Board of Governors of the Federal Reserve System

# Annual Report of Holding Companies—FR Y-6

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

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); 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, C. MICHAEL SCOTT
Name of the Holding Company Director and Official

VICE PRESIDENT/DIRECTOR
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/28/2017
Date of Signature

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

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

**For Federal Reserve Bank Use Only**

RSSD ID ______
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

FIRST SAN BENITO BANCSHARES, CORPORATION
Legal Title of Holding Company

1151 W. HIGHWAY 77/P.O. BOX 2030
(Mailing Address of the Holding Company) Street / P.O. Box

| SAN BENITO | TX | 78586 |
|---|---|---|
| City | State | Zip Code |

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

| CARLOS MUNIZ | TREASURER |
|---|---|
| Name | Title |

956-276-5623
Area Code / Phone Number / Extension

956-399-0212
Area Code / FAX Number

CMUNIZ@FCBTX.COM
E-mail Address

WWW.FCBWEB.NET
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."**

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503

**First San Benito Bancshares, Corporation**
**San Benito, Texas**
**Fiscal Year Ending December 31, 2016**

Report Item

2a. Organizational chart

**FIRST SAN BENITO BANCSHARES, CORPORATION**
**San Benito, Texas**
**Incorporated in Texas**

| | |
|---|---|
| **100%** | **100%** |
| **FIRST COMMUNITY BANK, NATIONAL ASSOCIATION**<br>**San Benito, Texas**<br>**Incorporated in Texas** | **FIRST SAN BENITO STATUTORY TRUST I**<br>**Hartford, Connecticut**<br>**Incorporated in Connecticut** |

LEI: N/A

**Results:** A list of branches for your depository institution: FIRST COMMUNITY BANK, NATIONAL ASSOCIATION (ID_RSSD: 334264)
This depository institution is held by FIRST SAN BENITO BANCSHARES CORPORATION (1107009) of SAN BENITO, TX
The data are as of 12/31/2016. Data reflects information that was received and processed through 04/05/2017.

**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) | 334264 | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 1151 W HWY 77 | SAN BENITO | TX | 78586-4376 | CAMERON | UNITED STATES | Not Required | Not Required | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 334264 | |
| OK | | Full Service | 3932698 | BROWNSVILLE BRANCH | 470 EAST MORRISON ROAD | BROWNSVILLE | TX | 78526 | CAMERON | UNITED STATES | Not Required | Not Required | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 334264 | |
| OK | | Full Service | 3540253 | HARLINGEN BRANCH | 806 SOUTH 77 SUNSHINE STRIP | HARLINGEN | TX | 78550 | CAMERON | UNITED STATES | Not Required | Not Required | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 334264 | |
| OK | | Full Service | 3482250 | STUART PLACE ROAD BRANCH | 405 N STUART PLACE RD | HARLINGEN | TX | 78552 | CAMERON | UNITED STATES | Not Required | Not Required | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 334264 | |
| OK | | Full Service | 3540262 | LOS FRESNOS BRANCH | 205 EAST OCEAN BOULEVARD | LOS FRESNOS | TX | 78566 | CAMERON | UNITED STATES | Not Required | Not Required | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 334264 | |
| OK | | Full Service | 4722403 | MCALLEN BRANCH | 8000 NORTH 10TH STREET | MCALLEN | TX | 78504 | HIDALGO | UNITED STATES | Not Required | Not Required | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 334264 | |
| OK | | Full Service | 4455635 | RAYMONDVILLE BRANCH | 957 EAST HIDALGO AVENUE | RAYMONDVILLE | TX | 78580 | WILLACY | UNITED STATES | Not Required | Not Required | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 334264 | |
| OK | | Limited Service | 3540271 | EXPRESSWAY BRANCH | 600 SOUTH SAM HOUSTON BOULEVARD | SAN BENITO | TX | 78586 | CAMERON | UNITED STATES | Not Required | Not Required | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 334264 | |
| OK | | Full Service | 2783772 | SOUTH PADRE ISLAND BRANCH | 2701 PADRE BLVD | SOUTH PADRE ISLAND | TX | 78597 | CAMERON | UNITED STATES | Not Required | Not Required | FIRST COMMUNITY BANK, NATIONAL ASSOCIATION | 334264 | |

**Form FR Y-6**

**First San Benito Bancshares, Corporation**
**San Benito, Texas**
**Fiscal Year Ending December 31, 2016**

**Report Item 3: Securities Holders**

| Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2016 | | | 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 | | |
|---|---|---|---|---|---|
| (1)(a) Name & Address (City, State, Country) | (1)(b) Country of Citizenship or Incorporation | (1)(c) Number and Percentage of Each Class of Voting Securities | (2)(a) Name & Address (City, State, Country) | (2)(b) Country of Citizenship or Incorporation | (2)(c) Number and Percentage of Each Class of Voting Securities |
| Simmons, Leonard P. (San Benito, TX, USA) | USA | 172,070 9.11% | None | | |
| Simmons, MD Cecil R. (San Benito, TX, USA) | USA | 256,870 13.60% | | | |
| Boswell, Anita (Harlingen, TX, USA) | USA | 124,780 6.60% | | | |
| Frank Russell (San Benito, TX, USA) | USA | 95,240 5.04% | | | |

