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Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Cindy Whiddon
Name of the Holding Company Director and Official

Vice President, Secretary / Treasurer
Title of the Holding Company Director and Official

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

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

Cindy Whiddon
Signature of Holding Company Director and Official

9-23-16
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 1105751
C.I.

Date of Report (top-tier holding company's fiscal year-end):
June 30, 2016
Month / Day / Year

NONE
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address
First Baird Bancshares, Inc.
Legal Title of Holding Company

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

City	State	Zip Code
Weatherford	TX	76086

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Ron Hughes — Corporate Administration
Name / Title

817-438-2210
Area Code / Phone Number / Extension

817-886-5031
Area Code / FAX Number

ron@firstbaird.com
E-mail Address

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

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

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

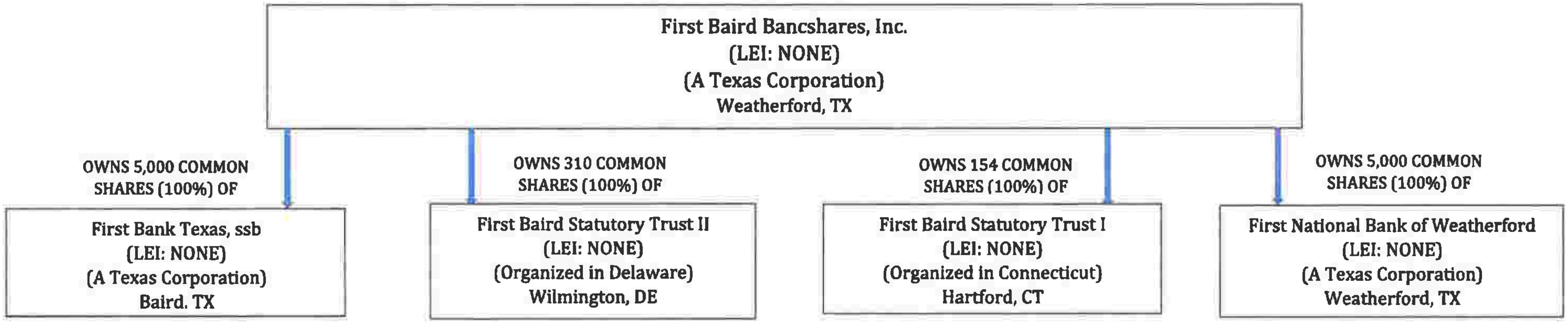
☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.

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

☒ No

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.

FIRST BAIRD BANCSHARES, INC.
JUNE 30, 2016
ORGANIZATION CHART



AMENDED
APR 20 2017

Results: A list of branches for your holding company: FIRST BAIRD BANCSHARES, INC. (1105751) of WEATHERFORD, TX.
The data are as of 06/30/2016. Data reflects information that was received and processed through 07/11/2016.

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)	75558	FIRST BANK TEXAS, SSB	244 MARKET STREET	BAIRD	TX	79504	CALLAHAN	UNITED STATES	1966	0	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service	2289742	ABILENE BRANCH	1849 SOUTH 1ST STREET	ABILENE	TX	79602	TAYLOR	UNITED STATES	196069	2	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service	3351114	BUFFALO GAP BRANCH	4201 BUFFALO GAP RD	ABILENE	TX	79606	TAYLOR	UNITED STATES	441995	4	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service	4251314	JUDGE ELY BOULEVARD BRANCH	966 NORTH JUDGE ELY BOULEVARD	ABILENE	TX	79601	TAYLOR	UNITED STATES	520603	5	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service	211954	BEDFORD BRANCH	4201 AIRPORT FREEWAY	BEDFORD	TX	76021	TARRANT	UNITED STATES	16948	9	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service	1829842	CLYDE BRANCH	INTERSTATE 20 & CHERRY LANE	CLYDE	TX	79510	CALLAHAN	UNITED STATES	196068	1	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service	4977838	GRAPEVINE BRANCH	301 EAST STATE HIGHWAY 114	GRAPEVINE	TX	76051	TARRANT	UNITED STATES	Not Required	Not Required	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service	2374693	HASKELL BRANCH	200 S AVENUE E	HASKELL	TX	79521	HASKELL	UNITED STATES	419873	8	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service	767769	MUNDAY BRANCH	111 SOUTH MUNDAY AVENUE	MUNDAY	TX	76371	KNOX	UNITED STATES	2176	6	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service	2225599	STAMFORD BRANCH	610 COLUMBIA	STAMFORD	TX	79553	JONES	UNITED STATES	260022	7	FIRST BANK TEXAS, SSB	75558	
Ok		Full Service (Head Office)	614368	FIRST NATIONAL BANK OF WEATHERFORD	220 PALO PINTO	WEATHERFORD	TX	76086	PARKER	UNITED STATES	3795	0	FIRST NATIONAL BANK OF WEATHERFORD	614368	
Ok		Full Service	4534213	COLLEGE PARK BRANCH	139 COLLEGE PARK DRIVE	WEATHERFORD	TX	76088	PARKER	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF WEATHERFORD	614368	

FIRST BAIRD BANCSHARES, INC.
AND SUBSIDIARY HOLDING COMPANIES
REPORT ITEM 3:
Securities Holders
June 30, 2016

FIRST BAIRD BANCSHARES, INC.

(1)(a) Name & Address	(1)(b) Country	(1)(c) Number of Shares & Percentage	
Estate of Joe E. Sharp Zan Prince & Justin Sharp: Co-Executors Weatherford, Texas	USA	191,000	23.44%
Zan Prince Weatherford, Texas	USA	68,000	8.34%
Justin Sharp Fort Worth, Texas	USA	25,000	3.07%
J. Steven Sharp Amarillo, Texas	USA	57,000	6.99%
J Sharp Children Limited Partnership Weatherford, Texas	USA	144,400	17.72%
Pop's Family Irrevocable Trust Zan Prince, Trustee 200 Palo Pinto Weatherford, TX 76086	USA	300,000	36.82%
TOTAL SHARP FAMILY		785,400	96.38%

(2)(a) Name & Address	(2)(b) Country	(2)(c) Number of Shares & Percentage	
The William and Karen Vincent Family Partnership Dallas, Texas	USA	29,000	5.63%

FIRST BAIRD BANCSHARES, INC.
AND SUBSIDIARY HOLDING COMPANIES
REPORT ITEM 4:
INSIDERS

June 30, 2016

Directors, Officer Principal's Name Address, & Principal Occupation	Organization	Title or Position	% of Shares
Estate of Joe E. Sharp	1	I	23.44%
Weatherford, TX	4	I	96.59%
J Sharp Children Limited Partnership	1	I	17.72%
Weatherford, TX			
Investments			
Zan Prince	1	A, B, E, I	8.34%
Weatherford, TX	1	M	36.82%
Insurance and Banking	2	A, B	0.00%
	3	A, B	0.00%
	4	A, B	0.00%
	6	A, E, G, H	0.00%
J Steven Sharp	1	I	6.99%
Amarillo, TX			
Attorney			
Cindy Whiddon	1	A, F, G, H	0.00%
Denton, TX			
Banking			
Justin Sharp	1	I	3.07%
Fort Worth, TX	4	A	0.00%
Banking			
Scott Sharp	1	A	0.00%
Grapevine, TX	2	A	0.00%
Banking	3	A	0.00%
	4	A	0.00%
Also, Executive Vice President, COO of Nymbus Corporation			
Lin Bearden	1	A	0.00%
Weatherford, TX	2	A	0.00%
Banking	3	A, E	0.00%
Mike Rhea	1	A	0.00%
Abilene, TX	2	A, E	0.00%
Banking	3	A	0.00%
Sammy Edington	1	A	0.00%
Abilene, Texas	2	A	0.00%
Banking-retired	3	A	0.00%

LEGEND ON FOLLOWING PAGE

LEGEND

ORGANIZATIONS

1) First Baird Bancshares, Inc.; Bedford, TX
2) First Bank Texas; Baird, TX
3) First National Bank of Weatherford; Weatherford, TX
4) First Security Bank; Beaver, OK
6) First National Insurance Agency

TITLE OR POSITION

A) Director
B) Chairman
C) Vice Chairman
D) CEO
E) President
F) Vice President
G) Secretary
H) Treasurer
I) Principal Shareholder
J) Employee
K) Advisory Director
L) Area President
M) Trustee, Pop's Family Irrevocable Trust

FIRST BAIRD BANCSHARES, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
and Additional Information

