,520	1,017,549	2,283,069
Consumer	-	12,875	12,875
Other	-	3,785	3,785
	$ 1,265,520	$ 2,281,410	$ 3,546,930

2. Loans and Allowance for Loan Losses – continued

Allowance for Loan Losses – continued

The Company's recorded investment in loans related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology is as follows:

	December 31, 2015		
	Loans evaluated for impairment:		
	Individually	Collectively	Total
Real estate loans:			
Non-farm non-residential owner occupied	$ 821,082	$ 103,066,556	$ 103,887,638
Non-farm non-residential non-owner occupied	1,290,006	36,673,858	37,963,864
Residential	-	28,050,319	28,050,319
Construction, development & vacant	-	36,232,859	36,232,859
Farmland	-	2,456,268	2,456,268
Commercial & industrial	1,949,223	126,603,031	128,552,254
Consumer	-	4,904,467	4,904,467
Other	-	2,270,628	2,270,628
	$ 4,060,311	$ 340,257,986	$ 344,318,297

	December 31, 2014		
	Loans evaluated for impairment:		
	Individually	Collectively	Total
Real estate loans:			
Non-farm non-residential owner occupied	$ 1,524,967	$ 82,478,154	$ 84,003,121
Non-farm non-residential non-owner occupied	-	28,116,094	34,770,255
Residential	-	18,644,517	17,531,714
Construction, development & vacant	-	19,039,601	31,442,701
Farmland	-	2,608,108	3,755,852
Commercial & industrial	2,836,025	102,789,202	105,625,227
Consumer	-	1,773,334	1,005,892
Other	-	1,687,618	1,244,163
	$ 4,360,992	$ 257,136,628	$ 279,378,925

During the normal course of business, the Company may enter into transactions with significant stockholders, directors and principal officers and their affiliates. It is the Company's policy that all such transactions are on substantially the same terms as those prevailing at the time for comparable transactions with third parties. At December 31, 2015 and 2014, the aggregate amounts of such loans were $1,536,981 and $2,376,867, respectively. During the year ended December 31, 2015, loan originations totaled $727,290 and repayments totaled $1,567,176. Related party unfunded commitments at December 31, 2015 and 2014, were and $2,113,794 and $1,487,628, respectively.

2. Loans and Allowance for Loan Losses – continued

Certain Acquired Loans

During 2015, the Company purchased certain loans from a third party with gross contractual balances of $3,595,855 and estimated fair values of $3,608,449, resulting in a premium of $12,594. All loans acquired in 2015 were classified as acquired performing loans. During 2014, the Company purchased certain loans from a third party with gross contractual balances of $4,239,992 and estimated fair values of $4,257,189, resulting in a premium of $17,197. All loans acquired in 2014 were classified as acquired performing loans.

During 2013 the Company purchased certain loans from a third party with gross contractual balances of $8,207,194 and estimated fair values of $6,303,095, resulting in a discount of $1,904,099. Upon acquisition, the acquired loans were initially segregated and classified in one of two categories: 1) PCI loans and 2) acquired performing loans. At acquisition date, estimated fair values of PCI loans and acquired performing loans were $3,215,504 and $3,087,591, respectively. The gross contractual amounts receivable for PCI loans and acquired performing loans were $4,502,097 and $3,705,097, respectively, as of the acquisition date. The accretable discount is being accreted into income using the interest method over the life of the loans, which have estimated remaining lives ranging from 0.50 to 10 years. At December 31, 2015 and 2014, unaccreted discounts on loans totaled $737,393 and $1,038,986, respectively, and were included in net loans in the accompanying consolidated balance sheet.