**Form FR Y-6**

**First San Benito Bancshares, Corporation**
**San Benito, Texas**
**Fiscal Year Ending December 31, 2016**

AMENDED
JUL 14 2017

**Report Item 4: Insiders**
(1)(a)(b)(c) and (2)(a)(b)(c)

| (1)<br>Names & Address (City, State, Country) | (2)<br>Principal Occupation if other than with Bank Holding Company | (3)(a)<br>Title & Position with Bank Holding Company | (3)(b)<br>Title & Position with Subsidiaries (include names of subsidiaries) | (3)(c)<br>Title & Position with Other Businesses (include names of other businesses) | (4)(a)<br>Percentage of Voting Securities in Bank Holding Company | (4)(b)<br>Percentage of Voting Securities in Subsidiaries (include names of subsidiaries) | (4)(c)<br>List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held) |
|---|---|---|---|---|---|---|---|
| Anita Boswell<br>(Harlingen, TX, US) | N/A | Secretary | EVP & CAO<br>(First Community Bank) | N/A | 6.60% | N/A | None |
| George Labar<br>(South Prade Island, TX, US) | N/A | Director | Business Development Officer<br>(First Community Bank) | N/A | 0.32% | N/A | None |
| Dr. Francisco Loya<br>(Harlingen, TX, US) | Physician | Director | None | Owner<br>Jumpcast, LLC | 2.38% | N/A | Jumpcast, LLC (50%) |
| Frank Russell<br>(San Benito, TX, US) | Farming | Director | None | Owner<br>281 South<br>One Percent Mgt<br>Russell Plantation Gin, Inc.<br>J & F Russell<br>RP II Farming<br>RP II Sugar<br>RGV Adventure<br>RUSC, LLC | 5.04% | N/A | 281 South (97.50%)<br>One Percent Mgt (90%)<br>Russell Plantation Gin (25%)<br>J & F Russell (25%)<br>RP II Farming (25%)<br>RP II Sugar (25%)<br>RGV Adventure 50%<br>RUSC, LLC (25%) |
| Michael Scott<br>(Raymondville, TX, US) | N/A | Vice President/Director | President & CEO<br>(First Community Bank) | N/A | 2.91% | N/A | None |
| Dr. Cecil Simmons<br>(San Benito, TX, US) | Physician | Director | None | Associate/Owner<br>Simmons Oak Farms | 13.60% | N/A | Simmons Oak Farms(50%) |
| Leonard Simmons<br>(San Benito, TX, US) | Farming/Real Estate Investments | President | None | VP/Owner<br>Leonard Simmons Farms<br>801 Farms, Inc.<br>Simmons Oak Farms | 9.11% | N/A | Leonard Simmons Farms (50%)<br>801 Farms, Inc.(50%)<br>Simmons Oak Farms(50%) |
| Carlos Muniz<br>(Harlingen, TX, US) | N/A | Treasurer | SVP & CFO | N/A | 0.21% | N/A | None |

# ANNUAL REPORT


# 2016

FIRST SAN BENITO BANCSHARES CORPORATION

*"Helping our communities grow and succeed"*

# SHAREHOLDER'S LETTER

Planning for, meeting, and exceeding customer expectations produced positive results for First Community Bank in 2016. Through their commitment to building and maintaining solid customer relationships, our team of banking professionals grew both the loan and deposit portfolios and increased the number of customers that we serve. That growth provided for further improvement in overall efficiencies and, most importantly, a significant increase in returns for our shareholders.

Net earnings for 2016 were up 26.5% totaling $3.294 million, which represents a $689 thousand increase for the year. The increased earnings translated to earnings per share of $1.74, 36 cents more per share than recorded in the previous year. An $18.0 million increase in the loan portfolio, coupled with a continued commitment to sound asset quality, were the largest providers of earnings growth. Deposits also grew $19.8 million, which funded loan growth and contributed to improvement in the bank's efficiency ratios, ending the year at 70.68%. Because all financial targets were achieved for the year, and in keeping with long-term objectives, cash dividends paid to the shareholders were doubled for 2016, equating to 20 cents per share.

While deposits and loans grew $19.8 million and $18.0 million respectively, total assets grew a lesser $8.4 million. During the last quarter of 2015, loan growth out paced deposit growth. That difference, together with a drop in public funds deposits during the same time period, necessitated the purchase of, or borrowing, short-term funds from the Federal Home Loan Bank. The bank maintains a line of credit of approximately $100 million with the Federal Home Loan Bank. The line of credit is strategically utilized to manage the balance sheet when needed. At the end of 2015, $15.1 million was borrowed from the Federal Home Loan Bank and an additional $1.8 million was borrowed from a correspondent bank, for a total of $16.9 million. During the first quarter of 2016 the bank de-leveraged the balance sheet by selling off approximately $13.0 million in securities. Favorable interest rates provided for a gain on the sale and the proceeds were used to reduce short-term borrowings. This effectively "shrank" the balance sheet by a like amount. During the remainder of the year, payments received on the mortgage-backed securities were also retained for funding needs. At the end of the year the securities portfolio had been reduced by $16.9 million, almost exactly the amount of the borrowings at the end of 2015. In summary, the reduction in the securities portfolio, combined with deposit growth, was more than sufficient to repay short-term borrowings and fund loan growth. At the end of 2016 the bank was in a positive funds sold position of $4.4 million.

We are also pleased to report that the McAllen Banking Center (featured on the cover) was completed as planned and opened for business on the last day of February. By year-end, deposits at the new location topped $14.5 million. Moreover, the loan portfolio totaled $27.2 million. We continue to have high expectations for the McAllen operation, as it anchors our organization in Hidalgo County.

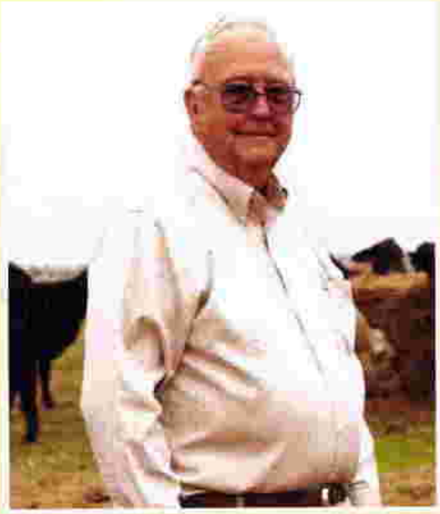
We are deeply appreciative of our shareholders for their loyalty and support and are thankful for the dedicated and committed team of bankers we have on board at First Community Bank. We look forward to 2017 as momentum builds for the growth and profitability of our organization.