June 30, 2016 and 2015

Dallas Office
8343 Douglas Avenue
Suite 400
Dallas, Texas 75225
214 393 9300 Main
whitleypenn.com

Independent Auditor's Report

The Board of Directors
First Baird Bancshares, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of First Baird Bancshares, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2016 and 2015, 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.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and 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 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 of 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 overall 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 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 First Baird Bancshares, Inc. and Subsidiaries as of June 30, 2016 and 2015, 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
September 26, 2016

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Balance Sheet
June 30, 2016 and 2015
(In thousands of dollars)

ASSETS	2016	2015
Cash and cash equivalents:		
Cash and due from banks	$ 45,946	$ 21,678
Federal funds sold	11,317	12,908
Total cash and cash equivalents	57,263	34,586
Interest bearing time deposits in other banks	11,431	983
Investment securities available-for-sale	9,837	22,875
Loans, net	534,896	541,657
Accrued interest receivable	2,684	2,593
Bank premises and equipment, net	14,410	13,861
Other real estate owned	1,128	1,415
Cash surrender value of life insurance	8,110	7,897
Investments in unconsolidated subsidiaries	608	464
Other assets	14,196	9,989
Total assets	$ 654,563	$ 636,320

LIABILITIES AND STOCKHOLDERS' EQUITY	2016	2015
Deposits:		
Noninterest bearing	$ 197,808	$ 204,723
Interest bearing	372,491	338,121
Total deposits	570,299	542,844
Junior subordinated debentures	15,464	15,464
FHLB advances	5,000	22,931
Pension contribution payable	13,939	10,451
Other liabilities	1,053	1,065
Total liabilities	605,755	592,755
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, $0.01 par value; 1,000,000 shares authorized, 814,870 and 514,870 shares issued and outstanding at June 30, 2016 and 2015, respecitively	8	5
Additional paid-in capital	4,941	3,650
Retained earnings	53,058	46,841
Accumulated other comprehensive loss	(9,199)	(6,928)
Noncontrolling interests	-	(3)
Total stockholders' equity	48,808	43,565
Total liabilities and stockholders' equity	$ 654,563	$ 636,320

See accompanying notes to consolidated financial statements.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statement of Income
June 30, 2016 and 2015
(In thousands of dollars)

	2016	2015
Interest income:		
Interest and fees on loans	$ 30,431	$ 28,761
Investment securities available-for-sale	259	304
Other	77	101
Total interest income	30,767	29,166
Interest expense:		
Deposit accounts	1,759	1,274
Debentures	455	420
FHLB advances	21	140
Other	29	21
Total interest expense	2,264	1,855
Net interest income	28,503	27,311
Provision for loan losses	3,944	680
Net interest income after provision	24,559	26,631
Noninterest income:		
Gain on life insurance settlement	-	3,185
Service charges on deposit accounts	2,595	2,569
Data processing fees and software sales	1,316	803
TxDOT Settlement	1,201	-
Other	1,394	2,051
Total noninterest income	6,506	8,608
Noninterest expense:		
Salary and employee benefits	16,745	17,186
Occupancy of bank premises	2,902	2,792
Equipment expense	1,279	392
Legal and professional fees	781	716
Advertising expense	949	910
Regulatory fees	654	639
Other	5,025	4,500
Total noninterest expense	28,335	27,135
Income before income taxes	2,730	8,104
Income tax (benefit) expense	(3,702)	1,353
Consolidated net income	6,432	6,751
Less: Net loss attributable to noncontrolling interests	(85)	(81)
Net income attributable to controlling interests	$ 6,517	$ 6,832

See accompanying notes to consolidated financial statements.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income
June 30, 2016 and 2015
(In thousands of dollars)

		2016		2015
Consolidated net income	$	**6,432**	$	6,751
Other comprehensive loss:				
Unrealized gains on investment securities available-for-sale, before income taxes		**45**		111
Reclassification adjustment for realized gains on investment securities available-for-sale, before income taxes		**-**		(97)
Unrecognized pension obligation loss, before income taxes		**(2,720)**		(7,855)
Reclassification adjustment for net periodic pension expenses included in net income, before income taxes		**1,049**		301
Total other comprehensive loss, before income taxes		**(1,626)**		(7,540)
Income tax benefit related to items of other comprehensive loss		**553**		2,564
Total other comprehensive loss, net of tax		**(1,073)**		(4,976)
Total comprehensive income		**5,359**		1,775
Less: Comprehensive loss attributable to noncontrolling interests		**(109)**		(196)
Comprehensive income attributable to controlling interests	$	**5,468**	$	1,971

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity
June 30, 2016 and 2015
(In thousands of dollars)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Losses	Noncontrolling Interests	Total
Balances at July 1, 2014	$ 5	$ 3,650	$ 40,009	$ (2,067)	$ 142	41,739
Consolidated net income	-	-	6,751	-	-	6,751
Change in net unrealized losses on securities available-for-sale, net of tax and reclassification of realized gains	-	-	-	9	-	9
Change in unrecognized pension obligation, net of tax and reclassification of net periodic expense included in net income	-	-	-	(4,985)	-	(4,985)
Net loss attributable to noncontrolling interests	-	-	81	-	(81)	-
Capital contribution in Sharp Bancystems attributable to noncontrolling interests	-	-	-	-	51	51
Comprehensive income attributable to noncontrolling interests	-	-	-	115	(115)	-
Balances at June 30, 2015	**5**	**3,650**	**46,841**	**(6,928)**	**(3)**	**43,565**
Consolidated net income	-	-	**6,432**	-	-	**6,432**
Change in net unrealized losses on securities available-for-sale, net of tax and reclassification of realized gains	-	-	-	**30**	-	**30**
Change in unrecognized pension obligation, net of tax and reclassification of net periodic expense included in net income	-	-	-	**(2,325)**	-	**(2,325)**
Net loss attributable to noncontrolling interests	-	-	**85**	-	**(85)**	-
Dividends paid	-	-	**(300)**	-	-	**(300)**
Stock option expense	-	**409**	-	-	-	**409**
Exercise of stock option	**3**	**882**	-	-	-	**885**
Removal of minority interest due to sale of SBS	-	-	-	-	**112**	**112**
Comprehensive income attributable to noncontrolling interests	-	-	-	**24**	**(24)**	-
Balances at June 30, 2016	**$ 8**	**$ 4,941**	**$ 53,058**	**$ (9,199)**	**$ -**	**$ 48,808**

See accompanying notes to consolidated financial statements.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows
June 30, 2016 and 2015
(In thousands of dollars)

	2016	2015
Cash flows from operating activities:		
Consolidated net income	$ 6,432	$ 6,751
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	1,185	1,304
Provision for loan losses	3,944	680
Gain on sales of investment securities	-	(97)
Gain on sales of bank premises and equipment	(39)	(46)
Loss on sales and writedowns of other real estate owned	13	133
Increase in accrued interest receivable and other assets	(4,511)	(3,867)
Increase in accrued interest payable and other liabilities	1,344	2,167
Net cash provided by operating activities	8,368	7,025
Cash flows from investing activities:		
Net change in interest bearing time deposits in other banks	(10,448)	982
Proceeds from maturities, paydowns, and sales of securities available-for-sale	623,083	631,143
Purchases of securities available-for-sale	(610,000)	(618,760)
Net loans repaid (originated)	675	(76,848)
Key man life insurance settlement income	-	3,185
Net additions to bank premises and equipment	(1,432)	(2,613)
Proceeds from sales of other real estate owned	1,913	3,059
Net cash provided by (used in) investing activities	3,791	(59,852)
Cash flows from financing activities:		
Net increase in deposits	27,455	23,827
Stock option expense	409	-
Exercise of stock options	885	-
Dividends paid	(300)	-
Repayments of other borrowings	(17,931)	(3,297)
Net increase in FHLB advances	-	22,931
Minority interest share of capital contribution in Sharp Bancsystems	-	51
Net cash provided by financing activities	10,518	43,512
Net increase (decrease) in cash and cash equivalents	22,677	(9,315)
Cash and cash equivalents at beginning of year	34,586	43,901
Cash and cash equivalents at end of year	$ 57,263	$ 34,586
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 2,294	$ 1,840
Income taxes paid	$ 1,100	$ 2,200
Supplemental Disclosure of Noncash Investing Activities:		
Net acquisition of other real estate through foreclosure	$ 2,142	$ 1,975
Transfer of other real estate owned to fixed assets	$ 503	$ -

See accompanying notes to consolidated financial statements.