The following table presents the gross contractual amounts receivable balances, by portfolio segment, and the carrying amount of PCI loans:

	December 31, 2015	December 31, 2014
Real estate loans:		
Non-farm non-residential owner occupied	$ **718,024**	$ 738,604
Non-farm non-residential non-owner occupied	**-**	-
Residential	**2,140,391**	2,711,150
Construction, development & vacant	**-**	-
Farmland	**-**	-
Commercial & industrial	**-**	-
Consumer	**-**	-
Other	**-**	-
Total outstanding balances	$ **2,858,415**	$ 3,449,754
Carrying amount	$ **2,228,907**	$ 2,632,747

There was no allowance for loan losses related to the purchased credit impaired loans disclosed above, at December 31, 2015 and 2014.

Determining the fair value of PCI loans at acquisition required the Company to estimate cash flows expected to result from those loans and to discount those cash flows at appropriate rates of interest. For such loans, the excess of cash flows expected to be collected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans and is called the accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and is called the nonaccretable difference. In accordance with GAAP, there was no carry-over of previously established allowance for credit losses from the acquired company.

2. Loans and Allowance for Loan Losses – continued

Certain Acquired Loans – continued

In conjunction with the acquisition of loans on November 20, 2013, the PCI loan portfolio was accounted for at fair value as follows:

Contractual principal and interest at acquisition	$ 4,502,097
Nonaccretable difference	604,794
Cash flows expected to be collected at acquisition date	3,897,303
Accretable discount	681,799
Fair value of PCI loans at acquisition	$ 3,215,504

Accretable yield, or income expected to be collected on PCI loans was as follows:

	Year Ended December 31,	
	2015	2014
Balance at beginning of year	**$ 372,218**	$ 681,799
New loans purchased	**-**	-
Accretion of income	**(89,038)**	(210,985)
Reclassifications from non-accretable difference	**-**	-
Disposals	**(90,918)**	(98,596)
Balance at end of year	**$ 192,262**	$ 372,218

3. Premises and Equipment

Premises and equipment in the accompanying consolidated balance sheet consisted of the following:

	December 31,	
	2015	2014
Equipment	**$ 1,752,506**	$ 1,317,461
Leasehold improvements	**903,839**	708,494
Furniture and fixtures	**812,443**	629,444
Construction in process	**7,117**	33,990
	3,475,905	2,689,389
Accumulated depreciation	**(2,092,762)**	(1,700,450)
	$ 1,383,143	$ 988,939

Depreciation expense amounted to $392,312 and $360,858 during the years ended December 31, 2015 and 2014, respectively.

4. Deposits

Deposits in the accompanying consolidated balance sheet consisted of the following:

	December 31, 2015	December 31, 2014
Transaction accounts:		
Noninterest bearing demand accounts	$ 59,920,912	$ 56,249,948
Interest bearing demand accounts	169,386,256	167,216,040
Savings	23,315,470	1,668,038
Total transaction accounts	252,622,638	225,134,026
Time deposits	115,496,351	90,623,759
Total deposits	$ 368,118,989	$ 315,757,785

The aggregate amount of time deposits in denominations of $250,000 or more totaled $35,838,776 and $24,788,631 at December 31, 2015 and 2014, respectively.

Scheduled maturities of time deposits at December 31, 2015 are as follows:

2016	$ 68,437,842
2017	46,535,741
2018	228,476
2019	264,034
2020	30,258
	$ 115,496,351

At December 31, 2015 and 2014, the aggregate amount of demand deposit overdrafts that have been reclassified as loans were $9,581 and $4,431, respectively.

Deposits received from related parties at December 31, 2015 and 2014, totaled approximately $14,020,000 and $10,340,000, respectively.