Sincerely,

Leonard Simmons
President
First San Benito Bancshares Corporation

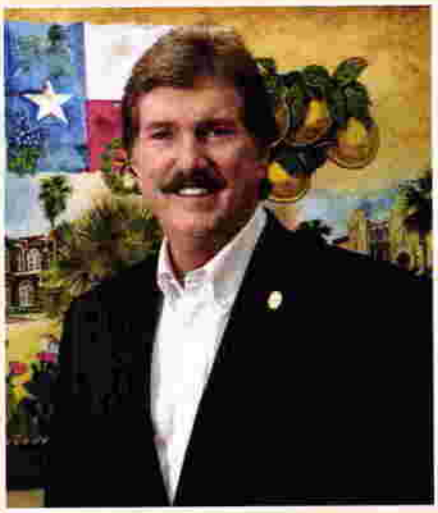
C. Michael Scott
President/CEO
First Community Bank

# BOARD OF DIRECTORS

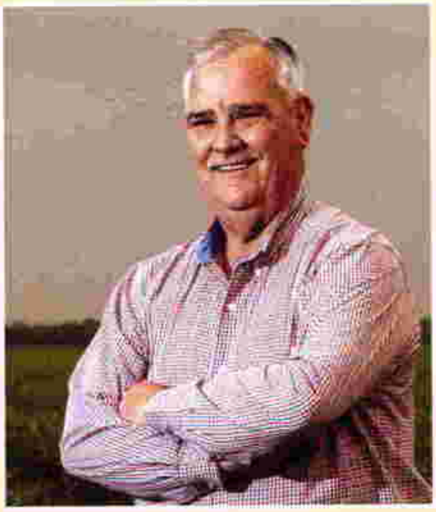


*Cecil Simmons*

*George Labar*



*Michael Scott*



*Leonard Simmons*
*Chairman of the Board*

*Anita Boswell*

*Frank Russell*

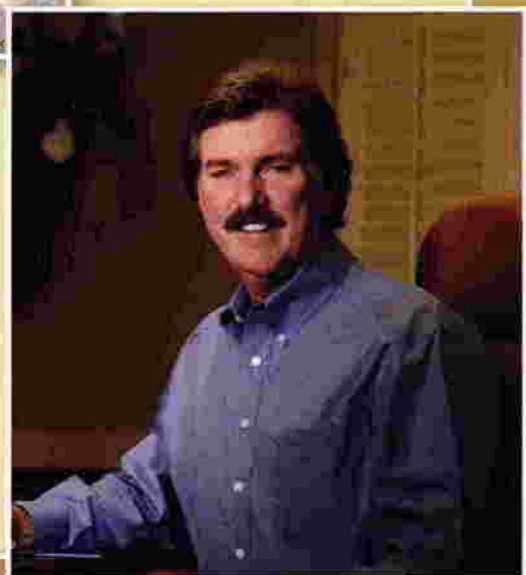
*Francisco Loya*

*Luis Muzquiz*

# EXECUTIVE TEAM

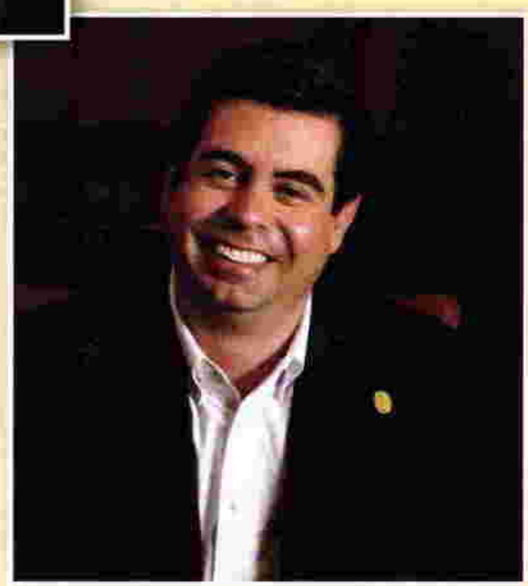
*Phil Teinert, Senior Vice President*
*Chief Lending Officer*

*Anita Boswell, Executive Vice President*
*Chief Administrative Officer*



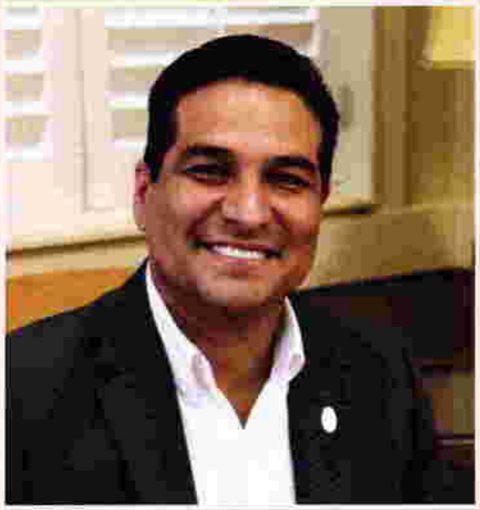
*Michael Scott, President*
*Chief Executive Officer*

*Joaquin Lopez, Senior Vice President*
*Chief Operations Officer*



*Carlos Muniz, Senior Vice President*
*Chief Financial Officer*

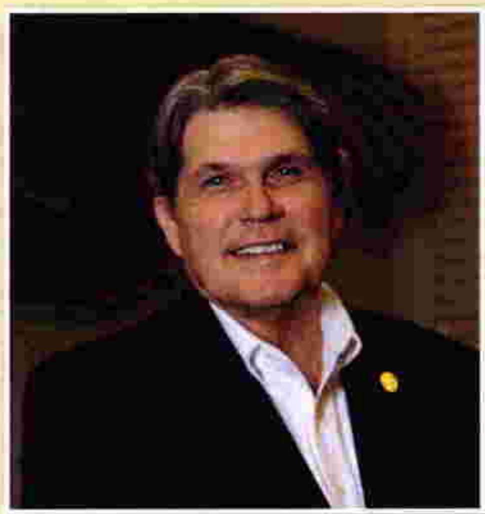
# OFFICERS



*Albert Muñiz, Vice President/Lending*
*Harlingen - Stuart Place*

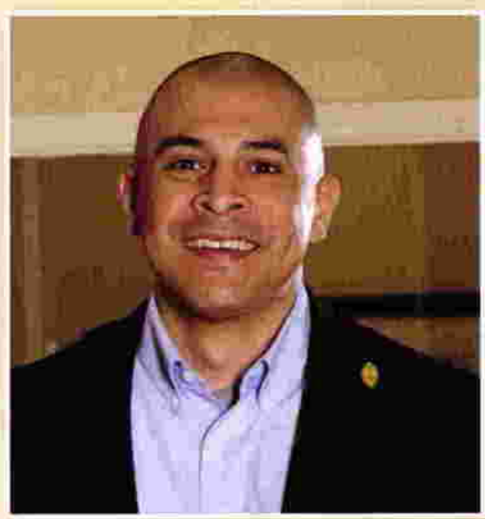
*Sandra Lopez-Langley, Vice President/*
*Business Development, Brownsville*