1. Nature of Operations and Significant Accounting Policies

The following is a summary of the significant accounting policies used by First Baird Bancshares, Inc. (FBBI) and Subsidiaries (together referred to as the "Company") in the preparation of its consolidated financial statements. The accounting policies conform to generally accepted accounting principles and practices generally followed within the banking industry.

Business and Basis of Presentation

The accompanying consolidated financial statements include the accounts of FBBI. and its wholly-owned subsidiaries: First Bank Texas, SSB (FBT) and The First National Bank of Weatherford (FNBW). Additionally, the Company collectively owned 80.16% of Sharp Bancsystems, Inc. (Sharp). In January 2016, the Company entered into an agreement with an unrelated party to sell Sharp, effective January 1, 2016. Transactions occurring during the period July 1, 2015 through December 31, 2015, related to Sharp are included in the accompanying consolidated financial statements. See note 19 for further discussion of disposition of Sharp. All significant inter-company transactions have been eliminated in consolidation.

The Company provides a full range of banking services to individuals and corporate customers in Texas through its subsidiaries and is subject to competition from other local, regional, and national financial institutions. The Company is also subject to the regulations of certain state and federal agencies and undergoes periodic examinations by those regulatory authorities.

Prior to January 1, 2016, the Company, through Sharp, also provided certain core data processing services specific to community banks predominately located in the Southwest region of the United States.

The summary of the significant accounting policies of the Company is presented to assist in understanding the Company's consolidated financial statements and are presented below. The consolidated financial statements and notes are the representation of the Company's management, who are responsible for their integrity and objectivity.

Use of Estimates

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 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.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of other real estate owned. While management uses available information to recognize losses on loans and other real estate owned, future provisions may be necessary based on changes in local economic conditions. In addition, banking regulators, as an integral part of their examination process, periodically review the Company's allowance for loan and other real estate losses. They may require the Company to record additional provision for losses based on their judgment about information available to them at the time of their examination.

A significant portion of the Company's loans are secured by real estate and related assets located in local markets. Accordingly, the ultimate collectability of this portion of the Company's loan portfolio is susceptible to changes in the local market conditions.

1. Nature of Operations and Significant Accounting Policies – continued

Cash and Cash Equivalents

For the purpose of reporting cash flows, cash, and cash equivalents include cash on hand, amounts due from banks, other short-term investments, and federal fund sold. All highly liquid investments with an initial maturity of less than ninety days are considered to be cash equivalents.

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 to be held for indefinite periods of time but not intended to be held to maturity or on a long-term basis are classified as available-for-sale and are recorded at their estimated fair value, adjusted for amortization of premiums and accretion of discounts, with unrealized gains and losses reported as a component of other comprehensive income, net of tax.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans and Allowance for Loan Losses

The Company grants commercial, real estate, agricultural, and consumer loans to customers. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances, adjusted for charge offs, the allowance for loan losses and certain deferred loan origination fees or costs. Interest income is accrued on the unpaid principal balance. Fees associated with originating loans, to the extent they exceed the direct loan origination costs, are generally deferred and recognized over the life of the loan as an adjustment of yield.

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the estimated fair value of collateral if repayment is expected solely from the collateral or estimated future cash flows using the loan's existing rate. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case, interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

1. Nature of Operations and Significant Accounting Policies – continued

Loans and Allowance for Loan Losses – continued

The accrual of interest on loans is discontinued at the time the loan is 90 days past due, unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for possible loan losses includes allowance allocations for impaired loans calculated in accordance with ASC Topic 310 "Receivables" and allowance allocations calculated in accordance with ASC Topic 450 "Contingencies". The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic political and regulatory conditions, and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits, however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilized its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of three elements, (i) specific valuation allowances established for probable losses on specific loans; (ii) historical valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends; and (iii) unallocated general valuation allowances determined based on general economic conditions and other qualitative risk factors both internal and external to the Company.

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. As of June 30, 2016 and 2015, all of the Company's material troubled debt restructured loans are included in the non-accrual totals.

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.

1. Nature of Operations and Significant Accounting Policies – continued

Loans and Allowance for Loan Losses – continued

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 farm land, 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 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.

Premises and Equipment

Land is carried at cost. Building and improvements, furniture and equipment are carried at cost, less accumulated depreciation. Accumulated depreciation is computed principally using the straight-line method over the estimated useful lives of the related property

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in loss on sales and write-downs of other real estate owned.

1. Nature of Operations and Significant Accounting Policies – continued

Income Taxes

FBBI files a consolidated income tax return with its subsidiaries. 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.

Advertising

Advertising expenses consist of the Company's advertising in its local market area. Advertising is expensed as incurred and is included on the accompanying consolidated statement of income.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period, except those resulting from transactions with stockholders. In addition to net income, comprehensive income includes the net effect of changes in the fair value of securities available-for-sale and changes in the unrecognized pension obligations.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commercial letters for credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Fair Value of Financial Instruments

ASC Topic 820, "Fair Value Measurements and Disclosures" defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are 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. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Investments in Unconsolidated Subsidiaries

Investments in unconsolidated subsidiaries are recorded at cost.

Pension Plan

As required by ASC Topic 105 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", the Company recognizes all transactions and events affecting the overfunded or underfunded status of its defined benefit postretirement plan in comprehensive income in the year in which those transaction or events occur.

1. Nature of Operations and Significant Accounting Policies – continued

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount of range of loss can be reasonable estimated.

Reclassification

Certain amounts in prior period 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. Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Topic 825-10): "Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Some of the amendments in ASU 2016-01 include the following: 1) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. The amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting". ASU 2016-09 will amend current guidance such that all excess tax benefits and tax deficiencies related to share-based payment awards will be recognized as income tax expense or benefit in the income statement during the period in which they occur. Additionally, excess tax benefits will be classified along with other income tax cash flows as an operating activity rather than a financing activity. ASU 2016-09 also provides that any entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, which is the current requirement, or account for forfeitures when they occur. The Company elected to early adopt the amendment for the year ended June 30, 2016. Accordingly, the excess tax benefit related to stock options exercised during the year was recognized in the income statement as of June 30, 2016. Prior to the adoption of the amendment, the authoritative literature required the Company to determine for each award whether the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes results in either an excess tax benefit or a tax deficiency. Excess tax benefits were to be recognized in additional paid-in capital and tax deficiencies were to be recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement.

3. Investment Securities Available-for-Sale

Investment securities have been classified in the consolidated balance sheet according to management's intent. The carrying amount of securities and their estimated fair value at June 30, 2016 are as follows (in thousands of dollars):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government Agency obligations	$ 9,000	$ 1	$ -	$ 9,001
State and municipal securities	836	-	-	836
	$ 9,836	$ 1	$ -	$ 9,837

The carrying amount of securities and their estimated fair value at June 30, 2015 are as follows (in thousands of dollars):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government Agency obligations	$ 22,000	$ 6	$ 50	$ 21,956
State and municipal securities	919	-	-	919
	$ 22,919	$ 6	$ 50	$ 22,875

Securities with recorded values of approximately $1,250,000 and $16,703,000 at June 30, 2016 and 2015, respectively, were pledged to secure public fund deposits.

During the fiscal year ended June 30, 2016, there were no sales of investment securities. Sales of investment securities available-for-sale were as follows (in thousands of dollars):

	June 30, 2015
Proceeds from sales	$ 7,258
Gross realized gains	101
Gross realized losses	4

3. Investment Securities Available-for-Sale – continued

The amortized cost and estimated fair value of debt securities (in thousands of dollars) at June 30, 2016, by contractual maturity are shown below.

	Amortized cost	Fair value
Due in one year or less	$ -	$ -
Due after one year to five years	9,000	9,001
Due after five years to ten years	836	836
Due after ten years	-	-
	$ 9,836	$ 9,837

As of June 30, 2016, there were no securities held in an unrealized loss position. Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2015, are summarized as follows (in thousands of dollars):

	Less than 12 months		12 months or more		Totals	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
At June 30, 2015:						
U.S. Government Agency obligations	$ 13,965	$ 35	$ 1,985	$ 15	$ 15,950	$ 50

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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.

