Board of Governors of the Federal Reserve System

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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)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). 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, top-tier savings and loan holding companies, and U.S. intermediate 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. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Kim D. Wheless
Name of the Holding Company Director and Official

Director, President & CEO
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

2/16/17
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- [x] 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 1106468
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2016
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Central Bancshares, Inc.
Legal Title of Holding Company

P.O. Box 801263
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Houston	TX	77820

11201 Clay Road Houston, TX 77041
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Patrick C. Reed	EVP, CFO & Secretary

832-485-2306
Area Code / Phone Number / Extension

832-485-2406
Area Code / FAX Number

preed@cbhou.com
E-mail Address

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

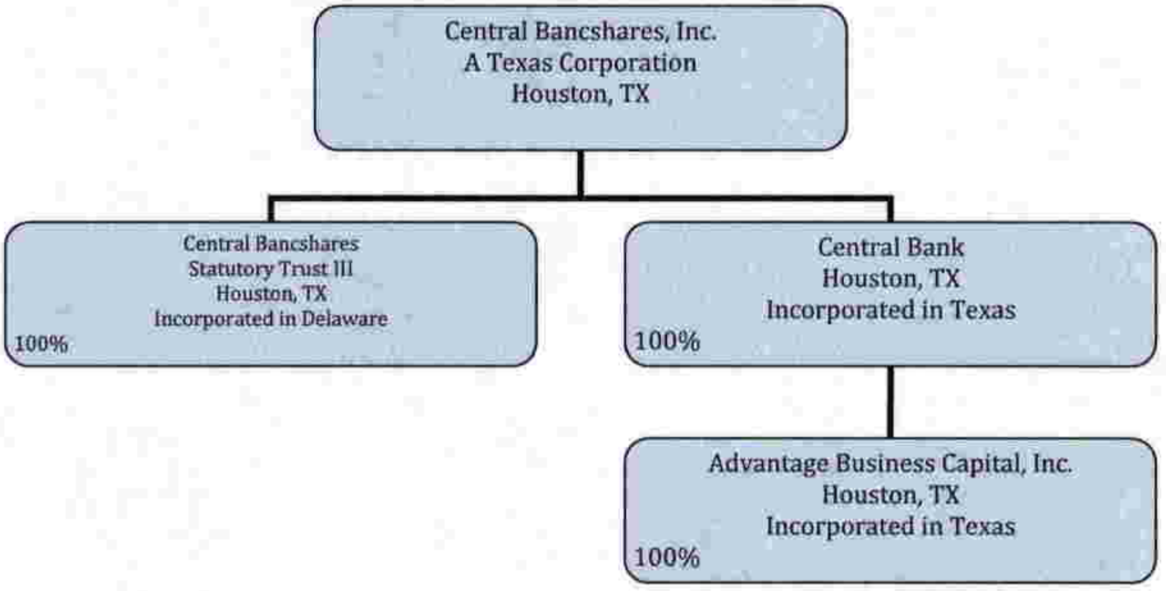
Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),
1. **a letter justifying this request is being provided along with the report** .... [ ]
2. **a letter justifying this request has been provided separately** .... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Report Item 2: Organizational Chart

ORGANIZATIONAL CHART – 12/31/2016



No LEI is Available

Results: A list of branches for your depository institution: CENTRAL BANK (ID_RSSD: 31255).
This depository institution is held by CENTRAL BANCSHARES, INC. (1106468) of HOUSTON, TX.
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

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)	31255	CENTRAL BANK	11201 CLAY ROAD	HOUSTON	TX	77041-5578	HARRIS	UNITED STATES	11583	0	CENTRAL BANK	31255	
OK		Full Service	2579760	HEIGHTS BRANCH	1550 WEST 18TH STREET	HOUSTON	TX	77008	HARRIS	UNITED STATES	242321	5	CENTRAL BANK	31255	
OK		Full Service	1391460	MIDTOWN BRANCH	2217 MILAM STREET	HOUSTON	TX	77002	HARRIS	UNITED STATES	242319	2	CENTRAL BANK	31255	
OK		Full Service	3852796	POST OAK PLACE BRANCH	4605 POST OAK PLACE	HOUSTON	TX	77027	HARRIS	UNITED STATES	491192	8	CENTRAL BANK	31255	

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December 31, 2016

Report Item 3: Securities Holders (Central Bancshares, Inc.)
(1) (a), (b), (c) and (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/16.

(1) (a) Name and Address City and State	(2)(b) Country of citizenship or Incorporation	(1)(c) Number and percent of each Class of Voting Securities
Carolyn J. Young, Separate Property Houston, TX	USA	1221 – 29.02% Common Stock
Carolyn J. Young 2012 Trust Trustee: Edward E. Hartline Houston, TX	USA	1222 – 29.04% Common Stock
John H. Young Houston, TX	USA	322 – 7.65% Common Stock
Mark van Overbeek Nancy van Overbeek Plantation, FL	USA	220 – 5.23% Common Stock
Mark van Overbeek Plantation, FL	USA	143 – 3.40% Common Stock

Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/2016.

(2) (a) Name and Address City and State	(2)(b) Country of citizenship or Incorporation	(2)(c) Number and percent of each Class of Voting Securities
None		

Report 4: Insiders
Central Bancshares, Inc.

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1) Name & Address (City, State & Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with Business	(4)(a) % of Voting Shares in Bank Holding Company	(4)(b) % of Voting Shares in Subsidiaries	(4)(c) List names of other companies (including partnerships) if 25% or more of securities are held
Carolyn J. Young Separate Property Houston, TX USA	N/A	N/A	N/A	N/A	29.02%	N/A	Joy Resources, Inc. - 100%
Carolyn J. Young 2012 Trust Houston, TX USA	N/A	N/A	N/A	N/A	29.04%	N/A	N/A
John H. Young Houston, TX, USA	N/A	Director & Chairman	Director Central Bank	President, John H. Young, Inc.	7.65%	N/A	John H. Young Inc-100% Jefferson Pipeline Co-100% Jefferson Transmission Co 100% 4605 POP, Ltd – 59.318%
Kim D. Wheless Houston, TX, USA	N/A	Director, President & CEO	Director, Chairman of Central Bank and Administrator of Trust III	N/A	1.31%	N/A	N/A
John R. Young Houston, TX, USA	Portfolio Manager	Director	Director Central Bank	Sr. Portfolio Mgr & Principal Orchard Global Asset Mgt	3.68%	N/A	N/A
Patrick C. Reed Houston, TX, USA	N/A	EVP, CFO, Secretary	Advisory Director, EVP, CFO & Secretary-Central Bank and Administrator of Trust III	N/A	None	N/A	N/A
Kathleen Zinn Houston, TX USA	N/A	Director	N/A	N/A	<1%	N/A	N/A
Elizabeth Young Atlanta, GA USA	N/A	Director	Director Central Bank	N/A	<1%	N/A	N/A
Michael Fiuzat Houston, TX USA	N/A	Director	Director Central Bank	President & CEO Foothill Resources, Inc.	1.09%	N/A	N/A
Harry Burrow Houston, TX USA	N/A	Director	Director Central Bank	N/A	0.67%	N/A	N/A

CENTRAL BANCSHARES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Central Bancshares, Inc.

We have audited the accompanying consolidated financial statements of Central Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Central Bancshares, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Harper & Pearson Company, P.C.

Houston, Texas
March 23, 2017

One Riverway · Suite 1900 · Houston, Texas 77056-1973 · 713.622.2310 · 713.622.5613 fax
harperpearson.com

CENTRAL BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
Cash and cash equivalents	$ 26,438,967	$ 12,802,467
Securities available for sale	91,372,107	100,897,154
Other investments	4,308,895	5,100,000
Other bank stock	2,791,800	2,268,600
Loans, net	444,145,195	401,016,064
Factored receivables, net	17,285,142	19,322,054
Premises and equipment, net	8,039,747	8,360,106
Bank owned life insurance	10,454,027	10,150,374
Accrued interest and fees receivable	2,036,352	1,903,851
Goodwill, net	1,789,579	1,789,579
Investment in subsidiary trust	171,205	171,171
Prepaid expenses, net	682,440	720,562
Other assets	25,124	30,700
Total Assets	$ 609,540,580	$ 564,532,682
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Noninterest-bearing demand deposits	$ 136,253,555	$ 119,016,989
Interest-bearing demand and savings deposits	219,286,429	221,515,001
Time deposits	157,389,192	134,101,897
Total Deposits	512,929,176	474,633,887
Federal Home Loan Bank advances	21,000,000	28,800,000
Notes payable	9,060,000	6,060,000
Junior subordinated debentures	5,671,000	5,671,000
Repurchase agreements	9,447,620	2,049,090
Accrued deferred compensation liabilities	4,353,315	3,778,298
Accrued reserves on factored receivables	3,268,736	3,168,043
Accrued interest payable	219,485	161,985
Other liabilities	2,849,900	1,504,248
Total Liabilities	568,799,232	525,826,551
Commitments and Contingencies		
Shareholders' Equity:		
Common stock	4,694	4,694
Capital surplus	3,674,545	3,712,570
Treasury stock, at cost	(3,875,850)	(4,186,875)
Retained earnings	42,190,621	39,238,234
Accumulated other comprehensive loss	(1,252,662)	(62,492)
Total Shareholders' Equity	40,741,348	38,706,131
Total Liabilities and Shareholders' Equity	$ 609,540,580	$ 564,532,682

See accompanying notes to consolidated financial statements.

CENTRAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
INTEREST INCOME:		
Interest and fees on loans	$ 21,775,676	$ 20,205,117
Interest and fees on factored receivables	3,839,936	6,167,488
Securities available for sale	1,663,240	1,657,098
Other bank stock and other investments	112,875	64,514
Total Interest Income	27,391,727	28,094,217
INTEREST EXPENSE:		
Interest-bearing demand and savings deposits	606,976	543,035
Time deposits	1,129,758	1,141,720
Junior subordinated debentures	139,629	116,757
Federal Home Loan Bank advances	217,004	191,325
Other borrowed funds	265,728	227,142
Total Interest Expense	2,359,095	2,219,979
NET INTEREST INCOME	25,032,632	25,874,238
PROVISION FOR POSSIBLE CREDIT LOSSES	400,000	450,000
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE CREDIT LOSSES	24,632,632	25,424,238
NONINTEREST INCOME:		
Service charges	525,437	502,335
Increase in cash surrender value of bank owned life insurance	303,653	297,783
Net gain on sale of securities and other investments	104,394	193,326
Net gain on sale of loans	233,274	67,796
Net gain on sale of other real estate owned	107,228	-
Other income	779,966	724,086
Total Noninterest Income	2,053,952	1,785,326
NONINTEREST EXPENSES:		
Salaries and employee benefits	13,870,112	13,375,548
Data processing expense	1,621,157	1,527,539
Depreciation and amortization	771,336	927,889
Occupancy expense	1,062,109	1,027,988
Directors and professional services fees	944,143	891,738
Equipment expense	216,572	250,915
Regulatory fees	420,471	350,548
Advertising, marketing and business development expense	313,043	306,354
Office expense	200,067	206,137
Other expenses	886,238	860,140
Total Noninterest Expenses	20,305,248	19,724,796
CONSOLIDATED NET INCOME	$ 6,381,336	$ 7,484,768

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Consolidated Net Income	$ 6,381,336	$ 7,484,768
Other Comprehensive Loss:		
Securities available for sale:		
Change in net unrealized losses on securities available for sale	(1,085,776)	(178,436)
Reclassification adjustments, net gains included in net income	(104,394)	(193,326)
Total Other Comprehensive Loss	(1,190,170)	(371,762)
Total Comprehensive Income	$ 5,191,166	$ 7,113,006

See accompanying notes to consolidated financial statements.

CENTRAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock	Capital Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	$ 4,694	$ 3,728,170	$ (4,314,475)	$ 34,319,393	$ 309,270	$ 34,047,052
Exercise Stock Options (16 Shares)	-	(15,600)	127,600	-	-	112,000
Distributions to shareholders	-	-	-	(2,565,927)	-	(2,565,927)
Consolidated net income	-	-	-	7,484,768	-	7,484,768
Change in net unrealized gain on securities	-	-	-	-	(371,762)	(371,762)
Balance, December 31, 2015	4,694	3,712,570	(4,186,875)	39,238,234	(62,492)	38,706,131
Exercise of Stock Options (39 Shares)	-	(38,025)	311,025	-	-	273,000
Distributions to shareholders	-	-	-	(3,428,949)	-	(3,428,949)
Consolidated net income	-	-	-	6,381,336	-	6,381,336
Change in net unrealized loss on securities	-	-	-	-	(1,190,170)	(1,190,170)
Balance, December 31, 2016	$ 4,694	$ 3,674,545	$ (3,875,850)	$ 42,190,621	$ (1,252,662)	$ 40,741,348

See accompanying notes to consolidated financial statements.

CENTRAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	$ 6,381,336	$ 7,484,768
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	771,336	927,889
Provision for possible credit losses	400,000	450,000
Amortization of premiums on securities, net	693,219	644,270
Net gains on sales of securities, loans and other assets	(339,032)	(262,692)
Net gains on sales of ORE	(107,228)	-
Increase in cash surrender value of bank owned life insurance, net	(303,653)	(297,783)
Change in operating assets and liabilities:		
Accrued receivables and other assets	(126,959)	241,610
Prepaid expenses, net	38,122	186,597
Accrued deferred compensation liabilities	575,017	432,015
Accrued reserves on factored receivables	100,693	(4,514,317)
Accrued payables and other liabilities	178,227	(102,157)
Total adjustments	1,879,742	(2,294,568)
Net cash provided by operating activities	8,261,078	5,190,200
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	5,288,559	16,840,208
Proceeds from maturities and paydowns of securities available for sale	19,536,060	21,635,142
Purchase of securities available for sale	(15,853,643)	(31,782,511)
Sale (Purchase) of other investments	791,105	(2,450,333)
Purchase (Sale) of other bank stock	(523,200)	463,700
Purchase of bank owned life insurance	-	(500,000)
Proceeds from sale of other real estate owned, net	705,975	-
Net increase in loans	(41,694,300)	(61,597,425)
Proceeds from sale of loans	6,079,582	2,430,283
Purchase of mortgage loans	(7,671,139)	(3,512,152)
Net decrease in factored receivables	1,428,165	13,468,394
Purchases of premises and equipment	(452,930)	(366,819)
Proceeds from sales of equipment and other assets	3,316	1,570
Net cash used by investing activities	(32,362,450)	(45,369,943)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in noninterest-bearing demand deposits	17,236,566	19,793,005
Net change in interest-bearing demand and savings deposits	(2,228,572)	36,332,028
Net change in time deposits	23,287,297	(8,598,295)
Net change in Federal Home Loan Bank advances	(7,800,000)	(2,445,311)
Net change in notes payable	3,000,000	250,000
Net change in repurchase agreements	7,398,530	130,754
Proceeds from sale of treasury stock	273,000	112,000
Distributions to shareholders	(3,428,949)	(2,565,927)
Net cash provided by financing activities	37,737,872	43,008,254
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,636,500	2,828,511
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,802,467	9,973,956
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 26,438,967	$ 12,802,467

See accompanying notes to consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Central Bancshares, Inc. (the Company), through its wholly owned subsidiary Central Bank (the Bank), provides a broad line of financial products and services to small and medium sized businesses, municipalities, and consumers through its four banking offices in Harris County, Texas. The Bank's primary source of revenue is from investing funds received from depositors and from providing loans and other banking services to its customers.

The Bank, through its wholly owned subsidiary Advantage Business Capital, Inc. (Advantage) offers accounts receivable factoring services to businesses primarily in Houston and within the state of Texas. As of December 31, 2016, Advantage had 11 of 75 total clients headquartered outside the state of Texas, which represents 23.8% of their outstanding receivable balance as of that date.

Regulatory Oversight - The Bank operates under a state charter and is a member of the Federal Reserve Bank, and therefore is subject to regulation by the Texas Department of Banking and the Federal Reserve Board. The Company is subject to regulation by the Federal Reserve Board.

Basis of Presentation - The accompanying consolidated financial statements include the accounts of the Company, the Bank, and Advantage. All significant intercompany transactions and accounts have been eliminated. The Company has an investment in Central Bancshares Statutory Trust III (Trust III), which issued trust preferred securities. The statutory trust is not consolidated, which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). See Note 11 for additional disclosures related to the subsidiary trust.

The accounting and reporting policies of the Company conform, in all material respects, to U.S. GAAP and to prevailing practices within the financial services industry. The Company meets the definition of Public Business Entity for financial reporting purposes under U.S. GAAP.

Subsequent Events - The Company has evaluated subsequent events for potential recognition and/or disclosure through March 23, 2017, the date these consolidated financial statements were available to be issued, and has determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for possible credit losses and the estimated fair values of financial instruments.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Flow Reporting - Cash and cash equivalents include cash, interest-bearing and noninterest-bearing deposits with other financial institutions that have an initial maturity of 90 days or less, and federal funds sold. Cash flows are reported net for loans, securities available for sale, deposits and short-term borrowings. Supplemental cash flow information follows:

	2016	2015
Cash paid during the year for interest	$ 2,301,595	$ 2,234,665
Cash paid during the year for income taxes	$ 75,192	$ 215,552
Noncash foreclosure and repossession of real estate in partial satisfaction of debt	$ 598,747	$ -

Repurchase Agreements – The Company sells certain securities available for sale under agreements to repurchase. The agreements are treated as collateralized financing transactions, and the obligations to repurchase the securities sold are reflected as a liability in the accompanying consolidated balance sheets. The dollar amount of the securities underlying the agreements remains in the asset accounts.

Securities Available for Sale - Securities are accounted for on a trade date basis. Premiums and discounts are amortized and accreted to operations using the level-yield method of accounting, adjusted for prepayments as applicable. Interest earned on these assets is included in interest income. The specific identification method of accounting is used to compute gains or losses on the sales of these assets.

Securities available for sale are carried at fair value. Unrealized gains and losses are excluded from earnings and reported as a separate component of shareholders' equity until realized. Securities within the available for sale portfolio may be used as part of management's asset/liability strategy and may be sold in response to changes in liquidity, interest risk, prepayment risk or other similar economic factors.

Securities classified as available for sale are generally evaluated for other-than-temporary impairment (OTTI). In determining OTTI, 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 the 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 assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether the Company intends to sell the security or will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or it is more likely that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the consolidated balance sheet date. If the Company does not intend to sell the security and it is not likely that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors shall be recognized in other comprehensive income. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment.

Other Bank Stock - Investments in stock of the Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB), and Independent Bankers Financial Corporation (TIB) are considered to be restricted as to their marketability. Because no ready market exists for these investments, they have no quoted market value, and management believes the par value is ultimately recoverable, the Company's investments in these stocks are carried at cost. Dividends received on other bank stock are recorded as interest income when received.

Loans and Factored Receivables - Loans are stated at unpaid principal balances, less the allowance for possible credit losses and net deferred loan fees. Interest on loans is recognized by using the simple interest method.

Factored receivables represent advances on certain receivables obtained under lending agreements originated by the Company. Under these agreements, the Company purchases these receivables for a percentage of the total receivable owed to the customer. The Company remits the remaining balance or reserves, less a fee, when the receivable is collected. Receivables are stated at receivable balances less the allowance for possible credit losses. Factoring fees are earned and recognized based upon the amount and length of time the underlying receivables are outstanding.

Nonrefundable Fees and Direct Costs Associated with Lending Activities - Generally, loan origination and commitment fees on non-residential mortgage loans are deferred and amortized as a yield adjustment over the lives of the related loans using the straight-line method. Origination fees and direct costs on residential mortgage loans are deferred and amortized as a yield adjustment over the related lives of loans on a straight line basis. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonperforming Loans - Included in the nonperforming category are loans which have been categorized by management as impaired because of delinquency status or because collection of interest is doubtful, and loans which have been restructured to provide a reduction in the interest rate or a deferral of interest or principal payments.

When the payment of principal or interest on a loan is delinquent for 90 days, or earlier in some cases, the loan is placed on nonaccrual status, unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan and the probability that the Company will collect all principal and interest amounts outstanding.

When a loan is placed on nonaccrual status, interest accrued and uncollected during the current year prior to the judgment of uncollectibility, is charged to operations unless the loan is well secured with collateral values sufficient to ensure collection of both principal and interest. Generally, any payments received on nonaccrual loans are applied first to outstanding loan amounts, reducing the recorded investment in the loan, and next to the recovery of charged-off loan amounts. Any excess is treated as recovery of lost interest. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is defined as impaired if, based on current information and events, it is probable that 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.