*Rosemary Varnam, Vice President/Accounting*
*Harlingen - Stuart Place*



*Gordon Magdalena, Senior Vice President/*
*Lending, Harlingen*

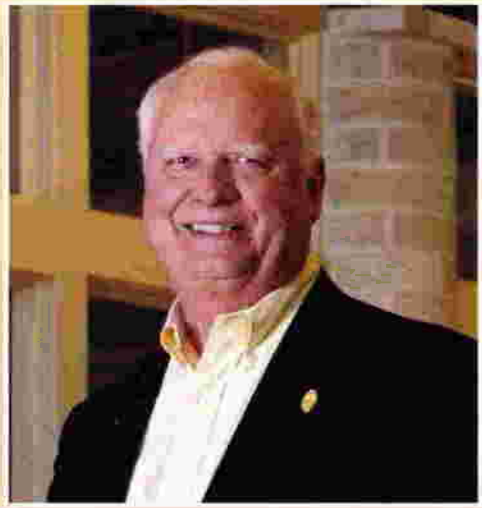
*Raul Marroquin, Vice President/*
*Loan Portfolio Management, San Benito*



*Marco Perez, Vice President/Lending*
*McAllen*

# OFFICERS

*Kim White, Vice President/Manager*
*Harlingen*

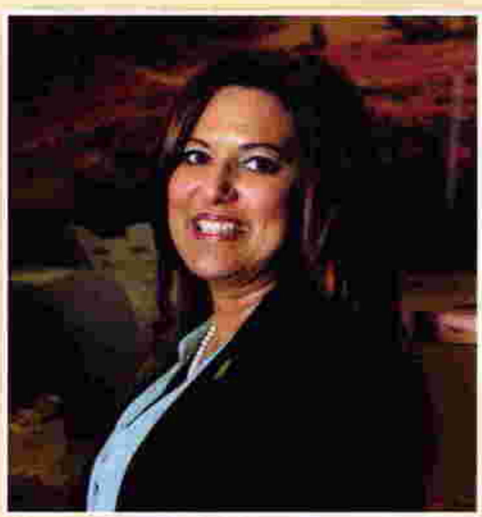


*Walter Pawkett, Senior Vice President/Lending*
*Brownsville*

*Horacio Maya, Vice President/Lending*
*Brownsville*

*Cynthia Gamez, Vice President/*
*Corporate Adminstration, Harlingen*

*Luis Cortinas, Senior Vice President/Lending*
*McAllen*



*Jennifer Sanchez, Vice President/Manager*
*San Benito*

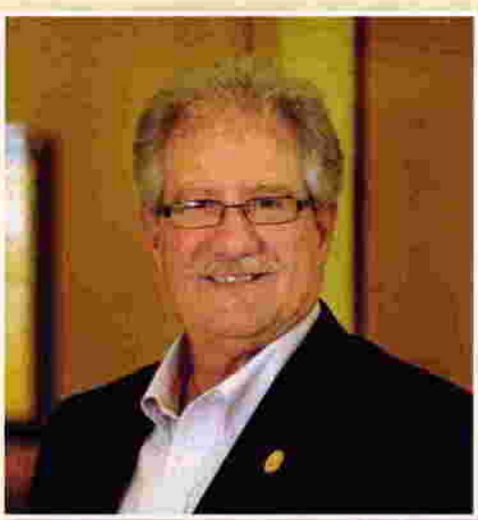
# OFFICERS

*John Reed, Senior Vice President/Manager*
*South Padre Island*

*Brandon Ede, Vice President/IT Manager*
*San Benito*

*Jennifer Naranjo, Vice President/*
*Senior Credit Analyst, San Benito*

*Virginia Cruz, Vice President/BSA Officer*
*McAllen*

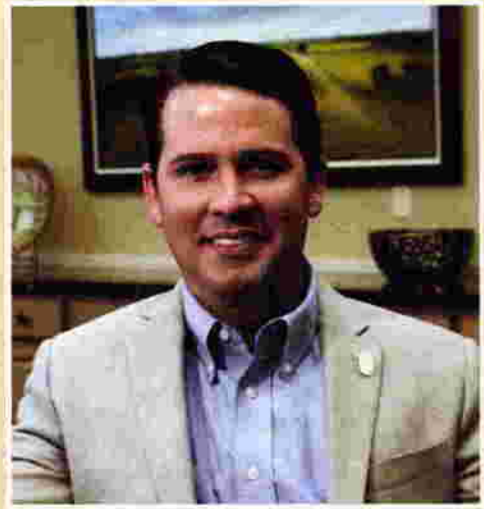


*Bob Walker, Vice President/Lending*
*Brownsville*

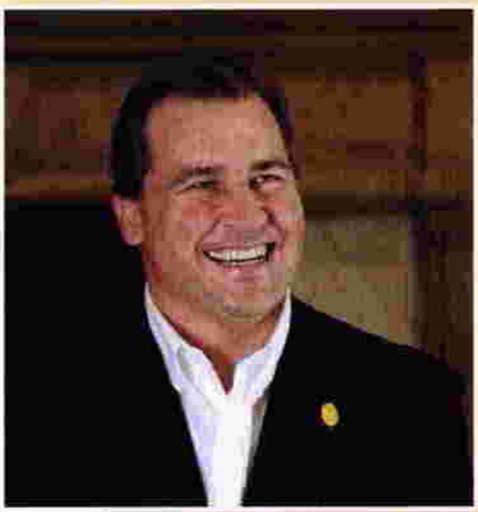
*Michael McCarthy, Senior Vice President/Lending*
*McAllen*

# OFFICERS

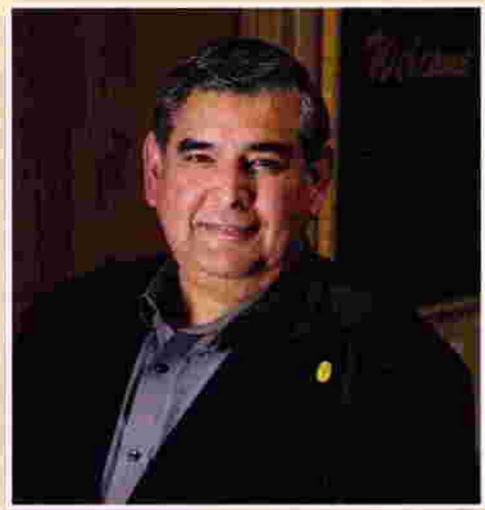
*Norma Boland, Vice President/Lending*
*San Benito*