The Company does not believe these unrealized losses are "other than temporary" as (i) the Company does not have the intent to sell the securities prior to recovery and/or maturity and, (ii) it is more likely than not that the Company will not have to sell these securities prior to recovery and/or maturity. The unrealized losses noted are interest rate-related due to the level of interest rates at June 30, 2016. The Company has reviewed the ratings of the issuers and has not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

4. Loans and Allowance for Loan Losses

Loans at June 30, 2016 and 2015 consisted of the following (in thousands of dollars):

	2016	2015
Commercial	$ 128,080	$ 137,500
Real estate:		
Residential	81,471	82,659
Commercial	155,106	155,287
Construction, land development and other land	82,571	84,435
Farmland	32,289	34,601
Agriculture	39,597	30,803
Consumer and other	22,475	23,056
	541,589	548,341
Unearned loan fees	(1,147)	(1,602)
Allowance for loan losses	(5,546)	(5,082)
	$ 534,896	$ 541,657

At June 30, 2016 and 2015, the Company had total commercial real estate loans of approximately $242,590,000 and $244,530,000, respectively. Included in these amounts, the Company had construction, land development, and other land loans of approximately $81,951,000 and $73,943,000 and non-owner occupied commercial real estate loans of approximately $78,068,000 and $86,152,000 at June 30, 2016 and 2015, respectively. Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program ("CRE"). Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on CRE concentrations describe sound risk management practices, which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk-based capital, or total non-owner occupied commercial real estate loans representing 300% or more of the institutions total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration.

The Company extends commercial and consumer credit primarily to customers in the state of Texas. At June 30, 2016 and 2015 , the majority of the Company's loans were collateralized with real estate. The real estate collateral provides an alternate source of repayment in the event of default by the borrower, and may deteriorate in value during the time the credit is extended. The volatility of real estate markets may have an adverse effect on the Company's profitability and asset quality. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, earnings and capital could be adversely affected. Additionally, the Company has loans secured by inventory, accounts receivable, equipment, marketable securities, or other assets. The debtors' ability to honor their contracts on all loans is substantially dependent upon the general economic conditions of the region.

4. Loans and Allowance for Loan Losses – continued

Nonaccrual and Past Due Loans

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.

At June 30, 2016 and 2015, nonaccrual loans and accruing loans past due more than 90 days, segregated by class of loans, were as follows (in thousands of dollars):

	2016		2015	
	Nonaccrual	**Accruing loans past due more than 90 days**	Nonaccrual	Accruing loans past due more than 90 days
Commercial	**$ 2,683**	**$ 49**	$ 1,594	$ 2,034
Real estate:				
Residential	**883**	**194**	240	19
Commercial	**1,016**	-	1,023	618
Construction, land development and other land	-	-	3,654	-
Farmland	**80**	-	1,872	-
Agriculture	-	-	21	131
Consumer and other	**493**	**17**	30	10
	$ 5,155	**$ 260**	$ 8,434	$ 2,812

The amount of interest earned on loans past due greater than 90 days, were considered by the Company to not be material to the consolidated financial statements. The interest that would have been earned on non-accrual loans had they performed in accordance with their original contract terms for the year ended June 30, 2016, was approximately $491,000.

4. Loans and Allowance for Loan Losses – continued

Nonaccrual and Past Due Loans – continued

An age analysis of past due loans, segregated by class of loans, as of June 30, 2016, were as follows (in thousands of dollars):

	30-89 days	Over 90 days	Total past due	Total Current	Total Loans
Commercial	$ 824	$ 49	$ 873	$ 127,207	$ 128,080
Real estate:					
1-4 family residential	296	194	490	80,981	81,471
Commercial	358	-	358	154,748	155,106
Construction, land development and other land	2,242	-	2,242	80,329	82,571
Farmland	89	-	89	32,200	32,289
Agriculture	-	-	-	39,597	39,597
Consumer and other	123	17	140	22,335	22,475
	$ 3,932	$ 260	$ 4,192	$ 537,397	$ 541,589

An age analysis of past due loans, segregated by class of loans, as of June 30, 2015, were as follows (in thousands of dollars):

	30-89 days	Over 90 days	Total past due	Total Current	Total Loans
Commercial	$ 513	$ 3,628	$ 4,141	$ 133,359	$ 137,500
Real estate:					
1-4 family residential	740	259	999	81,660	82,659
Commercial	1,613	1,641	3,254	152,033	155,287
Construction, land development and other land	1,571	3,654	5,225	79,210	84,435
Farmland	-	1,872	1,872	32,729	34,601
Agriculture	57	152	209	30,594	30,803
Consumer and other	125	40	165	22,891	23,056
	$ 4,619	$ 11,246	$ 15,865	$ 532,476	$ 548,341

4. Loans and Allowance for Loan Losses – continued

Impaired Loans

The following table presents impaired loans by class of loans as of June 30, 2016 (in thousands of dollars):

	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
Commercial	$ 7,618	$ 5,926	$ 1,665	$ 7,591	$ 554	$ 7,140
Real estate:						
Residential	1,364	1,329	35	1,364	13	859
Commercial	5,949	5,264	664	5,928	68	4,147
Construction, land development and other land	-	-	-	-	-	1,832
Farmland	1,950	1,950	-	1,950	-	2,048
Agriculture	1,046	1,009	-	1,009	44	779
Consumer and other	225	178	1	179	1	146
	$ 18,152	$ 15,656	$ 2,365	$ 18,021	$ 680	$ 16,950

The following table presents impaired loans by class of loans as of June 30, 2015 (in thousands of dollars):

	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
Commercial	$ 7,019	$ 6,118	$ 566	$ 6,684	$ 228	$ 4,672
Real estate:						
Residential	471	133	220	353	53	456
Commercial	2,386	2,261	105	2,366	50	2,850
Construction, land development and other land	3,663	1,641	2,022	3,663	476	1,832
Farmland	2,073	202	1,872	2,074	235	2,110
Agriculture	743	549	-	549	-	535
Consumer and other	115	93	19	112	9	144
	$ 16,470	$ 10,997	$ 4,804	$ 15,801	$ 1,051	$ 12,599

No additional funds are committed to be advanced in connection with impaired loans.

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. During the years ended June 30, 2016 and 2015, the amount of interest income recognized on impaired loans was approximately $650,000 and $435,000, respectively.

4. Loans and Allowance for Loan Losses – continued

Troubled Debt Restructuring

During the years ended June 30, 2016 and 2015, the terms of certain loans were modified as troubled debt restructurings. The following table presents modifications of loans that occurred during the year ended June 30, 2016, which the Company considers to be troubled debt restructured loans, in thousands of dollars:

		Loan modifications		
	Number of loans	Adjusted interest rate	Payment deferral	Combined rate and payment deferral
Commercial	1	$ -	$ 446	$ -
Real estate:				
1-4 family residential	-	-	-	-
Nonfarm nonresidential non-owner occupied	-	-	-	-
Nonfarm nonresidential owner occupied	-	-	-	-
Construction, land development and other land	-	-	-	-
Farmland	-	-	-	-
Multi-family residential	-	-	-	-
Agriculture	-	-	-	-
Consumer	-	-	-	-
Other	-	-	-	-
	1	$ -	$ 446	$ -

In 2016, there were no material defaults on loans that had been modified as a troubled debt restructuring during the previous 12 months.

4. Loans and Allowance for Loan Losses – continued

Troubled Debt Restructuring – continued

The following table presents modifications of loans that occurred during the year ended June 30, 2015, which the Company considers to be troubled debt restructured loans, in thousands of dollars:

		Loan modifications		
	Number of loans	Adjusted interest rate	Payment deferral	Combined rate and payment deferral
Commercial	1	$ -	$ 138	$ -
Real estate:				
1-4 family residential	-	-	-	-
Nonfarm nonresidential non-owner occupied	-	-	-	-
Nonfarm nonresidential owner occupied	-	-	-	-
Construction, land development and other land	-	-	-	-
Farmland	-	-	-	-
Multi-family residential	-	-	-	-
Agriculture	-	-	-	-
Consumer	1	-	1	-
Other	-	-	-	-
	2	$ -	$ 139	$ -

Credit Quality Indicators

The majority of the loan portfolio is comprised of loans to businesses and individuals located within 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 June 30, 2016 and 2015.

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

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 which have all the characteristics of an acceptable credit risk but warrant more than the normal level of supervision.

4. Loans and Allowance for Loan Losses – continued

Credit Quality Indicators – continued

(ii) Loans classified as special mention 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 as 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, nonaccrual status is required on doubtful loans.