The allowance for possible credit losses related to impaired loans is determined based on the difference of carrying value or the recorded investment, of loans and the present value of expected cash flows discounted at the loan's effective interest rate or, as a practical expedient, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Interest income received on impaired loans is either applied against principal or realized as interest income, according to management's judgment as to the collectability of principal.

Troubled Debt Restructurings - The Company will classify a loan as a troubled debt restructuring if both (i) the borrower is experiencing financial difficulties and (ii) the borrower has been granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Interest is generally accrued on such loans in accordance with the new terms.

Allowance for Possible Credit Losses - The allowance for possible credit losses is a reserve established through a provision for possible credit losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans, including factored and other receivables. All losses are charged to the allowance for possible credit losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries are credited to the allowance at the time of recovery.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The allowance, in the judgment of management, is necessary to reserve for the estimated loan losses and risks inherent in the loan portfolio and is calculated in accordance with U.S. GAAP and regulatory guidance. Therefore, 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, generally, the entire allowance is available for any credit that, in management's judgment, should be charged-off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors often 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.

Concentrations of Risk - The Company's investments are subject to various levels of risk associated with economic and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Company's investments. In determining fair value of these investments, management obtains information, which is considered reliable, from third parties in order to value its investments. Due to the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks could materially impact the amounts reflected herein.

Generally, the Company's loans, loan commitments, and letters of credit to customers have been granted to customers in the Company's market area, which includes Harris, Fort Bend, Montgomery, and surrounding counties. The Company's loans are typically secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. Concentrations of credit by loan segment and class are set forth in Notes 5 and 6. It is the Company's policy to not extend credit to any single borrower or group of related borrowers in excess of the Bank's legal lending limit as defined by state and federal banking regulations.

Interest Rate Risk - The Company is principally engaged in providing short-term commercial loans with interest rates that fluctuate with various market indices, intermediate-term fixed rate real estate loans, and consumer loans. These loans are primarily funded through short-term demand deposits and longer-term certificates of deposit with fixed rates. The Company may borrow against available lines of credit to fund additional loan growth, or other investment strategies, should the need arise. Deposits that are not utilized to fund loans are invested in securities that meet the Company's investment quality guidelines. Unrealized gains and losses on securities available for sale that result from changing market interest rates are reflected in other comprehensive income.

A portion of the Company's investments that are available for sale have contractual maturity dates through the year 2045, bear fixed rates of interest and are collateralized by residential mortgages. Repayment of principal on these mortgage-backed securities is primarily dependent on the cash flows from payments made on the underlying mortgage collateral to the bond issuer. Market rate increases can result in reduced prepayments, extending the Company's original anticipated holding period and thus increasing interest rate risk over time.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment - Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method of accounting over the estimated useful lives of the assets. Land is carried at cost. Leasehold improvements are amortized on a straight-line basis over the periods of the leases including extensions or the estimated useful lives, whichever is shorter. Gains and losses on dispositions are included in other noninterest income.

Bank Owned Life Insurance - The Company owns cash value life insurance policies which pay benefits to the Company upon the death of the named insured. Increases to the cash surrender value of the policies are noncash earnings and are recorded in noninterest income.

Goodwill - The Company has recorded goodwill related to the 1982 acquisition of the Bank and more recent acquisitions related to its factoring operations. Management performs a regular impairment assessment of goodwill and has determined the goodwill recorded at December 31, 2016 and 2015 is not impaired.

Income Taxes - The Company files consolidated federal and state income tax returns with its subsidiary. On January 1, 2013, the Company elected Subchapter S status under the guidelines of the Internal Revenue Code for federal tax reporting purposes, and all items of income and expense pass through to the shareholders. Therefore, no provisions for federal income taxes are now required. State margin tax is recorded in other noninterest expense.

The Company believes that all significant tax positions utilized by the Company will more likely than not be sustained upon examination. As of December 31, 2016, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2013 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as tax expense in the statements of income.

Prepaid Expenses - Prepaid expenses are amortized into noninterest expense over the estimated useful life of the expenditure.

Other Real Estate Owned and Repossessed Assets - Real estate and other assets acquired through repossession or foreclosure are held for sale and are initially recorded at the fair value of the asset less any selling costs, establishing a new cost basis. Outstanding loan balances are reduced to reflect this value through charges to the allowance for possible credit losses. Subsequent to repossession or foreclosure, the asset is carried at the lower of its new cost basis or fair value, less estimated costs to sell. Subsequent adjustments to reflect changes in value above or below the recorded amounts are recognized in income in the period such determinations are assessed. Required developmental costs associated with foreclosed property under construction are capitalized and considered in determining the fair value of the property. Operating income of these assets, net of related expenses, and gains and losses on their disposition are included in other noninterest income or expense.

Accounting for Stock-Based Compensation – Stock-based compensation is recognized as compensation cost in the consolidated statements of income based on the fair value on the date of the grant.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income - Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from transactions with shareholders. Comprehensive income includes net income and the effect of changes in the net unrealized gain/loss on securities available for sale.

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 entity's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

The Company has not elected to account for any financial assets or liabilities as trading instruments, for which changes in market value on these instruments would be recorded in the Company's consolidated statements of income.

Transfers of Financial Assets - Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

If a transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset does not meet the conditions for sale treatment, or if a transfer of a portion of an entire financial interest does not meet the definition of a participating interest, the transferor and the transferee shall account for the transfer as a secured borrowing with pledge of collateral. The transferor shall continue to report the transferred financial assets in its financial statements with no change in their measurement.

Reclassifications - Certain reclassifications were made to the 2015 consolidated financial statement presentation in order to conform to the 2016 financial statement presentation with no effect on reported results of operations or equity.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2016 and 2015 are as follows:

	2016	2015
Cash	$ 1,130,446	$ 1,480,552
Noninterest-bearing due from banks	3,328,745	3,096,421
Interest-bearing due from banks	21,979,776	8,225,494
	$ 26,438,967	$ 12,802,467

Reserve Requirements

The Bank, as a correspondent of the Federal Reserve System, is required to maintain reserves for the purpose of facilitating the implementation of monetary policy. These reserves may be maintained in the form of balances at the Federal Reserve Bank or by vault cash. The Bank's reserve requirements were $6,798,000 and $6,399,000 at December 31, 2016 and 2015, respectively. Accordingly, cash balances were restricted to that extent.

Uninsured Cash

All cash and cash equivalents are maintained with major financial institutions in the United States. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Company periodically evaluates the stability of the financial institutions with which it has deposits. At December 31, 2016 and 2015 the Company has no deposits in Federal Deposit Insurance Corporation (FDIC) insured financial institutions which exceed the amount insured by the FDIC. In addition, the Company has $52,597 and $65,207 in cash deposits at the FHLB which are not insured by the FDIC at December 31, 2016 and 2015, respectively. The Company also carries balances at the Federal Reserve Bank which are not considered at risk for loss.

NOTE 3 SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair values of securities available for sale at December 31, 2016 and 2015 are summarized in the following table.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
2016				
U.S. Government Agency				
Mortgage-backed securities	$ 58,668,419	$ 22,198	$ (847,864)	$ 57,842,753
Municipal bonds	26,912,053	123,467	(376,383)	26,659,137
Community Reinvestment				
Mortgage-backed securities	7,044,297	25,667	(199,747)	6,870,217
	$ 92,624,769	$ 171,332	$ (1,423,994)	$ 91,372,107
2015				
U.S. Government Agency				
Mortgage-backed securities	$ 63,437,506	$ 237,656	$ (496,115)	$ 63,179,047
Municipal bonds	29,122,778	368,582	(44,945)	29,446,415
Community Reinvestment				
Mortgage-backed securities	8,399,362	33,240	(160,910)	8,271,692
	$100,959,646	$ 639,478	$ (701,970)	$100,897,154

Maturities

The amortized cost and estimated fair value of securities at December 31, 2016, by contractual maturities, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Amounts Maturing In:	Amortized cost	Estimated fair value
1 year or less	$ 4,876,301	$ 4,889,443
After 1 year through 5 years	15,686,323	15,651,114
After 5 years through 10 years	17,189,074	16,823,375
After 10 years	54,873,071	54,008,175
	$ 92,624,769	$ 91,372,107

NOTE 3 SECURITIES AVAILABLE FOR SALE (CONTINUED)

Realized Gains

Realized gains on sales of securities during the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Realized gains	$ 104,394	$ 215,559

Unrealized Losses

For securities in an unrealized loss position, the following table shows gross unrealized losses and fair value by length of time that individual securities have been in a continuous unrealized loss position. At December 31, 2016 and 2015, there were 189 and 85 securities, respectively, in a continuous loss position as follows:

	Less than twelve months		Twelve months or more	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
2016				
U.S. Government Agency				
Mortgage-backed securities	$ 680,430	$ 43,042,657	$ 167,434	$ 7,286,260
Municipal bonds	368,585	15,101,993	7,798	465,113
Community Reinvestment				
Mortgage-backed securities	70,869	3,404,760	128,878	2,607,084
	$ 1,119,884	$ 61,549,410	$ 304,110	$ 10,358,457
2015				
U.S. Government Agency				
Mortgage-backed securities	$ 365,525	$ 21,693,193	$ 130,590	$ 5,582,646
Municipal bonds	44,945	6,629,607	-	-
Community Reinvestment				
Mortgage-backed securities	121,518	5,734,015	39,392	1,048,083
	$ 531,988	$ 34,056,815	$ 169,982	$ 6,630,729

Management does not have the intent to sell any of the securities classified as available for sale in the preceding table, and believes that it is more likely than not that the Company will not have to sell any of these securities before a recovery of cost. The unrealized losses are attributable primarily to changes in market interest rates relative to those available when the securities were acquired. The fair value of these securities is expected to recover as the securities reach their maturity or re-pricing date, or if market rates for such investments decline.

NOTE 3 SECURITIES AVAILABLE FOR SALE (CONTINUED)

As of December 31, 2016 and 2015, management does not believe that any of these securities are impaired due to reasons of credit quality and believes the impairments detailed in the preceding table are temporary. Accordingly, no impairment loss has been realized in the Company's consolidated statements of income for the years then ended.