5. Income Taxes

The provision for income taxes consisted of the following:

	Year Ended December 31, 2015	Year Ended December 31, 2014
Current income tax expense	$ 704,416	$ 124,548
Deferred income tax benefit	(746,394)	(124,548)
Income tax benefit as reported	$ (41,978)	$ -

5. Income Taxes – continued

A reconciliation of reported income tax expense to the amount computed by the Company's statutory income tax rate of 34% to income or loss before income taxes is presented below:

	Year Ended December 31, 2015	Year Ended December 31, 2014
Income tax expense computed at the statutory rate	$ 759,795	$ 778,753
Changes in valuation allowance	(722,025)	(807,249)
Stock-based compensation	8,435	55,894
Bank-owned life insurance	(50,549)	(52,037)
Other, net	(37,634)	24,639
Income tax benefit as reported	$ (41,978)	$ -

A summary of deferred taxes is presented below:

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Allowance for loan losses	$ 841,259	$ 774,375
Organizational and start-up costs	129,250	147,497
Accrued expenses	167,037	138,531
Other	122,776	57,430
Total deferred tax assets	1,260,322	1,117,833
Deferred tax liabilities:		
Premises and equipment	331,380	191,353
Prepaid expenses and other	58,000	79,907
Total deferred tax liabilities	389,380	271,260
Net deferred tax asset before valuation allowance	870,942	846,573
Valuation allowance	-	(722,025)
Net deferred tax asset	$ 870,942	$ 124,548

Current authoritative accounting guidance prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the consolidated financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of cumulative benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Current authoritative accounting guidance also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

6. Note Payable

On December 17, 2015, the Company entered into a promissory note agreement with an unrelated third party in the amount of $10,000,000. Interest is payable quarterly at Wall Street Journal prime, plus 0.75% or 4.25% as of December 31, 2015. All unpaid principal and interest is due at maturity, December 17, 2026. The note is secured by all of the outstanding stock of the Bank. Proceeds from the promissory note were used to payoff preferred stock with SBLF, as detailed in Note 13, which was paid in full in January 2016. At December 31, 2015, there was an outstanding balance of $2,000,000.

7. Stock Options and Warrants

In 2008 upon shareholder approval, the Bank adopted the 2008 Stock Option Plan. In 2013 upon formation of Third Coast Bancshares, Inc., the Company adopted the 2013 Stock Option Plan (the "2013 Stock Plan"). All outstanding options from the 2008 Stock Option Plan were grandfathered into the 2013 Stock Plan. The 2013 Stock Plan permits the grant of stock options for up to 500,000 shares of common stock from time to time during the term of the plan, subject to adjustment upon changes in capitalization. Under the 2013 Stock Plan, the Bank may grant either incentive stock options or nonqualified stock options to eligible directors, executive officers, key employees and non-employee shareholders of the Bank. Options are generally granted with an exercise price equal to the market price of the Bank's stock at the date of the grant. Option awards generally vest based on 5 years of continuous service and have 10-year contractual terms for non-controlling participants as defined by the Stock Plan. Other grant terms can vary for controlling participants as defined by the Stock Plan.

During 2015, the Company granted stock options to certain directors, executive officers and other key employees of the Company. These stock options were granted with an exercise price of $11, vest ratably over 5 years and have a 10 year contractual term.

The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions used for the 2015 options granted: risk-free interest rate ranging from 1.69% to 2.15%, dividend yield of 0.00%; estimated volatility of 10.00%, and expected lives of options of 10 years.

During 2014 stock options granted to certain individuals were modified thereby extending the expiration date 10 years from the modification date and increasing the exercise price from $10 to $11. As a result of the modifications, incremental costs of approximately $111,000 were recorded and included in 2014 earnings. Total stock-based compensation costs related to stock options granted and modified that has been included in current earnings was $24,808 and $164,394 for the years ended December 31, 2015 and 2014. As of December 31, 2015, there was approximately $85,000 of unrecognized compensation costs related to non-vested stock options that is expected to be recognized over the remaining vesting periods.