4. Loans and Allowance for Loan Losses – continued

Credit Quality Indicators – continued

At June 30, 2016, the following summarizes the Company's internal ratings of its loans (in thousands of dollars):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 112,066	$ 10,071	$ 5,943	$ -	$ 128,080
Real estate:					
Residential	78,864	1,278	1,329	-	81,471
Commercial	146,432	4,739	3,935	-	155,106
Construction, land development and other land	73,828	8,743	-	-	82,571
Farmland	30,280	59	1,950	-	32,289
Agriculture	38,588	-	1,009	-	39,597
Consumer and other	22,223	74	178	-	22,475
	$ 502,281	$ 24,964	$ 14,344	$ -	$ 541,589

At June 30, 2015, the following summarizes the Company's internal ratings of its loans (in thousands of dollars):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 130,073	$ 743	$ 6,684	$ -	$ 137,500
Real estate:					
Residential	81,501	805	353	-	82,659
Commercial	146,131	6,790	2,366	-	155,287
Construction, land development and other land	80,654	118	3,663	-	84,435
Farmland	32,396	131	2,074	-	34,601
Agriculture	30,205	49	549	-	30,803
Consumer and other	22,890	54	112	-	23,056
	$ 523,850	$ 8,690	$ 15,801	$ -	$ 548,341

4. Loans and Allowance for Loan Losses – continued

Allowance for Loan Losses

The following table details the activity in the allowance for loan losses by portfolio segment for the year ended June 30, 2016 (in thousands of dollars):

						Period end amounts allocated to loans evaluated for impairment:	
	Beginning balance	**Provision for loan loss**	**Charge-offs**	**Recoveries**	**Ending balance**	**Individually**	**Collectively**
Commercial	**$ 1,264**	**$ 2,739**	**$ (2,226)**	**$ 184**	**$ 1,961**	**$ 554**	**$ 1,407**
Real estate:					**-**		
Residential	**980**	**755**	**(1,455)**	**527**	**807**	**13**	**794**
Commercial	**1,148**	**(337)**	**(148)**	**171**	**834**	**68**	**766**
Construction, land development and other land	**861**	**(43)**	**-**	**-**	**818**	**-**	**818**
Farmland	**338**	**160**	**(21)**	**12**	**489**	**-**	**489**
Agriculture	**283**	**(35)**	**-**	**1**	**249**	**1**	**248**
Consumer and other	**208**	**705**	**(634)**	**109**	**388**	**44**	**344**
	$ 5,082	**$ 3,944**	**$ (4,484)**	**$ 1,004**	**$ 5,546**	**$ 680**	**$ 4,866**

The following table details the activity in the allowance for loan losses by portfolio segment for the year ended June 30, 2015 (in thousands of dollars):

						Period end amounts allocated to loans evaluated for impairment:	
	Beginning balance	Provision for loan loss	Charge-offs	Recoveries	Ending balance	Individually	Collectively
Commercial	$ 952	$ 475	$ (445)	$ 282	$ 1,264	$ 228	$ 1,036
Real estate:							
Residential	859	79	(16)	58	980	53	927
Commercial	1,184	(83)	(181)	228	1,148	50	1,098
Construction, land development and other land	839	10	-	12	861	476	385
Farmland	271	67	-	-	338	235	103
Agriculture	214	69	-	-	283	-	283
Consumer and other	278	63	(292)	159	208	9	199
	$ 4,597	$ 680	$ (934)	$ 739	$ 5,082	$ 1,051	$ 4,031

4. Loans and 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 was as follows (in thousands of dollars):

	June 30, 2016		
	Loans evaluated for impairment:		
	Individually	Collectively	Total
Commercial	$ 7,591	$ 120,489	$ 128,080
Real estate:			
Residential	1,364	80,107	81,471
Commercial	5,928	149,178	155,106
Construction, land development and other land	-	82,571	82,571
Farmland	1,950	30,339	32,289
Agriculture	178	39,419	39,597
Consumer and other	1,009	21,466	22,475
	$ 18,020	$ 523,569	$ 541,589

	June 30, 2015		
	Loans evaluated for impairment:		
	Individually	Collectively	Total
Commercial	$ 6,684	$ 130,816	$ 137,500
Real estate:			
Residential	353	82,306	82,659
Commercial	2,366	152,921	155,287
Construction, land development and other land	3,663	80,772	84,435
Farmland	2,074	32,527	34,601
Agriculture	549	30,254	30,803
Consumer and other	112	22,944	23,056
	$ 15,801	$ 532,540	$ 548,341

5. Premises and Equipment

Premises and equipment at June 30, 2016 and 2015 consisted of the following (in thousands of dollars):

	2016	2015
Land	$ 3,077	$ 2,573
Buildings and improvements	14,639	13,325
Furniture and equipment	6,694	7,667
Automobiles	378	462
Software	916	1,599
	25,704	25,626
Accumulated depreciation	(11,294)	(11,765)
	$ 14,410	$ 13,861

Depreciation expense for the years ended June 30, 2016 and 2015, was approximately $1,113,000 and $1,227,000, respectively. The Company leases a portion of the premises which it occupies to certain tenants under month-to-month and term leases. Rental income totaled approximately $124,000 and $102,000 for the years ended June 30, 2016 and 2015, respectively. Minimum future lease payments to be received on non-cancelable leases at June 30, 2016 were not material to the consolidated financial statements.

6. Deposits

Deposits at June 30, 2016 and 2015 are summarized as follows (in thousands of dollars):

	2016		2015	
	Amount	Percent	Amount	Percent
Noninterest bearing demand accounts	$ 197,808	34.7%	$ 204,723	37.8%
Interest bearing demand accounts	141,138	24.7%	137,580	25.3%
Savings accounts	49,832	8.7%	47,138	8.7%
Time deposits, greater than $250,000	34,951	6.1%	29,278	6.2%
Time deposits, less than $250,000	146,570	25.8%	124,125	22.9%
	$ 570,299	100.0%	$ 542,844	100.9%

6. Deposits – continued

At June 30, 2016, the scheduled maturities of time deposits were as follows (in thousands of dollars):

Year Ending June 30,	Amount
2017	$ 112,477
2018	35,266
2019	28,254
2020	3,767
2021	1,757
Thereafter	-
	$ 181,521

The aggregate amount of demand deposit overdrafts that have been reclassified as loans was approximately $1,621,000 and $1,889,000 at June 30, 2016 and 2015, respectively.

7. Junior Subordinated Debentures

Junior subordinated debentures of $15,464,000 at June 30, 2016 and 2015, represents amounts payable to Special Purpose Entities ("SPE's") in conjunction with the Company's sponsorship of the SPE's. At June 30, 2016 and 2015, the SPE's have two issuances outstanding, including $15,000,000 in trust preferred securities and $464,000 in common stock (wholly-owned by the Company). Both the junior subordinated debentures and the related trust preferred securities yield annual distribution rates of LIBOR plus 1.80% and LIBOR plus 3.60% as of June 30, 2016 and 2015. The debentures are both callable and mature at various dates from December 2031 to May 2037.

The trust preferred securities are tax-advantaged issues that may qualify as Tier 1 Capital for the Company. Distributions on these securities are included as interest expense on other borrowings. The underlying trust is a statutory business trust organized for the sole purposes of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The preferred trust securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust securities issued by the trust. The Company may defer interest payments on the Debentures for up to twenty consecutive quarters.

The Dodd-Frank Act eliminated the use of trust preferred securities issued after May 19, 2010, as a component of Tier 1 Capital for depository institution holding companies such as the Company. However, because the Company had less than $15 billion of consolidated assets as of June 30, 2016 and 2015, the Company will be permitted to include any trust preferred securities issued before May 19, 2010, as an element of Tier 1 Capital, but not be able to include any trust preferred securities issued after May 19, 2010, as a component of Tier 1 capital. Further, the Board of Governors of the Federal Reserve System (the "Board") has determined that trust preferred securities are restrictive core capital elements in computing Tier 1 Capital of bank holding companies. The Board has limited restricted core capital elements, as defined, to 25% of core capital elements. Accordingly, the Company is limited on the trust preferred securities which it can include in its Tier I Capital.

8. Other Borrowings

The Company had unused federal funds lines available from commercial banks of approximately $20,584,000 and $20,243,000 at June 30, 2016 and 2015, respectively.

Federal Home Loan Bank ("FHLB") advances represent borrowings with an interest rate of 0.49% and maturities of 14 to 28 days. FHLB advances are collateralized by FHLB stock, real estate loans and investment securities. The approximate amount of loans and investment securities which collateralize borrowings at June 30, 2016, is $127,260,000.