Pledged Securities

At December 31, 2016 and 2015, certain securities were pledged to secure the following liabilities. The carrying amount of these securities is summarized as follows:

	2016	2015
Pledged to secure:		
Public funds on deposit	$ 40,513,830	$ 56,572,570
Repurchase agreements	11,454,313	3,812,455
Total securities pledged	$ 51,968,143	$ 60,385,025

NOTE 4 OTHER INVESTMENTS AND OTHER BANK STOCK

Mutual Fund

During 2012, Company management approved an investment in a qualified investment under the Community Reinvestment Act (CRA) of up to $1,000,000. The Company classified this investment as available for sale and recorded the investment at fair market value.

The Mutual Fund was sold on February 25, 2015. Activity in the Mutual Fund for the year ended December 31, 2015 is as follows:

	2015
Investment cost basis, beginning of year	$ 526,899
Current year dividend and capital gains reinvestment	797
Unrealized loss at end of year	-
Sales	(505,463)
Realized loss	(22,233)
Market value, end of year	$ -

Reverse Repurchase Agreement

During 2011, Company management approved investments in reverse repurchase agreements of up to $5,000,000. The Company invests funds on a short-term basis into reverse repurchase agreements through a third party with U.S. Government Small Business Administration loans as collateral. At December 31, 2016 and 2015, the Company held $3,758,895 and $5,000,000, respectively, in this investment which is recorded at cost as management believes cost and fair value are not significantly different.

NOTE 4 OTHER INVESTMENTS AND OTHER BANK STOCK (CONTINUED)

Investment in Partnership

During 2012, the Company committed to invest capital of up to $1,000,000 in a limited partnership. The partnership had issued capital calls amounting to 55% and 10% at December 31, 2016 and 2015, respectively. The Company has an investment in the partnership of $550,000 and $100,000 at December 31, 2016 and 2015, respectively, which is recorded at cost.

Other Bank Stock

At December 31, 2016 and 2015, the Company held $1,806,000 and $1,387,800, respectively, of FHLB stock. Banks that are members of the FHLB are required to maintain a stock investment in the FHLB calculated as a percentage of aggregate outstanding mortgages, outstanding FHLB advances, and other financial instruments. FHLB stock is capital stock that is bought from and sold to the FHLB at $100 par value. Both stock and cash dividends may be received on FHLB stock and are recorded when received as interest income.

At December 31, 2016 and 2015, the Company held $954,000 and $849,000, respectively, of FRB stock. During 2014, the Bank became a member of the Federal Reserve System and is required to subscribe to FRB stock in specific ratios to the Bank's equity. Although the par value of the stock is $100 per share, member banks pay only $50 per share at the time of purchase with an understanding that the other half of the subscription amount is subject to call at any time. The stock does not provide the owner with control or financial interest in the FRB, is not transferable, and cannot be used as collateral.

At December 31, 2016 and 2015, the Company held $31,800 of TIB stock.

NOTE 5 LOANS AND FACTORED RECEIVABLES

Loans

Loans by portfolio segment at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Real estate	$ 383,646,540	$ 347,150,070
Commercial and industrial	28,060,536	31,669,078
Nondepository institutions	27,694,831	20,980,424
Consumer	843,500	1,372,564
Other	7,729,221	3,444,000
	447,974,628	404,616,136
Less deferred loan fees and costs, net	(266,725)	(449,549)
Less allowance for possible credit losses on loans	(3,562,708)	(3,150,523)
	$ 444,145,195	$ 401,016,064

NOTE 5 LOANS AND FACTORED RECEIVABLES (CONTINUED)

Loan Concentrations

The following concentrations are included in the real estate category as follows:

	2016	2015
Residential mortgages:		
First lien mortgages	$ 117,046,109	$ 100,202,831
Second lien mortgages	58,687,024	62,370,116
Purchased mortgage loans and related net premium	19,488,870	14,950,377
	$ 195,222,003	$ 177,523,324

Portfolio Segments and Loan Classes

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. The Company's loans are segmented by type as noted in the preceding tables. Diversification of the loan portfolio is a means of managing the risks associated with fluctuations in economic conditions.

In order to manage the diversification of the portfolio, the Company also sub-segments loans into classes. The real estate loan segment is sub-segmented into classes that primarily include commercial real estate mortgage loans, construction and land development loans, 1-4 family residential loans, and multi-family residential loans. The Company sub-segments consumer loans into classes that primarily include automobiles, and other consumer loans. Management has not identified any significant sub-segments, or classes, for the other loan segments. Information and risk management practices specific to the Company's loan segments and classes follows.

Real estate - The Company makes commercial real estate mortgage loans which are primarily viewed as cash flow loans and secondarily as loans secured by real estate. The properties securing the Company's commercial real estate mortgage loans can be owner occupied or non-owner occupied. Concentrations within the various types of commercial properties are monitored by management in order to assess the risks in the portfolio.

The repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. The Company seeks to minimize these risks in a variety of ways in connection with underwriting these loans, including giving careful consideration to the property's operating history, future operating projections, current and projected occupancy, location and physical condition.

NOTE 5 LOANS AND FACTORED RECEIVABLES (CONTINUED)

Construction and land development loans include both owner and non-owner occupied properties and are subject to certain risks attributable to the fact that loan funds are advanced over the construction phase and the project can be subject to cost and value changes prior to its completion. Construction loans are generally based upon estimates of costs and value associated with the completed project with repayment dependent, in part, on the success of the ultimate project rather than the ability of the borrower or guarantor to repay the loan. Third-party appraisals are obtained prior to loan origination to confirm as completed values. Terms for construction and development loans generally coincide with the estimated time to complete construction, market the completed property for sale or lease, or facilitate occupancy by the owner. The Company has underwriting and funding procedures designed to address what it believes to be the risks associated with such loans; however, no assurance can be given the procedures will prevent losses resulting from the risks described above. The Company monitors and sets limits on total construction, unimproved land and land development ("CLD") loans as measured as a percentage of risk based capital. Through deliberate reductions in CLD originations, concentrations reflected a declining trend in the final six months of 2016 and it is management's intent to continue the downward trend through 2017.

The Company's real estate lending activities also include the origination of first lien and second lien 1-4 family residential and first lien multi-family residential loans. The terms of these loans typically range from five to thirty years and are secured by the properties financed. For first lien mortgages, and for most second lien mortgages, the Company requires the borrowers to maintain mortgage title insurance and hazard insurance. In order to reduce concentration risk, from time to time the Company sells a selection of 1-4 family residential loans from its portfolio into the secondary market without recourse and with servicing released.

<u>Commercial and industrial</u> - The Company's commercial and industrial loans represent credit extended to small to medium sized businesses generally for the purpose of providing working capital and equipment purchase financing. Commercial and industrial loans often are dependent on the profitable operations of the borrower. These credits are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may also incorporate a personal guarantee. Some shorter term loans may be extended on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The cash flows of borrowers may not be as expected and the collateral securing these loans may fluctuate, increasing the risk associated with this loan segment. As a result of the additional complexities, variables, and risks, commercial loans typically require more thorough underwriting and servicing than other types of loans.

<u>Nondepository institutions</u> - Loans to nondepository institutions primarily include extensions of credit under guidance lines to mortgage and finance companies. Often, the collateral securing these credit lines consists of an assignment of notes receivable that are secured by first liens on single family homes and to a lesser extent improved and unimproved commercial real estate. Repayment of these credit lines is derived from the cash flows received by the borrowers, which is primarily generated through payments received on the assigned loans. The Company underwrites these credits based upon the financial stability of the borrower and will look directly to the cash flows from the single family home loans to repay the debt should the borrowers default.

NOTE 5 LOANS AND FACTORED RECEIVABLES (CONTINUED)

Consumer - The Company's consumer loans include automobile loans and other loans to include, personal loans (collateralized and uncollateralized) and deposit account collateralized loans. The terms of these loans typically range from 1 to 7 years and vary based on the nature of collateral and size of the loan. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus more likely to be adversely affected by job loss, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as deemed appropriate by management. Other consumer loans also include overdraft lines of credit principally extended to individuals.

Other – Included in other loans are loans to municipal utility districts. The loan term is typically one year. The repayment of the loans are dependent on the municipalities' issuance and sale of municipal bonds.

Loan Participations Purchased and Sold

At December 31, 2016 and 2015 the Company had outstanding balances of loan participations sold in the amount of $7,263,374 and $4,205,607, respectively. There were $3,982,062 and $3,310,059, respectively, of loan participations purchased outstanding at December 31, 2016 and 2015.

Loans Purchased and Held

At December 31, 2016 and 2015, the Company had $19,198,823 and $14,778,515, respectively, of residential mortgage loans purchased from third parties, net of unamortized premiums of $312,152 and $171,862, and unamortized discount accretion of 22,105 and $-0-, respectively.

Loans Purchased and Securitized

During 2016 and 2015, the Company purchased a total of $-0- and $3,512,152, respectively, in loans from other financial institutions. Subsequent to purchase, the loans were securitized so they are recorded as securities available for sale as of December 31, 2016 and 2015 (see Note 3). The securities are a qualified investment under the Community Reinvestment Act.

Loans Sold

During 2016, the Company sold one group of single family residential loans originated by the Bank, including accrued interest, totaling $5,846,308 for a gain on sale of $233,274. During 2015, the Company sold one group of single family residential loans including accrued interest totaling $2,362,487, for a gain on sale of $67,796. All loans were sold without recourse and with servicing released.

NOTE 5 LOANS AND FACTORED RECEIVABLES (CONTINUED)

Past Due and Nonaccrual Loans

The following is an analysis of past due and nonaccrual loans, segregated by loan class, as of December 31, 2016 and 2015.

	Current and accruing	30 or more days past due and still accruing	Nonaccrual	Total loans
2016				
Commercial real estate mortgage	$ 105,892,943	$ -	$ -	$ 105,892,943
Construction and land development	76,195,409	-	28,140	76,223,549
1-4 family residential	195,222,003	-	-	195,222,003
Multi-family residential	6,308,045	-	-	6,308,045
Commercial and industrial	28,060,536	-	-	28,060,536
Nondepository institutions	27,694,831	-	-	27,694,831
Consumer - automobiles	225,207	-	-	225,207
Consumer - other	618,293	-	-	618,293
Other	7,729,221	-		7,729,221
	$ 447,946,488	$ -	$ 28,140	$ 447,974,628
2015				
Commercial real estate mortgage	$ 85,735,573	$2,670,000	$ -	$ 88,405,573
Construction and land development	76,384,549	450,000	34,858	76,869,407
1-4 family residential	177,130,679	392,646	-	177,523,325
Multi-family residential	4,351,765	-	-	4,351,765
Commercial and industrial	31,669,078	-	-	31,669,078
Nondepository institutions	20,980,424	-	-	20,980,424
Consumer - automobiles	366,269	3,707	-	369,976
Consumer - other	1,002,588	-	-	1,002,588
Other	3,444,000	-		3,444,000
	$ 401,064,925	$3,516,353	$ 34,858	$ 404,616,136

Nonaccrual Loan Investment and Interest

At December 31, 2016 and 2015, the recorded investment in nonaccrual loans is not considered materially different from the amounts reflected in the table above, as the accrued interest receivable, deferred fees, and specific allowances for possible credit losses are not considered material for these loans.