7. Stock Options and Warrants – continued

A summary of stock option activity is presented below:

	December 31,					
	2015			2014		
	Shares Underlying Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Shares Underlying Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term
Outstanding at beginning of year	231,800	$ 10.87	8.78	198,550	$ 10.17	5.51
Granted during the year	31,500	11.00	10.00	37,250	11.00	10.00
Forfeited during the year	(8,250)	11.00	7.62	(4,000)	11.00	7.02
Exercised during the year	-	-	-	-	-	-
Outstanding at the end of year	255,050	$ 10.88	8.02	231,800	$ 10.87	8.78
Options exercisable at end of year	191,150	$ -	7.85	180,100	$ -	8.86
Weighted-average grant date fair value of options granted during the year		$ 2.01			$ 1.18	

A summary of the activity in the Company's nonvested shares is as follows:

	December 31,			
	2015		2014	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1,	51,700	$ 1.15	50,130	$ 1.74
Granted during the year	31,500	2.01	37,250	1.18
Vested during the year	(12,250)	1.35	(32,380)	1.98
Forfeited during the year	(7,050)	0.74	(3,300)	1.08
Nonvested at December 31,	63,900	$ 1.61	51,700	$ 1.15

As consideration for the financial risks undertaken by certain organizers of the Company, the Company has outstanding stock warrants that are initially exercisable to purchase one share of common stock for each warrant held.

7. Stock Options and Warrants – continued

A summary of the Company's stock warrant activity is presented below:

	December 31,					
	2015			2014		
	Shares Underlying Warrants		Weighted-Average Exercise Price	Shares Underlying Warrants		Weighted-Average Exercise Price
Outstanding at beginning of period	**121,500**	**$**	**10.06**	120,500	$	10.05
Granted	-		-	1,000		11.00
Exercised	-		-	-		-
Expired or forfeited	-		-	-		-
Outstanding at end of period	**121,500**	**$**	**10.06**	121,500	$	10.06
Exercisable at end of period	**121,500**	**$**	**10.06**	121,500	$	10.06

The weighted average remaining contractual life of stock warrants outstanding at December 31, 2015, was 2.44 years.

8. Commitments and Contingencies

The Company has non-cancelable operating leases for each branch office facility as well as a branch office in Dallas, Texas. Rent expense for 2015 and 2014 was approximately $697,000 and $617,000, respectively. The five operating leases have various commencement dates and original terms varying from sixty months to one hundred twenty-three months.

Future minimum rental payments under non-cancellable operating leases with initial or remaining terms in excess of one year for each year through 2020 and thereafter are as follows:

2016	$	654,907
2017		371,334
2018		350,213
2019		276,009
2020		248,153
Thereafter		195,978
	$	2,096,594

9. Financial Instruments With Off-Balance Sheet Risk

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

9. Financial Instruments With Off-Balance Sheet Risk – continued

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for unfunded lines of credit, commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. The Company generally uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31, 2015	December 31, 2014
Commitments to extend credit	**$ 102,016,616**	$ 89,405,221
Standby letters of credit	**527,300**	247,511
Total	**$ 102,543,916**	$ 89,652,732

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. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

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

Although the maximum exposure to loss is the amount of such commitments, management currently anticipates no material losses from such activities.

10. Fair Value Measurements

The authoritative guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs 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 price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. 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. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

10. Fair Value Measurements – continued

The authoritative guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. 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 (replacement costs). Valuation techniques should be consistently applied. 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 reporting entity'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 authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs* – Inputs other than quoted prices included in level 1 that are observable for the asset and liability, either directly or indirectly. These 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 (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 investments consist primarily of obligations of U.S. government sponsored enterprises and agencies, obligations of state and municipal subdivisions, corporate bonds and mortgage backed securities.

- *Level 3 Inputs* – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

At December 31, 2015 and 2014, there were no financial assets or financial liabilities that were measured at fair value on a recurring basis.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis include the following at December 31, 2015 and 2014:

10. Fair Value Measurements – continued

Impaired loans. Impaired loans are reported at the estimated fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based on observable market data or independent appraisals using Level 3 inputs. At December 31, 2015, impaired loans with carrying values of $4,060,311 were reduced by specific valuation allowances totaling $751,405 resulting in a net fair value of $3,308,906 based on Level 3 inputs. At December 31, 2014, impaired loans with carrying values of $4,360,992 were reduced by specific valuation allowances totaling $1,265,520 resulting in a net fair value of $3,095,472, based on Level 3 inputs.