Financing obligations totaling $5,000,000 mature in the fiscal year ending June 30, 2017, based on scheduled repayments at June 30, 2016.

9. Income Taxes

The provision for income taxes for the years ended June 30, 2016 and 2015 consisted of the following (in thousands of dollars):

	2016	2015
Current income tax (benefit) expense	**$ (2,660)**	$ 1,747
Deferred income tax benefit	**(1,042)**	(394)
Income tax (benefit) expense	**$ (3,702)**	$ 1,353

The Company's effective income tax rate is different than what would be expected if the federal statutory rate was applied to income before tax expense primarily because of an excess tax benefit related to stock options, nontaxable income from loans, securities, and life insurance partially offset by certain nondeductible expenses.

9. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are included in other liabilities in the accompanying consolidated financial statements. Significant components of the Company's deferred tax assets and liabilities as of June 30, 2016 and 2015 are as follows (in thousands of dollars):

	June 30,	
	2016	2015
Deferred tax assets:		
Allowance for loan losses for book in excess of tax	**$ 1,852**	$ 1,632
Unrecognized pension obligation	**4,739**	3,449
Nonaccrual loan interest	**147**	-
Charitable contributions	**90**	-
Purchase discount	**23**	29
Other real estate owned	**36**	163
Net unrealized depreciation on securities available for sale	**-**	15
Other	**113**	-
Total deferred tax assets	**7,000**	5,288
Deferred tax liabilities:		
Bank premises and equipment for book in excess of tax	**834**	1,226
Capitalized software development	**-**	156
FHLB Stock dividends	**50**	107
Total deferred tax liabilities	**884**	1,489
Net deferred tax asset	**$ 6,116**	$ 3,799

The Company's approximate net deferred tax assets of $6,116,000 and $3,799,000 at June 30, 2016 and 2015, respectively, are recorded in other assets in the accompanying consolidated balance sheet. Included in other assets in the accompanying consolidated balance sheet are approximately $3,454,000 and $932,000 of current income tax receivable at June 30, 2016 and 2015, respectively.

9. Income Taxes – continued

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 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. Management has evaluated the tax positions and has concluded that there are no uncertain tax positions that require disclosure. The Company files income tax returns in the U.S. federal jurisdiction.

10. Employee Benefits

Pension Plan

The Company has a qualified defined benefit pension plan (the "Pension Plan") covering substantially all of its employees. Benefits are based on years of service and the employee's highest average compensation during any consecutive five years of employment. The contributions to the Pension Plan are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

10. Employee Benefits – continued

Pension Plan – continued

The following table presents a reconciliation of beginning and ending balances of the Pension Plan's benefit obligation and the fair value of plan assets as of June 30, 2016 (the most recent actuarial valuation date) and June 30, 2015 (in thousands of dollars):

	2016	2015
Benefit obligation at beginning of year	**$ 18,580**	$ 11,527
Service cost	**2,262**	990
Interest cost	**1,145**	671
Actuarialloss	**3,571**	5,970
Benefits paid	**(1,062)**	(578)
Minority interest in SBS(a)	**(252)**	-
Benefit obligation at end of year	**24,244**	18,580
Fair value of plan assets at beginning of year	**8,129**	8,517
Actual return on plan assets	**(281)**	(116)
Employer contributions	**3,670**	306
Benefits paid	**(1,062)**	(578)
Minority interest in SBS(a)	**(151)**	-
Fair value of plan assets at end of year	**10,305**	8,129
Funded status at end of year	**$ (13,939)**	$ (10,451)

(a) Prior to January 1, 2016, SBS employees' impact on the pension plan was reported on the consolidation basis (100% of SBS' share of the pension plan cost and obligation). Subsequent to January 1, 2016 and the sale of SBS, the Company was still fully obligated to fund the pension plan for former SBS employees; however, SBS is no longer consolidated. As such, the 2016 balances reflect only the Company's ownership in SBS of 80.14%.

The Company's approximate pension plan liability recorded in the accompanying consolidated balance sheets was $13,939 000 and $10,451,000 at June 30, 2016 and 2015, respectively.

10. Employee Benefits – continued

Pension Plan – continued

At June 30, 2016 and 2015, the actuarial assumptions used to determine the benefit obligations are as follows:

	2016	2015
Discount rate	3.60%	4.00%
Expected return on assets	6.00%	6.00%
Rate of compensation increase	4.00%	4.00%

The net periodic benefit cost for the years ended June 30, 2016 and 2015, the following components (in thousands of dollars):

	2016	2015
Service cost	$ 1,425	$ 990
Interest cost	1,145	671
Expected return on plan assets	(842)	(519)
Recognized actuarial net loss	1,049	301
Net periodic pension cost	$ 2,777	$ 1,443

For the years ended June 30, 2016 and 2015, the assumptions used to determine net periodic pension cost are as follows:

	2016	2015
Asset Category:		
Equity securities	87%	76%
Fixed income securities	12%	22%
Cash	1%	2%

The Company expects to contribute $2,000,000 to its pension plan for its fiscal year ended June 30, 2016.

10. Employee Benefits – continued

Pension Plan – continued

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows at June 30, 2016 (in thousands of dollars):

Year Ending June 30,	Amount
2017	$ 1,491
2018	1,077
2019	630
2020	950
2021	1,422
Thereafter	18,786
	$ 24,356

Other Employee Benefit Plans

The Company maintains a noncontributory profit sharing plan and a noncontributory 401(k) Employee Benefit Plan (the "401(k) Plan") covering substantially all employees. Under the 401(k) Plan, the Board of Directors may contribute, at their discretion, certain amounts equal to uniform percentages (as defined) of eligible employee's compensation. The Company made no matching contributions to the 401(k) Plan during the years ended June 30, 2016 and 2015.

The Company is the beneficiary of whole life insurance policies covering certain key employees. The recorded value of the related policies are approximately $8,110,000 and $7,897,000 at June 30, 2016 and 2015, respectively, and are recorded in cash surrender value of life insurance in the accompanying consolidated financial statements.

11. Stock Options

In 1994, upon shareholder approval, the Company approved and granted a stock option to purchase 3,000 shares at a strike price of $295 with an exercise period of 10 years and a vesting period of 5 years to the chairman of the Company. In 2004, prior to expiration of the option, the Company extended the option to June 30, 2014. In 2014, the option was modified after a 100:1 stock split, to increase the amount of shares to 300,000, modify the exercise price to $2.95, and extend the maturity to 2016. As a result of the 2014 modifications, incremental costs of approximately $409,000 were recorded. During the year ended June 30, 2016, the option was exercised and 300,000 shares were issued in exchange for $885,000.

The fair value of the option award was estimated on the modification date using the Black-Scholes option-pricing model with the following assumptions used for the 2014 modification: risk-free interest rate ranging from 0.34%, dividend yield of 0.00%; estimated volatility of 10.00%, and expected lives of options of 1.75 years.

As of June 30, 2016, there were no stock options outstanding or unrecognized stock option expense.

12. Commitments and Contingencies

The Company, from time to time, may be involved in other legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the consolidated financial position or results of operations of the Company.

The Company does not anticipate any material losses as a result of the commitments and contingent liabilities.

13. Financial Instruments 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 risk in excess of the amount recognized in the consolidated balance sheet.

The Company's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At June 30, 2016 and 2015, the amounts of these financial instruments were as follows (in thousands of dollars):

Financial instruments whose contract amounts	**2016**	2015
represent credit risk:		
Commitments to extend credit	**$ 76,527**	$ 76,823
Standby letters of credit	**2,811**	3,131
	$ 79,338	$ 79,954

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 by the Company upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Company 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 Company's policy for obtaining collateral and the nature of such collateral is essentially the same as that involved in making commitments to extend credit.

The risks created by these commitments have been considered by management in the determination of the adequacy of the allowance credit losses off balance sheet. At June 30, 2016 and 2015, the amount of allowance related to unfunded commitments was not considered to be material to the financial statements by management.

14. Significant Group Concentrations of Credit Risk

In addition to concentration risk, in regards to general business activity and loan concentrations aforementioned in Note 1 and Note 4, at June 30, 2016 and 2015, the Company has a concentration of funds in deposit accounts in excess of federally insured limits at various correspondent banks. The nature of the Company's business requires that it maintains amounts at due from banks which, at times may exceed federally insured limits. The Company has not experienced any losses from such accounts.