The Company had no loans 90 days or more past due and still accruing interest at December 31, 2016. At December 31, 2015, the Company had one construction and land development loan that was greater than 90 days past due and still accruing in the amount of $450,000. Interest foregone on nonaccrual loans was $ 8,317 and $6,463 for the years ended December 31, 2016 and 2015, respectively. Interest income recorded on a cash basis was $-0- and $521,870 for the years ended December 2016 and 2015, respectively.

NOTE 5 LOANS AND FACTORED RECEIVABLES (CONTINUED)

Troubled Debt Restructuring

During the year ended December 31, 2016 and 2015, the Company had no loans modified under troubled debt restructuring.

Factored Receivables

Factored receivables at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Receivables purchased	$ 18,083,813	$ 20,044,380
Less allowance for possible credit losses on factored receivables	(798,671)	(722,326)
	$ 17,285,142	$ 19,322,054

The factored receivables are not collateral for loans to the Company's customers; rather, the receivables are purchased outright. Generally the receivables are purchased with recourse to the Company's customer; however, the Company assumes the credit risk based upon underwriting criteria established for both the customer and the customer's clients. The Company discounts the receivable purchased and retains a reserve as a percentage of outstanding receivables to cover unpaid receivables, which is determined by management based upon experience and other underwriting criteria.

Factored Receivables Participations

At December 31, 2016 and 2015, the Company had factored receivables participations outstanding as follows:

	2016	2015
Participations purchased, end of year	$ 3,174,034	$ 2,333,050
Participations sold, end of year	$ 2,800,951	$ 4,093,478

NOTE 5 LOANS AND FACTORED RECEIVABLES (CONTINUED)

Factored Receivables Reserves

The following table shows reserves that may be payable to the Company's customers upon timely receipt of payment on the factored receivables, and deferred revenue from fees to be recognized as the factored receivables are collected at December 31, 2016 and 2015:

	2016	2015
Customer reserves	$ 2,759,208	$ 2,710,571
Deferred revenues	509,528	457,472
Accrued reserves on factored receivables	$ 3,268,736	$ 3,168,043

Factored Receivables Aging

At December 31, 2016 and 2015, the age of the Company's factored receivables is as follows:

	2016	2015
Less than 30 days	$ 7,568,448	$ 9,745,763
31 to 90 days	9,345,480	9,475,028
91 or more days	1,169,885	823,589
	$ 18,083,813	$ 20,044,380

Management performs an evaluation of factored receivables 91 or more days past due to determine a course of action. The Company has the option to sell the receivables back to the customers, or charge the amount against the customers' reserves.

NOTE 6 ALLOWANCE FOR POSSIBLE CREDIT LOSSES

For purposes of determining the allowance for possible credit losses, the Company considers the loans in its portfolio by segment, class, and risk grade. Management uses significant judgment to determine the estimation method that fits the credit risk characteristics of each portfolio segment or class. To facilitate the assessment of risk, management reviews reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. The Company utilizes an independent third party loan review service to review the credit risk assigned to loans on a periodic basis and the results are presented to management for review.

NOTE 6 ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

Rollforward of the Allowance for Possible Credit Losses

The following table presents a detail of the activity in the allowance for possible credit losses segregated by portfolio segment for the years ending December 31, 2016 and 2015.

	Balance, beginning of year	Provisions	Charge-offs	Recoveries	Balance, end of year
2016					
Real estate	$ 2,725,479	$ 311,972	$ -	$ 30,000	$ 3,067,451
Commercial and industrial	205,718	(3,407)	-	-	202,311
Nondepository institutions	188,578	37,562	-	-	226,140
Consumer	5,841	5,668	(10,250)	2,435	3,694
Other	24,907	38,205	-	-	63,112
	3,150,523	390,000	(10,250)	32,435	3,562,708
Factored receivables	722,326	10,000	(1,655)	68,000	798,671
Total	$ 3,872,849	$ 400,000	$ (11,905)	$ 100,435	$ 4,361,379
2015					
Real estate	$ 2,459,601	$ 256,354	$ -	$ 9,524	$ 2,725,479
Commercial and industrial	192,323	13,483	(88)	-	205,718
Nondepository institutions	79,323	109,255	-	-	188,578
Consumer	11,988	(3,999)	(5,564)	3,416	5,841
Other	-	24,907	-	-	24,907
	2,743,235	400,000	(5,652)	12,940	3,150,523
Factored receivables	700,603	50,000	(89,387)	61,110	722,326
Total	$ 3,443,838	$ 450,000	$ (95,039)	$ 74,050	$ 3,872,849

Allocation of Allowance for Possible Credit Losses

The total allowance is available to absorb losses from any category of loans or factored receivables. The allocation of the allowance for the loan portfolio is based on the dollar amount of loans in each segment rather than an analysis of specific loans. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur.

Significant Charge-off and Subsequent Recovery

During 2008, the Company identified a significant commercial and industrial credit relationship as impaired, resulting in a $2,131,908 charge-off to the allowance for possible credit losses, which has subsequently been fully recovered. The previously charged off principal was fully recovered during 2014. During 2015, interest income in the amount of $502,994 representing recovery of interest amounts due under the terms of contract was recorded related to this relationship. During the year ended December 31, 2016 no amounts were received related to this relationship. Subsequent to year end December 31, 2016, the Company received $532,600 related to this relationship which was recorded as interest income.

NOTE 6 ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

Risk Grading

As part of the on-going monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for possible credit losses, management assigns and tracks loan grades to be used as credit quality indicators. The following is a general description of the loan grades used as of December 31, 2016 and 2015.

Pass - This category of assets are considered "*pass*" which indicates prudent underwriting and a normal amount of risk. The range of risk within these credits can vary from little to no risk with cash securing a credit, to a level of risk that requires a strong secondary source of repayment on the debt. Pass credits with a higher level of risk may be to borrowers that are highly leveraged, under-capitalized or in an industry or economic area that is known to carry a higher level of risk, volatility, or susceptibility to weaknesses in the economy.

Management Attention - Included in this category are assets referred to as "*management attention*" which appear prudently underwritten, are performing, but a negative trend may have been defined, or weaknesses identified, that require special monitoring. This may be due to the lack of credit or collateral information that would allow a credit quality analysis of the credit, or may be due to the borrowing entity being relatively new without much outside financial support.

OAEM - Assets in this category contain more than the normal amount of risk and are referred to as "*other assets especially mentioned*", or OAEM, in accordance with regulatory guidelines. These assets possess clearly identifiable temporary weaknesses or trends that, if not corrected or revised, will result in a condition that exposes the Company to a higher level of risk of loss.

Substandard - Assets in this category are "*substandard*" in accordance with regulatory guidelines and of unsatisfactory credit quality with well-defined weaknesses or weaknesses that jeopardize the liquidation of the debt. Assets in this category are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. These credits are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Often, the assets in this category will have a valuation allowance representative of management's estimated loss that is probable to be incurred.

Doubtful - Assets in this category are considered "*doubtful*" in accordance with regulatory guidelines, are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. Generally, these credits will have a valuation allowance based upon management's best estimate of the losses probable to occur in the liquidation of the debt.

Loss - Assets in this category are considered "*loss*" in accordance with regulatory guidelines and are considered uncollectible and of such little value as to question their continued existence as assets on the Company's consolidated financial statements. Such assets are to be charged off or charged down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. This category does not intend to imply that the debt, or some portion of it will never be paid, nor does it in any way imply that the debt will be forgiven.

NOTE 6 ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

The following table presents loans and factored receivables by risk grade and loan class at December 31, 2016 and 2015. There were no loans graded Doubtful or Loss at each year end period.

	Pass	Management attention	OAEM/Substandard	Total loans and factored receivables
2016				
Commercial real estate mortgage	$ 96,389,546	$ 1,790,072	$ 7,713,325	$105,892,943
Construction and land development	72,891,829	3,303,580	28,140	76,223,549
1-4 family residential	194,986,402	99,920	135,681	195,222,003
Multi-family residential	6,308,045	-	-	6,308,045
Commercial and industrial	23,038,260	-	5,022,276	28,060,536
Nondepository institutions	27,694,831	-	-	27,694,831
Consumer - automobiles	225,207	-	-	225,207
Consumer - other	618,293	-	-	618,293
Other	7,729,221	-	-	7,729,221
	429,881,634	5,193,572	12,899,422	447,974,628
Factored receivables	14,343,739	-	3,740,074	18,083,813
Total	$444,225,373	$ 5,193,572	$ 16,639,496	$466,058,441
2015				
Commercial real estate mortgage	$ 80,745,336	$ 6,576,563	$ 1,083,674	88,405,573
Construction and land development	74,801,911	1,582,638	484,858	76,869,407
1-4 family residential	177,130,679	-	392,646	177,523,325
Multi-family residential	4,351,765	-	-	4,351,765
Commercial and industrial	28,538,804	-	3,130,274	31,669,078
Nondepository institutions	20,980,424	-	-	20,980,424
Consumer - automobiles	369,976	-	-	369,976
Consumer - other	1,002,588	-	-	1,002,588
Other	3,444,000	-	-	3,444,000
	391,365,483	8,159,201	5,091,452	404,616,136
Factored receivables	16,721,592	-	3,322,788	20,044,380
Total	$408,087,075	$ 8,159,201	$ 8,414,240	$424,660,516

At December 31, 2016, OAEM loans included $5,022,276 in commercial and industrial loans and $3,633,897 in factored receivables. At December 31, 2015, OAEM loans included $3,123,729 in commercial and industrial loans and $784,212 in factored receivables.