Non-financial assets measured at fair value on a non-recurring basis during the years ended December 31, 2015 and 2014, include certain foreclosed assets which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in current earnings. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. The following table presents foreclosed assets that were remeasured and recorded at fair value:

	December 31,	
	2015	2014
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ -	$ 350,000
Charge-offs recognized in the allowance for loan losses	-	-
Fair value of foreclosed assets remeasured at initial recognition	$ -	$ 350,000
Foreclosed assets remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ -	$ 657,475
Writedowns included in other non-interest expense	-	(391,275)
Fair value of foreclosed assets remeasured subsequent to initial recognition	$ -	$ 266,200

The Company is required under current authoritative guidance to disclose the estimated fair value of its financial instrument assets and liabilities including those subject to the requirements discussed above.

For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments as defined. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

10. Fair Value Measurements – continued

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market rates for similar assets and liabilities. Financial instruments assets with variable rates and financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value.

The carrying value and the estimated fair value of the Company's contractual off-balance sheet unfunded lines of credit, loan commitments and letters of credit, which are generally priced at market at the time of funding, are not material.

The estimated fair values and carrying values of all financial instruments under current authoritative guidance, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value are as follows:

	December 31,			
	2015		2014	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial assets				
Level 2 inputs:				
Cash and cash equivalents	**$ 50,206,271**	**$ 50,206,271**	$ 63,152,050	$ 63,152,050
Interest bearing time deposits in other banks	**3,078,154**	**3,078,154**	3,817,091	3,817,091
Loans held for sale	**-**	**-**	283,916	283,916
Federal Home Loan Bank stock	**3,421,100**	**3,421,100**	114,800	114,800
Accrued interest receivable	**1,108,752**	**1,108,752**	816,880	816,880
Bank-owned life insurance	**5,856,282**	**5,856,282**	5,707,608	5,707,608
Level 3 inputs:				
Loans, net	**340,511,805**	**340,628,953**	275,831,995	275,380,061
Financial liabilities				
Level 2 inputs:				
Deposits	**368,118,989**	**368,506,294**	315,747,785	316,196,095
Accrued interest payable	**512,132**	**512,132**	351,193	351,193
Note payable	**2,000,000**	**2,000,000**	-	-

11. Significant Group Concentrations of Credit Risk

All of the Company's business activity is with customers primarily located within Texas. Such customers are normally also depositors of the Company.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. The contractual amounts of credit related financial instruments such as commitments to extend credit and credit card arrangements represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

At December 31, 2015 and 2014, the Company had federal funds sold aggregating $2,448,619 and $24,204,639, respectively, which represents concentrations of credit risk. The Company had uninsured deposits of $40,000,766 and $22,713,241 as of December 31, 2015 and 2014, respectively.

12. Employee Benefit Plans

Defined Contribution Plan

In 2009 the Company adopted the Third Coast Bank, SSB 401(k) Plan (the "Plan") covering substantially all employees. Employees may elect to defer a percentage of their compensation subject to certain limits based on federal tax laws. The Company may make a discretionary match of employees' contributions based on a percentage of salary contributed by participants. For the years ended December 31, 2015 and 2014, Company contributions to the Plan amounted to approximately $208,000 and $134,000, respectively, and are included in Salaries and Employee Benefits in the accompanying consolidated statement of income and comprehensive income.