15. Related Party Transactions

In the ordinary course of business, the Company has and expects to continue to have transactions, including borrowings, with its officers, directors, and their affiliates. In the opinion of management, such transactions are on the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons. At June 30, 2016 and 2015, the aggregate amount of such loans was approximately $5,745,000 and $257,000, respectively. During the year ended June 30, 2015, approximately $5,718,000 of new loans were made and repayments totaled approximately $230,000.

16. Fair Value Disclosures

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.

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.

16. Fair Value Disclosures – continued

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.

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. 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.

Financial Assets and Financial Liabilities

Financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis include the following:

Investment Securities Available-for-sale. Investment securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

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.

There were no transfers between Level 2 and Level 3 during the years ended June 30, 2016 and 2015.

16. Fair Value Disclosures – continued

Financial Assets and Financial Liabilities – continued

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands of dollars):

	Fair value measurements using			
	Level 1 Inputs	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
At June 30, 2016:				
Investment securities available-for-sale	**$ -**	**$ 9,837**	**$ -**	**$ 9,837**
Impaired loans	**-**	**-**	**17,339**	**17,339**

	Fair value measurements using			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
At June 30, 2015:				
Investment securities available-for-sale	$ -	$ 22,875	$ -	$ 22,875
Impaired loans	-	-	14,750	14,750

Non-Financial Assets and Non-Financial Liabilities

Non-financial assets measured at fair value on a non-recurring basis during the years ended June 30, 2016 and 2015 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.

16. Fair Value Disclosures – continued

Non-Financial Assets and Non-Financial Liabilities – continued

The following table presents foreclosed assets that were remeasured and recorded at fair value during the years ended June 30, 2016 and 2015 (in thousands of dollars).

	2016	2015
Other real estate remeasured at initial acquisition:		
Carrying value prior to measurement	$ 6,097	$ -
Charge-offs recognized in the allowance for loan losses	(2,621)	-
	$ 3,476	$ -
Other real estate remeasured subsequent to initial acquisition:		
Carrying value prior to measurement	$ 177	$ 425
Write-downs included in other non-interest expense	(18)	(62)
	$ 159	$ 363

The Company is required, under current authoritative guidance, to disclose the estimated fair value of their 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.

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities. Financial instrument 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 commitments to extend credit and standby letters of credit, which are generally priced at market at the time of funding, were not material to the Company's consolidated financial statements.

16. Fair Value Disclosures – continued

Non-Financial Assets and Non-Financial Liabilities – continued

The summary of the carrying amounts and estimated fair values of financial instruments at June 30, 2016 and 2015, are presented in the table below (in thousands of dollars):

	2016		2015	
	Book value	**Fair value**	Book value	Fair value
Financial assets:				
Level 2 inputs:				
Cash and cash equivalents	**$ 57,263**	**$ 57,263**	$ 34,586	$ 34,586
Interest bearing time deposits in other banks	**11,431**	**11,431**	983	983
Securities available-for-sale	**9,837**	**9,837**	22,875	22,875
Loans, net	**534,896**	**534,896**	541,657	541,657
Cash surrender value of life insurance	**8,110**	**8,110**	7,897	7,897
Investments in uncosolidated subsidiaries	**608**	**608**	464	464
Accrued interest receivable	**2,684**	**2,684**	2,593	2,593
Financial liabilities:				
Level 2 inputs:				
Deposits	**$ 570,299**	**$ 570,299**	$ 542,844	$ 542,844
Junior subordinated debentures	**15,464**	**15,464**	15,464	15,464
FHLB Advances	**5,000**	**5,000**	22,931	22,931
Accrued interest payable	**179**	**179**	209	209
Pension contribution payable	**13,939**	**13,939**	10,451	10,451

17. Stockholders' Equity and Regulatory Matters

Regulatory Matters

Under banking law, there are legal restrictions limiting the amount of dividends a bank can declare. For national banks, as with First National Bank of Weatherford, approval of the Office of the Comptroller of the Currency ("OCC") is normally required if dividends exceed the amounts as computed under a certain formula as determined by regulatory authorities.

Further, the regulatory authorities may prohibit the payment of any dividends if it determines that certain circumstances exist in the Banks, including those relating to the financial condition of the Banks, such that the payment of dividends would be considered an unsafe and unsound practice.

17. Stockholders' Equity and Regulatory Matters – continued

Regulatory Matters – continued

The Banks are subject to various regulatory capital requirements administered by 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 Banks must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators with regards to components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of June 30, 2016 and 2015, that the Banks meet all capital adequacy requirements to which they are subject.

To be categorized as "well capitalized" the Banks must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. As of June 30, 2016 and 2015, the Banks' capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since June 30, 2016, that management believes have changed the Banks' category.

17. Stockholders' Equity and Regulatory Matters – continued

Regulatory Matters – continued

A comparison of the Banks' actual capital amounts and ratios as of June 30, 2016 and 2015, are presented in the following table (in thousands of dollars):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
First Bank Texas						
As of June 30, 2016:						
Total capital (to risk weighted assets)	**$ 41,423**	**11.8%**	**≥ $ 27,996**	**≥ 8.0%**	**$ 34,995**	**≥ 10.0%**
Tier 1 capital (to risk weighted assets)	**$ 37,728**	**10.8%**	**≥ $ 13,998**	**≥ 4.0%**	**$ 20,997**	**≥ 6.0%**
Tier 1 capital (to average assets)	**$ 37,728**	**9.1%**	**≥ $ 16,598**	**≥ 4.0%**	**$ 20,747**	**≥ 5.0%**
Common equity tier 1 capital (to risk weighted assets)	**$ 37,728**	**10.8%**	**≥ $ 14,523**	**≥ 3.5%**	**$ 18,673**	**≥ 4.5%**
As of June 30, 2015:						
Total capital (to risk weighted assets)	$ 44,635	12.1%	≥ $ 29,597	≥ 8.0%	$ 36,996	≥ 10.0%
Tier 1 capital (to risk weighted assets)	$ 41,313	11.2%	≥ $ 14,798	≥ 4.0%	$ 22,198	≥ 6.0%
Tier 1 capital (to average assets)	$ 41,313	10.1%	≥ $ 16,421	≥ 4.0%	$ 20,527	≥ 5.0%
Common equity tier 1 capital (to risk weighted assets)	$ 41,313	11.2%	≥ $ 14,368	≥ 3.5%	$ 18,474	≥ 4.5%

17. Stockholders' Equity and Regulatory Matters – continued

Regulatory Matters – continued

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
First National Bank of Weatherford:						
As of June 30, 2016:						
Total capital (to risk weighted assets)	**$ 22,592**	**11.7%**	**≥ $ 15,438**	**≥ 8.0%**	**$ 19,298**	**≥ 10.0%**
Tier 1 capital (to risk weighted assets)	**$ 20,741**	**10.8%**	**≥ $ 7,719**	**≥ 4.0%**	**$ 11,579**	**≥ 6.0%**
Tier 1 capital (to average assets)	**$ 20,741**	**9.4%**	**≥ $ 8,753**	**≥ 4.0%**	**$ 10,941**	**≥ 5.0%**
Common equity tier 1 capital (to risk weighted assets)	**$ 20,741**	**10.8%**	**≥ $ 7,659**	**≥ 3.5%**	**$ 9,847**	**≥ 4.5%**
As of June 30, 2015:						
Total capital (to risk weighted assets)	$ 22,564	12.4%	≥ $ 14,605	≥ 8.0%	$ 18,256	≥ 10.0%
Tier 1 capital (to risk weighted assets)	$ 20,804	11.4%	≥ $ 7,303	≥ 4.0%	$ 10,954	≥ 6.0%
Tier 1 capital (to average assets)	$ 20,804	10.0%	≥ $ 8,298	≥ 4.0%	$ 10,373	≥ 5.0%
Common equity tier 1 capital (to risk weighted assets)	$ 20,804	11.4%	≥ $ 7,261	≥ 3.5%	$ 9,336	≥ 4.5%

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 us on January 1, 2015, with certain transition provisions fully phased in on January 1, 2019. Based on our initial assessment of the Basel III Capital Rules, we do not believe they will have a material impact on the Company or the Bank. We believe we will meet the capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis.