NOTE 6 ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

Specific and General Allowances

The Company's loans, factored receivables, and allowance for possible credit losses as of December 31, 2016 by portfolio segment and disaggregated on the basis of the Company's impairment methodology is as follows:

2016

Loans	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Real estate	$ 7,877,145	$ 375,769,395	$ 383,646,540
Commercial and industrial	-	28,060,536	28,060,536
Nondepository institutions	-	27,694,831	27,694,831
Consumer	-	843,500	843,500
Other	-	7,729,221	7,729,221
	7,877,145	440,097,483	447,974,628
Factored receivables	3,464,985	14,618,828	18,083,813
Total	$ 11,342,130	$ 454,716,311	$ 466,058,441

Allowance for possible credit losses	Specific allowance	General allowance	Total
Real estate	$ -	$ 3,067,451	$ 3,067,451
Commercial and industrial	-	202,311	202,311
Nondepository institutions	-	226,140	226,140
Consumer	-	3,694	3,694
Other	-	63,112	63,112
	-	3,562,708	3,562,708
Factored receivables	265,876	532,795	798,671
Total	$ 265,876	$ 4,095,503	$ 4,361,379
Allowance as a percentage of year end loans	2.34%	0.90%	0.94%

NOTE 6 ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

The Company's loans, factored receivables, and allowance for possible credit losses as of December 31, 2015 by portfolio segment and disaggregated on the basis of the Company's impairment methodology is as follows:

2015

Loans	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Real estate	$ 1,961,178	$ 345,188,892	$ 347,150,070
Commercial and industrial	6,545	31,662,533	31,669,078
Nondepository institutions	-	20,980,424	20,980,424
Consumer	-	1,372,564	1,372,564
Other	-	3,444,000	3,444,000
	1,967,723	402,648,413	404,616,136
Factored receivables	2,373,162	17,671,218	20,044,380
Total	$ 4,340,885	$ 420,319,631	$ 424,660,516

Allowance for possible credit losses	Specific allowance	General allowance	Total
Real estate	$ -	$ 2,725,479	$ 2,725,479
Commercial and industrial	906	204,812	205,718
Nondepository institutions	-	188,578	188,578
Consumer	-	5,841	5,841
Other	-	24,907	24,907
	906	3,149,617	3,150,523
Factored receivables	70,138	652,188	722,326
Total	$ 71,044	$ 3,801,805	$ 3,872,849
Allowance as a percentage of year end loans	1.64%	0.90%	0.91%

NOTE 6 ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

Unpaid Principal Balance of Impaired Loans and Factored Receivables

The following table includes the unpaid principal balances for impaired loans and factored receivables, segregated by loan class, as of December 31, 2016 and 2015.

	Recorded balance of impaired loans and factored receivables	Total unpaid principal balance
2016		
Construction and land development	$ 28,140	$ 28,140
Factored receivables	3,464,985	3,464,985
Total	$ 3,493,125	$ 3,493,125
2015		
Construction and land development	$ 34,858	$ 34,858
Factored receivables	1,803,067	1,803,067
Total	$ 1,837,925	$ 1,837,925

NOTE 6 ALLOWANCE FOR POSSIBLE CREDIT LOSSES (CONTINUED)

Recorded Investment in Impaired Loans and Factored Receivables and Related Allowance

The following table provides information about the recorded investment in impaired loans and the related allowance by loan class at December 31, 2016 and 2015. Accrued interest receivable and deferred fees for impaired loans are considered not material and not included in this table.

	Recorded balance of impaired loans and factored receivables	Less related specific allowance	Recorded investment, net
2016			
Without a related allowance:			
Construction and land development	$ 28,140	$ -	$ 28,140
	28,140	-	28,140
With a related allowance:			
Factored receivables	3,464,985	265,876	3,199,109
Total	$ 3,493,125	$ 265,876	$ 3,227,249
2015			
Without a related allowance:			
Construction and land development	$ 34,858	$ -	$ 34,858
	34,858	-	34,858
With a related allowance:			
Factored receivables	1,803,067	70,138	1,732,929
Total	$ 1,837,925	$ 70,138	$ 1,767,787

Average Investment in Impaired Loans and Factored Receivables

For the years ended December 31, 2016 and 2015, the approximate average investment in impaired loans and factored receivables is $2,651,000 and $1,057,000, respectively.

Recorded Interest Income on Impaired Loans

For the years ended December 31, 2016 and 2015, there was no interest income recorded for impaired loans.

NOTE 7 PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Land	$ 2,273,127	$ 2,273,128
Buildings	7,672,179	7,660,466
Leasehold improvements	1,331,925	1,331,925
Furniture and equipment	2,709,408	2,609,276
Automobiles	132,869	132,869
Computer hardware and software	2,617,948	2,754,369
Construction in progress	53,554	-
	16,791,010	16,762,033
Less accumulated depreciation and amortization	(8,751,263)	(8,401,927)
Total premises and equipment	$ 8,039,747	$ 8,360,106

NOTE 8 BANK OWNED LIFE INSURANCE

The Company purchased life insurance policies, some of which are under split dollar agreements, covering employees for which an insurable interest existed at the date of purchase. The Company records the expense related to the post-retirement costs to carry the insurance in salary and benefits, with the offsetting liability in accrued deferred compensation liabilities (see Note 15). Primarily these policies are secured by the general assets of the insurance companies. Bank owned life insurance policies and the net increase in cash surrender value during the years ended December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Balance, beginning of year	$ 10,150,374	$ 9,352,591
Premiums paid	-	500,000
Interest earned, net of costs	303,653	297,783
Balance, end of year	$ 10,454,027	$ 10,150,374

NOTE 9 ACCRUED INTEREST AND FEES RECEIVABLE

Accrued interest and fees receivable at December 31, 2016 and 2015 consists of the following:

	2016	2015
Loans	$ 1,115,678	$ 1,009,613
Factored receivables	509,528	457,472
Securities available for sale	411,146	436,766
	$ 2,036,352	$ 1,903,851

NOTE 10 OTHER REAL ESTATE OWNED

During 2016, the Company received proceeds on the sales of other real estate owned of $749,549, resulting in a gain of $107,228. The Company held no other real estate at December 31, 2016 and 2015. There were no foreclosures or sales for the year ended December 31, 2015.

	2016
Balance, beginning of year	$ -
Noncash foreclosure and repossession of real estate in partial satisfaction of debt	598,747
Capitalized costs	35,221
Charges against the allowance for possible credit losses	-
Sales	(633,968)
Balance, end of year	$ -

NOTE 11 INVESTMENT IN SUBSIDIARY TRUST AND JUNIOR SUBORDINATED DEBT

During 2007, the Company completed the private placement of an aggregate of $5,500,000 of trust preferred securities through its wholly owned subsidiary Central Bancshares Statutory Trust III (Trust III), of which the Company owns all of the common securities at a cost of $171,205.

Trust III invested $5,671,000 in the Company's junior subordinated debentures due 2037. The interest rates for the capital securities and the debentures float quarterly. The interest rate for Trust III is the 3-month LIBOR rate plus 1.74%, or 2.70% and 2.75% at December 31, 2016 and 2015, respectively. The Company's subordinated debentures carry the same rates with interest payable to Trust III.

The debentures, which are the only assets of Trust III, are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The Company has fully and unconditionally guaranteed Trust III's capital securities obligations.

The trust preferred securities may currently be included in Tier 1 capital for regulatory capital adequacy purposes.

NOTE 12 DEPOSITS

The following table presents information relating to deposits at December 31, 2016 and 2015:

	2016	2015
Time deposits in denominations of $250,000 or more	$ 42,624,156	$ 30,063,089
Deposits brokered through a reciprocal depository	$ 30,005,886	$ 22,102,030
Deposits from state and political subdivisions	$ 163,631,700	$ 150,871,400
Overdraft deposits reclassified as loan balances	$ 18,409	$ 94,188

At December 31, 2016, the scheduled maturities of all time deposits are as follows:

2017	$ 99,016,242
2018	42,300,144
2019	8,766,674
2020	4,437,971
2021	2,868,161
	$ 157,389,192

NOTE 13 BORROWINGS

Federal Home Loan Bank Advances

At December 31, 2016 and 2015, the Company has outstanding advances from the FHLB which are collateralized by a blanket pledge of qualifying loans and securities. At December 31, 2016 and 2015, the carrying value of qualifying pledged loans and securities is $231,872,238 and $203,968,052, respectively. At December 31, 2016, the Company has additional borrowing capacity of $109,482,238 available under this facility. At December 31, 2016 and 2015, the advances are as follows:

Maturity	Payment schedule	Interest Rate	2016	2015
January 4, 2016	Overnight	0.31%	$ -	$ 6,800,000
June 6, 2016	Balloon at maturity	0.97%	-	4,000,000
October 19, 2016	Balloon at maturity	0.36%	-	2,000,000
January 18, 2017	Balloon at maturity	0.97%	5,000,000	5,000,000
February 1, 2017	Balloon at maturity	1.15%	3,000,000	3,000,000
March 6, 2017	Balloon at maturity	1.04%	3,000,000	3,000,000
April 17, 2017	Balloon at maturity	0.97%	2,000,000	2,000,000
October 31, 2018	Balloon at maturity	0.61%	5,000,000	-
October 16, 2019	Balloon at maturity	0.69%	3,000,000	3,000,000
Advances outstanding			$ 21,000,000	$ 28,800,000

Notes Payable

At December 31, 2016 and 2015, the Company has notes payable to a correspondent bank as follows:

Maturity	Payment schedule	Interest Rate	2016	2015
December 5, 2021	Quarterly payments of $281,563 plus accrued interest with balloon maturity	3.75%	$9,010,000	$4,910,000
December 5, 2017	$5 million revolving line of credit with quarterly interest due	3.75%	50,000	1,150,000
Notes outstanding			$9,060,000	$6,060,000

NOTE 13 BORROWINGS (CONTINUED)

At December 31, 2016, annual required principal payments on these notes are as follows:

2017	$ 1,176,252
2018	1,126,252
2019	1,126,252
2020	1,126,252
2021	4,504,992
	$ 9,060,000

The notes are collateralized by the common stock of the Bank. At December 31, 2016 and 2015, the Company is in compliance with the debt covenants, which include maintaining capital ratios and limiting additional borrowings.