*Ricky Leal, Senior Vice President/Manager*
*Harlingen - Stuart Place*

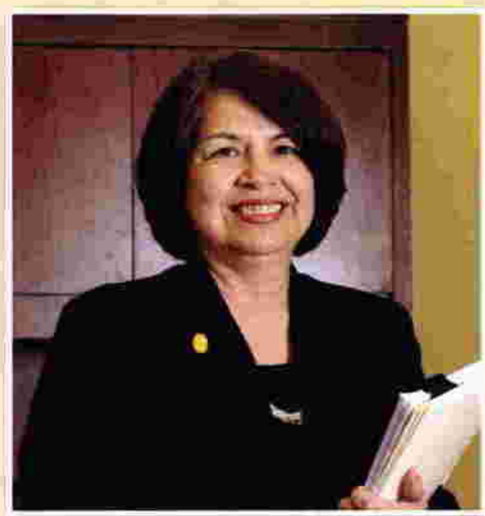


*Kyle Orgera, Vice President/Lending*
*Harlingen*



*William Gonzalez, Vice President/Comptroller*
*Harlingen - Stuart Place*

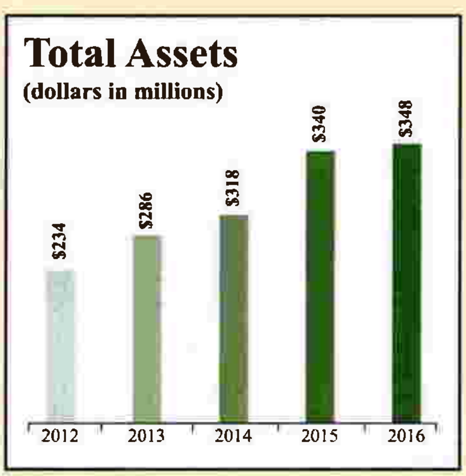
*Steven Rivera, Vice President/Loan Operations*
*San Benito*

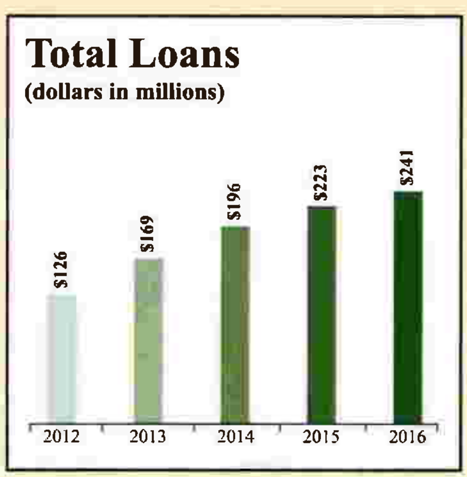


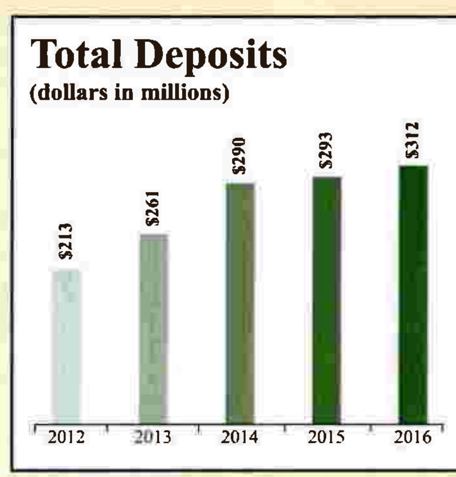
*Diana Salazar, Vice President/Manager*
*Los Fresnos*

# FINANCIAL HIGHLIGHTS

| (Dollars in Thousands) | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|
| **Balances at Year End** | | | |
| Total Assets | $ 348,175 | | $ 339,802 |
| Loans | 241,354 | | 223,324 |
| Securities | 66,779 | | 83,660 |
| Interest-Earning Assets | 308,133 | | 306,984 |
| Deposits | 312,335 | | 292,538 |
| Stockholder's Equity | 24,384 | | 22,723 |
| **Average Balances for the Year** | | | |
| Total Assets | $ 345,226 | | $ 329,940 |
| Loans | 232,599 | | 204,174 |
| Securities | 68,102 | | 85,204 |
| Interest-Earning Assets | 317,143 | | 302,068 |
| Deposits | 306,198 | | 297,617 |
| Stockholder's Equity | 24,486 | | 21,499 |



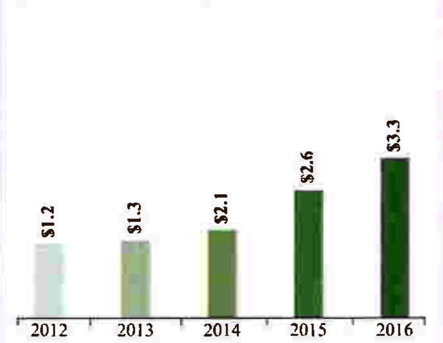



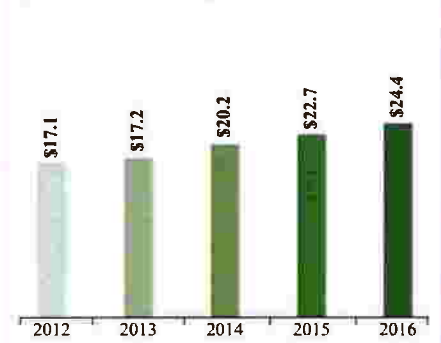
# FINANCIAL HIGHLIGHTS

| (Dollars in Thousands, Except per Share Data) | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **For the Year** | | |
| Net Income | $ 3,294 | $ 2,605 |
| Return on Average Assets | 0.95% | 0.79% |
| Return on Average Shareholders' Equity | 13.45% | 12.12% |
| Net Interest Margin | 4.41% | 4.30% |
| Efficiency Ratio | 70.68% | 72.78% |
| Per Common Share Data | | |
| Net Income | $ 1.74 | $ 1.38 |
| Book Value at Period - End | 12.91 | 12.03 |
| Weighted Average Shares | 1,889,280 | 1,889,280 |
| **Capital Ratios at Year End (First Community Bank, National Association)** | | |
| Total Risk-Based Capital Ratio | 12.6% | 13.0% |
| Tier I Risk-Based Capital Ratio | 11.3% | 11.8% |
| Leverage Capital Ratio | 8.5% | 8.3% |
| Equity to Asset Ratio | 8.6% | 8.5% |