18. Cease and Desist Order

On June 22, 2006, FBBI entered into a Cease and Desist Order (Order) with the Board of Directors of the Federal Reserve System ("FED") after the FED alleged a violation of Section 3(a)(3) of the Bank Holding Company Act, U.S.C. Section 1842(a)(3) involving FBBIs acquisition of more than five percent of a bank without the prior approval of the Board of Governors. The primary provisions in the Order are that FBBI will not commit any similar violations and they will submit to the FED acceptable written policies and procedures governing FBBI's direct or indirect acquisitions of ownership or control of voting shares of any corporation, partnership, sole proprietorship, business trust, association, or similar organization.

19. Disposition of Sharp Bancsystems, Inc.

On January 8, 2016, the Company and the minority shareholder of Sharp Bancsystems, Inc., entered into a stock purchase agreement with Nymbus, Inc (Nymbus) with an effective date of January 1, 2016. In exchange for the 80.16% of the outstanding shares of Sharp previously owned by the Company, the Company obtained 0.8016% of Nymbus outstanding equity or 112,351 shares. The Company recorded the investment in Nymbus using the book value of the Company's investment in SBS at the time of the effective date of the agreement, which they believe reflects the fair market value of Nymbus. In addition, the Company is entitled to 24.05% of future gross revenues and 24.05% of future gross margins collected by Nymbus that is generated from existing customers of Sharp as of the transaction date, which is to be paid to the Company on a quarterly basis. The Company is entitled to these payments for so long as existing clients remain clients of Nymbus. The Company estimates these amounts to be approximately $155,000 combined each year. Additionally, in the event Sharp has a total loss for the fiscal year ending on December 31, 2016, the Company will be required to pay 80.16% of any amount in excess of $150,000. Based upon year to date results as of June 30, 2016, the Company has not recorded a related liability.

20. Subsequent Events

The Company has evaluated all subsequent events for potential recognition and disclosure through September 26, 2016, the date of which the consolidated financial statements were available to be issued.

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REPORT OF INDEPENDENT AUDITOR'S ON SUPPLEMENTARY INFORMATION

To the Board of Directors
First Baird Bancshares, Inc. and Subsidiaries

We have audited the consolidated financial statements of First Baird Bancshares, Inc. and Subsidiaries as of and for the year ended June 30, 2016, and our report thereon dated September 26, 2016, which expressed an unmodified opinion on those financial statements, is included separately herein. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 42-44 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Whitley Penn LLP

Dallas, Texas
September 26, 2016

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Balance Sheet
June 30, 2016
(In thousands of dollars)

	First Baird Bancshares, Inc.	First Bank Texas	The First National Bank of Weatherford	Sharp Banc-Systems, Inc.	Eliminations Debit	Eliminations Credit		Consolidated
ASSETS								
Cash and cash equivalents:								
Cash and due from banks	$ 1,250	$ 32,673	$ 13,273	$ -	$ -	$ 1,250	(2)	$ 45,946
Federal funds sold	-	11,317	-	-	-	-		11,317
Total cash and cash equivalents	1,250	43,990	13,273	-	-	1,250		57,263
Interest bearing time deposits in other banks	-	7,448	3,983	-	-	-		11,431
Investment securities available-for-sale	-	4,836	5,001	-	-	-		9,837
Loans, net	5,500	347,484	181,912	-	-	-		534,896
Accrued interest receivable	8	1,940	736	-	-	-		2,684
Bank premises and equipment	154	11,448	2,808	-	-	-		14,410
Other real estate owned	-	491	637	-	-	-		1,128
Cash surrender value of life insurance	-	4,325	3,785	-	-	-		8,110
Investments in unconsolidated subsidiaries	473	100	35	-	-	-		608
Investments in consolidated subsidiaries	52,209	-	-	-	-	52,209	(1)	-
Other assets	6,660	4,050	3,486	-	-	-		14,196
Total assets	$ 66,254	$ 426,112	$ 215,656	$ -	$ -	$ 53,459		654,563
LIABILITIES AND STOCKHOLDERS' EQUITY								
Deposits:								
Noninterest bearing	$ -	$ 134,043	$ 65,015	$ -	$ 1,250	$ -	(2)	$ 197,808
Interest bearing	-	243,971	128,520	-	-	-		372,491
Total deposits	-	378,014	193,535	-	1,250	-		570,299
Junior subordinated debentures	15,464	-	-	-	-	-		15,464
FHLB advances	-	5,000	-	-	-	-		5,000
Notes payable	-	-	-	-	-	-		-
Pension contribution payable	1,810	8,690	3,439	-	-	-		13,939
Other liabilities	172	672	209	-	-	-		1,053
Total liabilities	17,446	392,376	197,183	-	1,250	-		605,755
Stockholders' equity:								
Common stock	8	500	500	-	1,000	-	(1)	8
Additional paid-in capital	4,941	5,545	2,000	-	7,545	-	(1)	4,941
Retained earnings	53,058	33,427	18,242	-	51,669	-	(1)	53,058
Accumulated other comprehensive loss	(9,199)	(5,736)	(2,269)	-	-	8,005	(1)	(9,199)
Noncontrolling interests	-	-	-	-	-	-	(1)	-
Total stockholders' equity	48,808	33,736	18,473	-	60,214	8,005		48,808
Total liabilities and stockholders' equity	$ 66,254	$ 426,112	$ 215,656	$ -	$ 61,464	$ 8,005		$ 654,563

See description of consolidating entries on page **44** and accompanying independent auditors' report on supplementary information.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Income Statement
June 30, 2016
(In thousands of dollars)

	First Baird Bancshares, Inc	First Bank Texas	The First National Bank of Weatherford	Sharp Banc-Systems, Inc	Eliminations Debit	Eliminations Credit	Consolidated
Interest income:							
Interest and fees on loans	$ 28	$ 20,290	$ 10,113	$ -	$ -	$ -	$ 30,431
Investment securities available-for-sale	-	194	65	-	-	-	259
Other	1	31	45	-	-	-	77
Total interest income	29	20,515	10,223	-	-	-	30,767
Deposit accounts	-	1,232	527	-	-	-	1,759
Debentures	450	-	5	-	-	-	455
FHLB advances	-	21	-	-	-	-	21
Other	-	27	2	-	-	-	29
Total interest expense	450	1,280	534	-	-	-	2,264
Net interest (loss) income	(421)	19,235	9,689	-	-	-	28,503
Provision for loan losses	-	3,819	125	-	-	-	3,944
Net interest (loss) income after provision for loan losses	(421)	15,416	9,564	-	-	-	24,559
Noninterest income:							
Service charges on deposit accounts	-	1,992	603	-	-	-	2,595
Data processing fees and software sales	-	-	-	1,316	-	-	1,316
Dividend income from subsidiaries	6,500	-	-	-	6,500	- (3)	-
Distributions in excess of earnings of subsidiaries)	(1,922)	(238)	(85)	-	(2,245)	- (4)	-
TxDOT Settlement	-	1,201	-	-	-	-	1,201
Other	(134)	984	541	3	-	-	1,394
Total noninterest income	4,444	3,939	1,059	1,319	4,255	-	6,506
Noninterest expense:							
Salary and employee benefits	2,334	9,420	4,224	767	-	-	16,745
Occupancy of bank premises	207	1,651	843	201	-	-	2,902
Equipment expense	6	465	241	567	-	-	1,279
Legal and professional fees	-	640	114	27	-	-	781
Advertising expense	-	589	358	2	-	-	949
Regulatory fees	100	354	200	-	-	-	654
Other	251	3,157	1,186	431	-	-	5,025
Total noninterest expense	2,898	16,276	7,166	1,995	-	-	28,335
Income before income taxes	1,125	3,079	3,457	(676)	4,255	-	2,730
Income tax (benefit) expense	(5,392)	1,119	819	(248)	-	-	(3,702)
Consolidated net income	6,517	1,960	2,638	(428)	4,255	-	6,432
Less: net loss attributable to non-controlling interests	-	-	-	-	-	(85) (5)	(85)
Net income attributable to controlling interests	$ 6,517	$ 1,960	$ 2,638	$ (428)	$ 4,255	$ 85	$ 6,517

See description of consolidating entries on page 44 and accompanying independent auditors' report on supplementary information.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES

Description of Consolidating Entries

For the Year Ended June 30, 2016

1. To eliminate the Company's investment account against the stockholders' equity accounts of the subsidiaries.
2. To eliminate inter-company cash and deposits.
3. To eliminate the dividend income from subsidiaries.
4. To eliminate the equity in the earnings from subsidiaries.
5. To record net income attributable to non-controlling interests.