Unfunded Letters of Credit and Lines of Credit

At December 31, 2016 and 2015, the Company has unfunded letters of credit from the FHLB totaling $101,390,000 and $70,235,000, respectively, which at December 31, 2016, are pledged to secure public deposits. At December 31, 2016 and 2015, the Company has unfunded overnight lines of credit with other banks totaling $17,500,000.

NOTE 14 REPURCHASE AGREEMENTS

At December 31, 2016 and 2015, the Company had outstanding funds amounting to $9,447,620 and $2,049,090, respectively, received from the sale of securities under agreements to repurchase. Securities subject to the transfer of ownership under the repurchase agreements are included in pledged securities, and the carrying value of these securities is disclosed in Note 3. The Company transacts these repurchase agreements with its customers and pays interest at rates ranging from 0.25% to 0.50% according to the terms of each repurchase agreement.

NOTE 15 DEFERRED COMPENSATION AND EMPLOYEE BENEFIT PLANS

Salary Continuation Plan and Split Dollar

In 2002, the Company adopted a Salary Continuation Plan to provide for post-retirement compensation. During 2005, the Company executed agreements with certain executive officers, and is accruing the present value of expected costs over the periods prior to retirement for each participant. The deferred liability, which includes the post-retirement costs to carry split-dollar life insurance, has been recorded as follows for the years ending December 31, 2016 and 2015:

	2016	2015
Deferred liability, beginning of year	$ 3,003,940	$ 2,602,015
Transfer from Survivor Income	-	240,267
Expense recorded	201,193	161,658
Deferred liability, end of year	$ 3,205,133	$ 3,003,940

The Company expects to record future expenses annually for the Plans as follows:

2017	$ 308,738
2018	182,176
2019	220,215
2020	209,093
2021	182,608
	$ 1,102,830

Survivor Income Plan

During 2011, the Company executed agreements with certain executive officers to provide death benefits to the designated beneficiary of the executive officer. The Company was accruing the present value of expected costs over the periods prior to retirement for each participant. In 2015, the Survivor Income Plan was transferred to the Split Dollar Plan.

NOTE 15 DEFERRED COMPENSATION AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Long Term Incentive Compensation Plan

In 2012, the Company adopted a Long Term Incentive Compensation Plan (LTIP) whereby key employees have the opportunity to earn phantom stock awards. In 2015, the Company amended these awards to vest over from seven year to five year duration. Awards will be settled in cash, and vesting is subject to certain performance criteria. The Company will record compensation expense each year through 2025 related to vesting and the increase in intrinsic value. The Company entered into agreements with key employees under the plan as follows:

Year granted	Valuation date	Value granted	Estimated market value per share upon grant	Phantom shares granted
2012	December 31, 2011	$ 163,325	$ 7,200	22.26
2013	December 31, 2012	378,000	$ 8,725	43.32
2014	December 31, 2013	655,075	$ 9,786	66.94
2015	December 31, 2014	555,000	$ 12,860	43.16
2016	December 31, 2015	567,500	$ 14,750	38.47
Award at date of grant		$ 2,318,900		214.15

The estimated deferred liability related to the Long Term Incentive Compensation Plan calculated at management's current estimate of share value is approximately $3,500,000.

The deferred liability for the Long Term Incentive Compensation Plan for vested awards is recorded as follows at December 31, 2016 and 2015:

	2016	2015
Deferred liability, beginning of year	$ 449,471	$ 162,521
Payments LTIP	-	(5,350)
Expense recorded	508,400	292,300
Deferred liability, end of year	$ 957,871	$ 449,471

Stock Appreciation Rights Plan

During 2007, the Company adopted a Stock Appreciation Rights Plan covering certain executive officers and allowing for rights for 400 shares of common stock to be granted. The value of each right is defined under the Plan as the book value of a share of the Company's common stock, adjusted for nonroutine transactions as determined by the Board of Directors. All rights vest after five years and are to be settled in cash. Rights granted in 2007 became fully vested during 2012 and were extended one year at the option of each grantee.

NOTE 15 DEFERRED COMPENSATION AND EMPLOYEE BENEFIT PLANS (CONTINUED)

At December 31, 2016 and 2015, the Company had 40 and 90 rights outstanding, respectively, and the liability for these rights is recorded as follows:

	2016	2015
Deferred liability, beginning of year	$ 310,869	$ 303,562
Payments made	(184,408)	(128,193)
Expense recorded	63,850	135,500
Deferred liability, end of year	$ 190,311	$ 310,869

Stock Option Plan

In 1998, the Company adopted a Stock Option Plan whereby participants may purchase up to 392 shares of Company common stock. During 1998, all shares available for grant were granted, of which options for 89 shares were eventually forfeited. During 2007, options for 89 shares were granted to an officer of the Company at an exercise price of $7,000 per share with an expiration date of October 24, 2017. At December 31, 2016 and 2015, there are no options available for future grant.

At December 31, 2016 and 2015, the Company had options for 34 and 73 shares outstanding, respectively. In July and December of 2016, an officer exercised options totaling 39 shares. $273,000 was received in cash related to the exercise. In August of 2015, an officer exercised options for 16 shares, cash in the amount of $112,000 was received related to this exercise.

Employee Benefit Plan

The Company provides a defined contribution 401(k) benefit plan for all eligible employees. Prior to 2015, the Company matched 50% of employee contributions to a maximum of 3% of employee compensation annually and may have made discretionary contributions to the Plan. During 2015, the Company revised the plan so that beginning January 1, 2015, the Company matches 50% of employee contributions to a maximum of 4% of employee compensation annually. Benefit plan contributions in 2016 and 2015 amounted to $343,830 and $308,635, respectively.

NOTE 16 SHAREHOLDER BUYOUT

During 2012, the Board of Directors approved certain transactions to enable the Company to make a Subchapter S election under the guidelines of the Internal Revenue Code (IRC). Each share of stock owned by a shareholder who did not meet the requirements to be a "qualified shareholder" under IRC guidelines was converted to cash in the amount of $7,975 per share. In addition, shareholders could opt out of the transaction, and those shares also converted to cash at the $7,975 per share stated price. On December 27, 2012, the Company finalized the buy-back transaction and recorded the treasury stock redemption liability for the ineligible shareholders' shares and the opt-out shares as follows:

Price paid per share	$ 7,975
Times the number of shares purchased	1,502
Stock redemption liability	$ 11,978,450

At December 31, 2016 and 2015, the Company has a liability for cash payments to former shareholders of $-0- and $31,900 respectively.

NOTE 17 COMMON STOCK AND TREASURY STOCK

At December 31, 2016 and 2015, the Company has 50,000 shares of common stock authorized at a par value of $1 per share. At December 31, 2016 and 2015 the Company has shares issued and outstanding as follows:

	2016	2015
Common shares issued, end of year	4,694	4,694
Less treasury stock:		
Shares held in treasury, beginning of year	525	541
Shares issued during the year	(39)	(16)
Shares held in treasury, end of year	486	525
Common shares outstanding, end of year	4,208	4,169

During 2016, there were 39 shares of treasury stock issued in connection with the exercise of stock options (Note 15). The shares were purchased into treasury at a cost of $7,975 per share and were sold for an aggregate recorded value of $273,000 ($7,000 per share). During 2015, the Company issued 16 shares of stock out of treasury and were sold for an aggregate recorded value of $112,000 ($7,000 per share).

At December 31, 2016 and 2015, the number of shareholders is 30, and 89% of the shares outstanding are considered closely held.

NOTE 18 FEDERAL INCOME TAXES

2013 Conversion to Subchapter S Corporation

The Company is organized for federal income tax purposes as a Subchapter S Corporation effective January 1, 2013. The Company has residual ongoing tax obligations resulting from the Subchapter S election. Because the Company applied the reserve method for determining tax deductions for bad debts in its previous tax returns, the accumulated excess bad debt deductions over actual charge-offs of $1,236,478 must be recaptured and reported as income in future tax returns during the years 2013 through 2015. As a result, the Company recorded this tax liability and the associated additional tax expense of $420,403 in 2013. The Company has paid all of this obligation as of December 31, 2015. Any build in gains tax that might be payable by the Company will be expensed and paid as incurred over the five year period expiring December 31, 2017.

NOTE 19 RELATED PARTY TRANSACTIONS

Related parties are defined as executive officers and directors of the Bank and directors and significant shareholders of the Company. Shareholders are considered significant if they and their affiliates own 5% or more of the Company's stock. In the ordinary course of business, the Company has conducted and expects to continue to conduct routine banking business with related parties. Such activities with related parties are identified as follows:

Loans - At December 31, 2016 and 2015, there were no loans to such related borrowers.

Unfunded Commitments - At December 31, 2016 and 2015, the Company had $160,000 in unfunded commitments to related parties, of which $150,000 represents unfunded letters of credit for both years.

Deposits - The Company held deposits from related parties of $1,182,593 and $1,088,912 at December 31, 2016 and 2015, respectively.

Leases - The Company maintains leases with a shareholder as described in Note 20.

NOTE 20 COMMITMENTS AND CONTINGENCIES

Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to various 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 for loans in process, commercial lines of credit, overdraft protection lines, and standby letters of credit at both fixed and variable rates of interest. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement the Company has in particular classes of financial instruments. The Company's exposure to possible 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 notional amount of those instruments. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

NOTE 20 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Company evaluates each customer's credit worthiness on a case by case basis. The amount of collateral obtained, if considered necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

In addition, credit limits have been established for Advantage's factoring customers. Case by case decisions are made on all receivables presented to Advantage for advances regardless of a customer's unadvanced available credit limit.

The following is a summary of the various financial instruments at December 31, 2016 and 2015 whose contract amounts represent credit risk:

	2016	2015
Commitments to extend credit - Bank	$ 81,298,254	$ 105,791,689
Unadvanced available credit - Advantage	$ 19,378,713	$ 31,583,725
Standby letters of credit - Bank	$ 3,752,806	$ 3,246,816
Unfunded limited partnership capital commitment (Note 4)	$ 450,000	$ 900,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. Guidance lines are not included in the above commitment amounts. The above unfunded commitments for Advantage represent available balances for additional receivable purchases for approved Advantage customers.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

Lease Commitments

Future minimum lease commitments by year and in the aggregate under noncancelable related party operating leases are as follows at December 31, 2016:

2017	$ 199,575
2018	204,010
	$ 403,585

NOTE 20 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Company maintains lease agreements for a Bank branch with leased office space of 8,870 square feet. Related party rent expense in 2016 and 2015 amounted to $338,539 and $322,826, respectively. Rent expense for all operating leases of premises and operating leases of equipment in 2016 and 2015 amounted to $377,026 and $390,075, respectively.