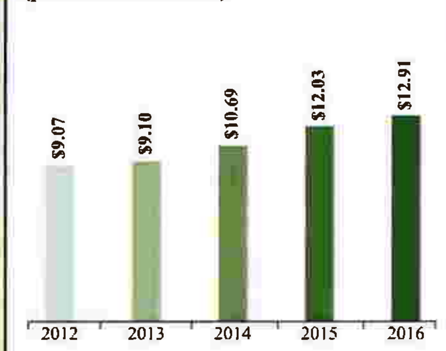
**Net Income**
**(dollars in millions)**




**Stockholder's Equity**
**(dollars in millions)**




**Book Value**
**(per common share)**



# FIRST IN THE COMMUNITY


# First San Benito Bancshares Corporation

Independent Auditor's Report and
Consolidated Financial Statements

December 31, 2016 and 2015

# First San Benito Bancshares Corporation
## December 31, 2016 and 2015

## Contents

# Independent Auditor's Report

Board of Directors
First San Benito Bancshares Corporation
San Benito, Texas

We have audited the accompanying consolidated financial statements of First San Benito Bancshares Corporation and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

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

BKD, LLP

San Antonio, Texas
April 3, 2017

# First San Benito Bancshares Corporation

## Consolidated Balance Sheets

## December 31, 2016 and 2015

### Assets

| | 2016 | 2015 |
|---|---|---|
| Cash and due from banks | $ 15,343,983 | $ 13,954,001 |
| Federal funds sold | 4,375,000 | - |
| Total cash and cash equivalents | 19,718,983 | 13,954,001 |
| Available-for-sale securities | 66,778,601 | 83,659,690 |
| Loans | 241,354,339 | 223,324,436 |
| Less allowance for loan losses | (3,770,181) | (3,390,852) |
| Net loans | 237,584,158 | 219,933,584 |
| Premises and equipment, net | 14,202,707 | 13,288,522 |
| Non-marketable equity securities | 1,397,152 | 1,197,952 |
| Foreclosed assets held for sale, net | 350,000 | 678,658 |
| Interest receivable | 1,527,633 | 1,452,554 |
| Cash surrender value of life insurance | 4,205,762 | 4,108,277 |
| Goodwill | 471,006 | 471,006 |
| Core deposits intangible asset | 273,000 | 312,000 |
| Other assets | 1,665,949 | 745,550 |
| Total assets | $ 348,174,951 | $ 339,801,794 |

### Liabilities and Stockholders' Equity

| | 2016 | 2015 |
|---|---|---|
| **Liabilities** | | |
| Deposits | | |
| Demand | $ 108,269,875 | $ 99,101,070 |
| Savings, NOW and money market | 143,770,730 | 137,557,923 |
| Time deposits | 60,294,338 | 55,879,181 |
| Total deposits | 312,334,943 | 292,538,174 |
| Short-term borrowings | 4,342,143 | 1,800,000 |
| Other borrowings | 5,493,000 | 21,380,706 |
| Interest payable and other liabilities | 1,621,321 | 1,360,355 |
| Total liabilities | 323,791,407 | 317,079,235 |
| **Stockholders' Equity** | | |
| Common stock: $0.10 par value; authorized 10,000,000 shares; issued and outstanding 2016 and 2015 - 1,889,280 shares | 188,928 | 188,928 |
| Additional paid-in capital | 4,606,345 | 4,606,345 |
| Retained earnings | 20,279,813 | 17,363,580 |
| Accumulated other comprehensive income (loss) | (691,542) | 563,706 |
| Total stockholders' equity | 24,383,544 | 22,722,559 |
| Total liabilities and stockholders' equity | $ 348,174,951 | $ 339,801,794 |

 *See Notes to Consolidated Financial Statements*

# First San Benito Bancshares Corporation
## Consolidated Statements of Income
## Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Interest Income** | | |
| Loans | $ 13,719,815 | $ 12,303,826 |
| Securities | | |
| Taxable | 646,304 | 985,314 |
| Tax-exempt | 679,459 | 715,569 |
| Federal funds sold and other | 104,718 | 86,564 |
| Total interest income | 15,150,296 | 14,091,273 |
| **Interest Expense** | | |
| Deposits | 902,976 | 829,602 |
| Other interest expense | 263,057 | 259,322 |
| Total interest expense | 1,166,033 | 1,088,924 |
| **Net Interest Income** | 13,984,263 | 13,002,349 |
| **Provision for Loan Losses** | 425,000 | 626,000 |
| **Net Interest Income After Provision for Loan Losses** | 13,559,263 | 12,376,349 |
| **Noninterest Income** | | |
| Service charges on deposit accounts | 1,667,531 | 1,684,650 |
| ATM and debit card income | 804,878 | 779,164 |
| Loan fee income | 607,917 | 604,768 |
| Net realized gains on sales of available-for-sale securities | 180,771 | 21,958 |
| Net realized gain (loss) on sales of premises and equipment | - | (1,260) |
| Net realized gains (loss) on foreclosed assets | 59,194 | (25,694) |
| Other | 184,979 | 167,166 |
| Total noninterest income | 3,505,270 | 3,230,752 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 7,034,460 | 6,642,459 |
| Occupancy and equipment expense | 1,952,021 | 1,827,588 |
| Data processing fees | 483,506 | 495,203 |
| ATM and debit card processing and expenses | 537,882 | 507,546 |
| Advertising and public relations | 326,371 | 316,916 |
| Office supplies | 181,713 | 140,574 |
| Deposit insurance premiums | 218,322 | 186,757 |
| Director fees | 168,000 | 168,000 |
| Expenses of foreclosed assets | 93,750 | 35,805 |
| Other | 1,364,877 | 1,494,199 |
| Total noninterest expense | 12,360,902 | 11,815,047 |
| **Income Before Income Tax** | 4,703,631 | 3,792,054 |
| **Provision for Income Taxes** | 1,409,542 | 1,187,352 |
| **Net Income** | $ 3,294,089 | $ 2,604,702 |

# First San Benito Bancshares Corporation

## Consolidated Statements of Comprehensive Income

## Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Net Income** | $ 3,294,089 | $ 2,604,702 |
| **Other Comprehensive Income (Loss)** | | |
| Unrealized appreciation on available-for-sale securities, net of taxes of $(708,105) and $45,345 for 2016 and 2015, respectively | (1,135,939) | 117,008 |
| Reclassification adjustment for realized gains included in net income, net of taxes of $61,462 and $7,466 for 2016 and 2015, respectively | (119,309) | (14,492) |
| | (1,255,248) | 102,516 |
| **Comprehensive Income** | $ 2,038,841 | $ 2,707,218 |