13. Stockholders' Equity and Regulatory Matters

Small Business Lending Fund "SBLF"

On August 9, 2011, the Bank entered into a Securities Purchase Agreement with the Secretary of the Treasury. The Bank issued 8,673 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share (the "preferred stock"), for a purchase price of $8,673,000. The issuance was pursuant to the Treasury's Small Business Lending Fund program, a $30 billion fund established under the Small Business Jobs Act of 2010, which encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. As a result of the formation of Bancshares in 2013, the preferred stock of the Bank was exchanged for preferred stock of Bancshares.

The preferred stock qualifies as Tier 1 capital and pays non-cumulative dividends. The dividend rate as of December 31, 2015, is 1% and will remain fixed at this rate through the first quarter of 2016. Thereafter, the dividend rate is 9%.

The terms of the preferred stock impose limits on the Company's ability to pay dividends on and repurchase shares of its common stock and other securities. The Company may only declare and pay dividends on its common stock if it has declared and paid dividends for the current dividend period on the preferred stock, and may be subject to other restrictions on its ability to repurchase or redeem other securities. In addition, if (i) the Company has not timely declared and paid dividends on the Series A preferred stock for six dividend periods or more, whether or not consecutive, and (ii) shares of Series A preferred stock with an aggregate liquidation preference of at least $25,000,000 are outstanding, the Treasury (or any successor holder of preferred stock) may designate two additional directors to be elected to the Company's Board of Directors.

In January 2016, the Company paid off the SBLF balance in full using proceeds from the note payable discussed in Note 6 and funds received from the private placement offering discussed in Note 14.

Regulatory Matters

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

13. Stockholders' Equity and Regulatory Matters – continued

Regulatory Matters – continued

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) 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 and 2014, the Bank meets all capital adequacy requirements to which it is subject.

Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the tables below. As shown below, the Bank's capital ratios exceed the regulatory definition of well capitalized as of December 31, 2015 and 2014. Based upon the information in its most recently filed call report, the Bank continues to meet the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action.

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1", (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules became effective for the Company on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019. Based on management's initial assessment of the Basel III Capital Rules, management does not believe it will have a material impact on the Company or the Bank. Management believes the Company will meet the capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis, which commenced in 2015.

There are no conditions or events since December 31, 2015 that management believes have changed the Bank's category.

A comparison of the Bank's actual capital amounts and ratios to required capital amounts and ratios are presented in the following table (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Total capital (to risk weighted assets)	**$ 42,616**	**12.4%**	**≥ $ 27,458**	**≥ 8.0%**	**≥ $ 34,322**	**≥ 10.0%**
Tier I capital (to risk weighted assets)	**$ 38,810**	**11.3%**	**≥ $ 13,729**	**≥ 4.0%**	**≥ $ 20,593**	**≥ 6.0%**
Tier I capital (to average assets)	**$ 38,810**	**9.4%**	**≥ $ 16,511**	**≥ 4.0%**	**≥ $ 20,639**	**≥ 5.0%**
Common equity tier 1 (to risk weighted assets	**$ 38,810**	**11.3%**	**≥ $ 15,445**	**≥ 4.5%**	**≥ $ 22,309**	**≥ 6.5%**
As of December 31, 2014:						
Total capital (to risk weighted assets)	$ 34,567	11.7%	≥ $ 23,623	≥ 8.0%	≥ $ 29,529	≥ 10.0%
Tier I capital (to risk weighted assets)	$ 31,020	10.5%	≥ $ 11,811	≥ 4.0%	≥ $ 17,717	≥ 6.0%
Tier I capital (to average assets)	$ 31,020	9.3%	≥ $ 13,281	≥ 4.0%	≥ $ 16,602	≥ 5.0%

14. Subsequent events

In January 2016, the Company sold 442,307 shares of common stock via a private placement offering which resulted in proceeds of $5,749,991. The proceeds along with funds from the note payable discussed in Note 6, the Company redeemed all preferred stock held by the SBLF discussed in Note 13. The preferred shares were redeemed for a redemption price, including accrued but unpaid dividends, of $8,681,914.