NOTE 21 REGULATORY MATTERS

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

Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Company's consolidated financial statements. Management believes, as of December 31, 2016 and 2015, that the Company and the Bank meet all the capital adequacy requirements to which they are subject.

NOTE 21 REGULATORY MATTERS (CONTINUED)

The Bank was categorized as well capitalized under the regulatory framework for prompt corrective action by the Federal Reserve Bank in their most recent examination report as of June 30, 2016. At December 31, 2016, the Bank is considered well capitalized under the regulatory framework. To remain well capitalized, the Bank will have to maintain minimum total risk-based, Tier I risk-based, Common Equity Tier 1 (or CET1) and Tier I leverage capital ratios as disclosed in the following table. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category. The following is a summary of capital ratios at December 31, 2016 and 2015 for the Bank:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2016						
Total Capital to Risk Weighted Assets	$60,246,000	13.1%	$36,854,000	8.0%	$46,067,500	10.0%
CET1 Capital to Risk Weighted Assets	$55,885,000	12.1%	$20,730,375	4.5%	$29,943,875	6.5%
Tier I Capital to Risk Weighted Assets	$55,885,000	12.1%	$27,640,500	6.0%	$36,854,000	8.0%
Leverage Ratio Total Assets (Leverage)	$55,885,000	9.3%	$24,113,920	4.0%	$30,142,400	5.0%
2015						
Total Capital to Risk Weighted Assets	$53,176,000	12.0%	$35,453,440	8.0%	$44,316,800	10.0%
CET1 Capital to Risk Weighted Assets	$49,303,000	11.1%	$19,942,560	4.5%	$28,805,920	6.5%
Tier I Capital to Risk Weighted Assets	$49,303,000	11.1%	$26,590,080	6.0%	$35,453,440	8.0%
Leverage Ratio Total Assets (Leverage)	$49,303,000	8.8%	$22,519,120	4.0%	$28,148,900	5.0%

Dividend Restrictions

In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide for the payment of tax distributions, dividends to shareholders, and other cash requirements. During 2016 and 2015, the Company distributed $3,428,949 and $2,565,927 to shareholders for the payment of federal income taxes.

Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared and paid by the Bank would cause the regulatory capital of the Bank to fall below specified minimum levels.

Restrictions on Lending from Subsidiary to Parent

Federal law imposes certain restrictions limiting the ability of the Bank to transfer funds to the Company in the forms of loans or advances. Section 23A of the Federal Reserve Act prohibits the Bank from making loans or advances to the Company in excess of 10% of its capital stock and surplus, as defined therein. There were no such loans or advances outstanding at December 31, 2016 and 2015.

NOTE 22 FAIR VALUE DISCLOSURES

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach, and or/the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability.

Fair Value Hierarchy

U.S. GAAP specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are observable or unobservable. These inputs are summarized in the three broad levels listed below.

Level 1 - Level 1 inputs are based upon unadjusted quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 - Level 2 inputs are based upon other significant observable inputs (including quoted prices in active or inactive markets for similar assets or liabilities), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of a financial instrument.

Level 3 - Level 3 inputs are based upon unobservable inputs reflecting management's assumptions that are supported by little or no market activity and that are significant to the fair value of the asset and liability. Level 3 measurements are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as the use of significant management judgment or estimation.

During the years ending December 31, 2016 and 2015, there were no transfers of assets or liabilities within the levels of the fair value hierarchy.

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 observable market-based parameters as inputs. Valuation adjustments may be made to ensure that assets and liabilities are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and creditworthiness, the underlying value of collateral pledged to loans, and other unobservable parameters. Any such valuation adjustments are applied consistently over time.

The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. 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 assets or liabilities could result in a different estimate of fair value at the reporting date.

NOTE 22 FAIR VALUE DISCLOSURES (CONTINUED)

Financial Instruments Recorded at Fair Value

Recurring - The following table summarizes financial instruments measured at fair value on a recurring basis as of December 31, 2016 and 2015. There were no financial instruments measured at fair value on a recurring basis using Level 1 or Level 3 valuations inputs at December 31, 2016 and 2015.

	2016	2015
Level 2:		
Securities available for sale	$ 91,372,107	$ 100,897,154

Nonrecurring - Nonrecurring measurement applies to instruments that are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. The following table summarizes financial instruments measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015. At December 31, 2016 and 2015, the Company held no financial instruments measured at fair value on a nonrecurring basis with Level 1 or Level 3 valuation inputs.

	2016	2015
Level 2:		
Impaired loans, net	$ 28,140	$ 34,858
Impaired factored receivables, net	$ 3,464,985	$ 1,803,067

Nonfinancial Assets and Nonfinancial Liabilities Recorded at Fair Value

Recurring - At December 31, 2016 and 2015, the Company has no nonfinancial assets or nonfinancial liabilities measured at fair value on a recurring basis.

Nonrecurring - At December 31, 2016 and 2015, the fair value of other real estate owned that would be disclosed in Note 10 would be measured on a nonrecurring basis using Level 2 inputs. At December 31, 2016 and 2015, the Company held no nonfinancial instruments measured at fair value on a nonrecurring basis with Level 1 or Level 3 valuation inputs.

Fair Value Disclosure for all Financial Instruments

The Company is required to disclose the fair value of all financial instruments, including those financial assets and financial liabilities not recorded at fair value in its consolidated balance sheets, for which it is practicable to estimate fair value. Following is a table that summarizes the estimated fair market values of all financial instruments of the Company at December 31, 2016 and 2015, followed by methods and assumptions that were used by the Company in estimating the fair value.

NOTE 22 FAIR VALUE DISCLOSURES (CONTINUED)

The estimated fair values of the Company's financial instruments are as follows at December 31, 2016 and 2015 (in thousands):

	2016				
		Estimated Fair Values			
	Carrying Amount	Level 1	Level 2	Level 3	Totals
Financial Assets					
Cash and cash equivalents	$ 26,439	$ 4,459	$ -	$ 21,980	$ 26,439
Securities available for sale	91,372	-	91,372	-	91,372
Other investments	4,309	-	-	4,309	4,309
Other bank stock	2,792	-	-	2,792	2,792
Loans, net	444,145	-	-	446,972	446,972
Factored receivables, net	17,285	-	-	17,285	17,285
Bank owned life insurance	10,454	-	-	10,454	10,454
	$ 596,796	$ 4,459	$ 91,372	$ 503,792	$ 599,623
Financial Liabilities					
Noninterest - bearing deposits	$ 136,254	$ 136,254	$ -	$ -	$ 136,254
Interest - bearing deposits	376,675	-	377,119	-	377,119
FHLB advances	21,000	-	20,850	-	20,850
Notes payable	9,060	-	9,060	-	9,060
Junior subordinated debentures	5,671	-	5,671	-	5,671
Repurchase agreements	9,448	-	9,448	-	9,448
Accrued reserves on factored receivables	3,268	-	3,268	-	3,268
	$ 561,376	$ 136,254	$ 425,416	$ -	$ 561,670

NOTE 22 FAIR VALUE DISCLOSURES (CONTINUED)

	2015				
		Estimated Fair Values			
	Carrying Amount	Level 1	Level 2	Level 3	Totals
Financial Assets					
Cash and cash equivalents	$ 12,802	$ 4,577	$ -	$ 8,225	$ 12,802
Securities available for sale	100,897	-	100,897	-	100,897
Other investments	5,100	-	-	5,100	5,100
Other bank stock	2,269	-	-	2,269	2,269
Loans, net	401,016	-	-	403,647	403,647
Factored receivables, net	19,322	-	-	19,322	19,322
Bank owned life insurance	10,150	-	-	10,150	10,150
	$ 551,556	$ 4,577	$ 100,897	$ 448,713	$ 554,187
Financial Liabilities					
Noninterest - bearing deposits	$ 119,016	$ 119,016	$ -	$ -	$ 119,016
Interest - bearing deposits	355,617	-	355,874	-	355,874
FHLB advances	28,800	-	28,579	-	28,579
Notes payable	6,060	-	6,060	-	6,060
Junior subordinated debentures	5,671	-	5,671	-	5,671
Repurchase agreements	2,049	-	2,049	-	2,049
Accrued reserves on factored receivables	3,168	-	3,168	-	3,168
	$ 520,381	$ 119,016	$ 401,401	$ -	$ 520,417

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.

Valuation Methodologies

The fair values of various financial instruments have been determined as follows:

Cash and deposits at other banks - For these short-term liquid instruments, the carrying amount is a reasonable estimate of fair value.

NOTE 22 FAIR VALUE DISCLOSURES (CONTINUED)

Securities available for sale – For securities available for sale, fair value equals quoted market price, if available. If a quoted market price is not available, management's estimate of fair value considers measurements from an independent pricing service that may consider dealer quotes, market spreads, and cash flow, and certain credit quality factors, as applicable.

Other investments - Other investments primarily consist of the short-term reverse repurchase agreement. For the short-term reverse repurchase agreement, the carrying amount at cost is a reasonable estimate of fair value due to the short-term nature of the instrument.

Other bank stock - Restricted stock consists of Federal Home Loan Bank stock, Federal Reserve Bank stock, and TIB stock. Cost, which is the carrying amount, is a reasonable estimate of fair value.

Loans and Factored Receivables – Fair value of loans are estimated for segregated groupings of loans with similar financial characteristics. Loans are segregated by segment such as real estate, commercial and consumer, and other loans. Each of these categories is further subdivided into fixed and adjustable rate loans and performing and nonperforming loans. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the various types of loans. Impaired loans are valued based upon management's estimate of realizable value by considering certain observable market data, typically in the case of real estate collateral, or customizing discounting criteria in the case of non-real estate assets pledge as collateral.

Bank owned life insurance - The fair value is estimated by discounting future cash flows using current interest rates for similar financial instruments.

Deposits - The fair values disclosed for demand deposits (e.g., interest and noninterest checking, savings, and of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

FHLB advances – For these liabilities, the fair value is estimated using the rates currently offered for borrowings of similar terms and remaining maturities.

Notes payable, repurchase agreements, and accrued reserves on factored receivables - For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Junior subordinated debt - The fair value is considered to be the carrying value due to the floating rate feature of the debt.