# First San Benito Bancshares Corporation
## Consolidated Statements of Stockholders' Equity
## Years Ended December 31, 2016 and 2015

| | Common Stock | | Additional Paid-in | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Income (Loss) | Total |
| **Balance, January 1, 2015** | 1,889,280 | $ 188,928 | $ 4,606,345 | $ 14,947,810 | $ 461,190 | $ 20,204,273 |
| Net income | - | - | - | 2,604,702 | - | 2,604,702 |
| Other comprehensive income | | | | | 102,516 | 102,516 |
| Dividends on common stock, $0.10 per share | - | - | - | (188,932) | - | (188,932) |
| **Balance, December 31, 2015** | 1,889,280 | 188,928 | 4,606,345 | 17,363,580 | 563,706 | 22,722,559 |
| Net income | - | - | - | 3,294,089 | - | 3,294,089 |
| Other comprehensive income (loss) | | | | | (1,255,248) | (1,255,248) |
| Dividends on common stock, $0.20 per share | - | - | - | (377,856) | - | (377,856) |
| **Balance, December 31, 2016** | 1,889,280 | $ 188,928 | $ 4,606,345 | $ 20,279,813 | $ (691,542) | $ 24,383,544 |

# First San Benito Bancshares Corporation

## Consolidated Statements of Cash Flows

## Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 3,294,089 | $ 2,604,702 |
| Items not requiring (providing) cash | | |
| Depreciation | 625,063 | 626,955 |
| Provision for loan losses | 425,000 | 626,000 |
| Amortization of premiums and discounts on securities | 796,201 | 1,042,166 |
| Amortization of intangible assets | 39,000 | 39,000 |
| Deferred income taxes | (127,635) | (320,398) |
| Increase in cash surrender value of life insurance | (97,485) | (108,277) |
| Stock dividends on nonmarketable equity securities | (4,700) | (34,855) |
| Net realized gains on sales of available-for-sale securities | (180,771) | (21,958) |
| Net realized (gains) losses on premises and equipment | - | 1,260 |
| Net realized (gains) losses on foreclosed assets | (59,194) | 25,694 |
| Changes in | | |
| Interest receivable | (75,079) | 10,894 |
| Other assets | (146,120) | (35,493) |
| Interest payable and other liabilities | 260,966 | 784,229 |
| Net cash provided by operating activities | 4,749,335 | 5,239,919 |
| **Investing Activities** | | |
| Purchases of available-for-sale securities | (20,487,436) | (24,857,745) |
| Proceeds from maturities of available-for-sale securities | 9,298,261 | 12,823,749 |
| Proceeds from sales of available-for-sale securities | 25,552,942 | 9,693,637 |
| Net change in loans | (18,657,309) | (27,187,141) |
| Purchase of premises and equipment | (1,539,248) | (2,233,710) |
| Net purchases of nonmarketable equity securities | (194,500) | (602,434) |
| Proceeds from sales of foreclosed assets | 969,587 | 61,985 |
| Net cash used in investing activities | (5,057,703) | (32,301,659) |
| **Financing Activities** | | |
| Net increase in demand, NOW, savings and money market deposits | 15,381,612 | 10,168,075 |
| Net decrease (increase) in time deposits | 4,415,157 | (7,769,493) |
| Net change in short-term borrowings | 2,542,143 | 1,800,000 |
| Proceeds of other borrowings | 29,150,000 | 30,001,000 |
| Repayment of other borrowings | (45,037,706) | (15,381,137) |
| Dividends paid | (377,856) | (188,932) |
| Net cash provided by financing activities | 6,073,350 | 18,629,513 |
| **Increase (Decrease) in Cash and Cash Equivalents** | 5,764,982 | (8,432,227) |
| **Cash and Cash Equivalents, Beginning of Year** | 13,954,001 | 22,386,228 |
| **Cash and Cash Equivalents, End of Year** | $ 19,718,983 | $ 13,954,001 |
| **Supplemental Cash Flows Information** | | |
| Interest paid | $ 1,162,880 | $ 1,094,594 |
| Income taxes paid | $ 1,350,284 | $ 1,058,014 |
| Real estate acquired in settlement of loans | $ 581,735 | $ 64,118 |

 *See Notes to Consolidated Financial Statements*

# First San Benito Bancshares Corporation
## Notes to Consolidated Financial Statements
## December 31, 2016 and 2015

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations*

First San Benito Bancshares Corporation (Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary First Community Bank, National Association (Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Cameron, Willacy and Hidalgo Counties in Texas. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

### *Variable Interest Entities*

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. The Company owns 100 percent of the common securities of First San Benito Statutory Trust I (Trust). The Trust is considered a VIE; however, the Trust is not consolidated because the Company is not the primary beneficiary. There are no other VIEs in which the Company has an interest.

All facts and circumstances are taken into consideration when determining whether the Company has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Company's financial statements. In many cases, it is qualitatively clear based on whether the Company has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether the Company is obligated to absorb significant losses of or has a right to receive significant benefits from the VIE. In other cases, a more detailed qualitative analysis and possibly a quantitative analysis are required to make such a determination.

The Company monitors the consolidated and unconsolidated VIEs to determine if any reconsideration events have occurred that could cause any of them to no longer be a VIE. The Company reconsiders whether it is the primary beneficiary of a VIE on an ongoing basis. A previously unconsolidated VIE is consolidated when the Company becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Company ceases to be the primary beneficiary or the entity is no longer a VIE.

# First San Benito Bancshares Corporation

## Notes to Consolidated Financial Statements

## December 31, 2016 and 2015

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and fair values of financial instruments.

### *Cash Equivalents*

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016, cash equivalents consisted primarily of federal funds sold. There were no cash equivalents at December 31, 2015.

At December 31, 2016, the Company's cash accounts exceeded federally insured limits by approximately $944,000. In addition, the Company had approximately $11,239,000 held on deposit with the Federal Reserve Bank at December 31, 2016.

### *Securities*

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

### *Loans*

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

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

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

### *Allowance for Loan Losses*

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

### *Premises and Equipment*

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

| | |
|---|---|
| Buildings and improvements | 35-40 years |
| Leasehold improvements | 5-10 years |
| Equipment and automobiles | 3-10 years |

### *Long-lived Asset Impairment*

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2016 and 2015.

### *Non-marketable Equity Securities*

Non-marketable equity securities consist of common stock in the Federal Reserve Bank (FRB), Federal Home Loan Bank (FHLB) and The Independent Bankers Bank (TIB). The FRB and FHLB stocks are required investments for institutions that are members of the FRB and FHLB systems. The required investment in these common stocks is based on a predetermined formula. The common stock in TIB was purchased to obtain advantageous rates on correspondent services offered by TIB to its shareholders. The securities are carried at cost and periodically evaluated for impairment.

### *Foreclosed Assets Held for Sale*

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

### *Bank-owned Life Insurance*

The Bank has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

### *Goodwill*

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

### *Intangible Assets*

Intangible assets with finite lives are being amortized on the straight-line basis over ten years. Such assets are periodically evaluated as to the recoverability of their carrying values.

### *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 (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) 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 (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

### *Income Taxes*

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities and enacted changes in tax rates and laws and are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

### *Comprehensive Income*

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities.

### *Transfers Between Fair Value Hierarchy Levels*

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

## Note 2: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the FRB. The reserve required at December 31, 2016, was $8,511,000.

# First San Benito Bancshares Corporation

## Notes to Consolidated Financial Statements

## December 31, 2016 and 2015

### Note 3: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-Sale Securities** | | | | |
| December 31, 2016 | | | | |
| U.S. Government sponsored enterprises (GSE) residential mortgage-backed securities | $ 36,191,728 | $ 2,285 | $ (537,122) | $ 35,656,891 |
| State and political subdivisions | 31,634,664 | 248,083 | (761,037) | 31,121,710 |
| | $ 67,826,392 | $ 250,368 | $ (1,298,159) | $ 66,778,601 |
| December 31, 2015 | | | | |
| U.S. government and federal agency | $ 1,004,664 | $ 1,081 | $ - | $ 1,005,745 |
| U.S. Government sponsored enterprises (GSE) residential mortgage-backed securities | 47,661,365 | 143,434 | (278,547) | 47,526,252 |
| State and political subdivisions | 34,139,561 | 1,045,090 | (56,958) | 35,127,693 |
| | $ 82,805,590 | $ 1,189,605 | $ (335,505) | $ 83,659,690 |

The amortized cost and fair value of available-for-sale securities at December 31, 2016, by contractual maturity, 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.

| | Amortized Cost | Fair Value |
|---|---|---|
| Within one year | $ - | $ - |
| One to five years | 4,782,342 | 4,829,313 |
| Five to ten years | 19,782,401 | 19,526,688 |
| After ten years | 7,069,921 | 6,765,709 |
| | 31,634,664 | 31,121,710 |
| Mortgage-backed securities | 36,191,728 | 35,656,891 |
| Totals | $ 67,826,392 | $ 66,778,601 |

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $65,356,143 at December 31, 2016, and $57,944,943 at December 31, 2015.

Gross gains of $282,486 and $129,322 and gross losses of $101,715 and $107,364 resulting from sales of available-for-sale securities were realized for 2016 and 2015, respectively.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2016 and 2015, was $50,948,181 and $37,725,741, which is approximately 76 percent and 45 percent, respectively, of the Company's available-for-sale portfolio. These declines primarily resulted from recent changes in market interest rates from those at the time the securities were purchased.

Management believes the declines in fair value for these securities are temporary.

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016 and 2015:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **December 31, 2016** | | | | | | |
| GSE residential mortgage-backed securities | $ 29,806,566 | $ 537,122 | $ - | $ - | $29,806,566 | $ 537,122 |
| State and political subdivisions | 21,141,615 | 761,037 | - | - | 21,141,615 | 761,037 |
| Total temporarily impaired securities | $ 50,948,181 | $ 1,298,159 | $ - | $ - | $50,948,181 | $ 1,298,159 |
| **December 31, 2015** | | | | | | |
| GSE residential mortgage-backed securities | $ 29,942,479 | $ 252,643 | $ 3,126,120 | $ 25,904 | $33,068,599 | $ 278,547 |
| State and political subdivisions | 2,531,533 | 20,980 | 2,125,609 | 35,978 | 4,657,142 | 56,958 |
| Total temporarily impaired securities | $ 32,474,012 | $ 273,623 | $ 5,251,729 | $ 61,882 | $37,725,741 | $ 335,505 |

### Residential Mortgage-backed Securities

The unrealized losses on the Company's investment in residential mortgage-backed securities were caused by interest rate increases subsequent to the purchase. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

### State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate increases subsequent to the purchase. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

## Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

| | 2016 | 2015 |
|---|---|---|
| Commercial and industrial | $ 35,430,725 | $ 35,854,036 |
| Real estate | | |
| Commercial real estate | 77,409,519 | 72,081,889 |
| Residential real estate | 53,446,133 | 54,342,380 |
| Agricultural real estate | 11,299,995 | 10,365,913 |
| Construction | 42,392,298 | 30,218,803 |
| Agricultural production | 11,312,759 | 12,330,869 |
| Consumer and other | 10,088,844 | 8,164,513 |
| | 241,380,273 | 223,358,403 |
| Less | | |
| Net deferred loan fees | (25,934) | (33,967) |
| Allowance for loan losses | (3,770,181) | (3,390,852) |
| Net loans | $ 237,584,158 | $ 219,933,584 |

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2016 and 2015:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial and Industrial | Real Estate | Agricultural Production | Consumer and Other | Unallocated | Total |
| **Allowance for loan losses** | | | | | | |
| Balance, beginning of year | $ 665,972 | $ 2,349,692 | $ 278,042 | $ 97,146 | $ - | $ 3,390,852 |
| Provision charged to expense | 74,332 | 406,012 | (148,511) | 93,167 | - | 425,000 |
| Losses charged off | (2,706) | - | - | (87,455) | - | (90,161) |
| Recoveries | 31,500 | - | - | 12,990 | - | 44,490 |
| Balance, end of year | $ 769,098 | $ 2,755,704 | $ 129,531 | $ 115,848 | $ - | $ 3,770,181 |
| **Allowance Balances** | | | | | | |
| Ending balance, individually evaluated for impairment | $ 169,375 | $ - | $ - | $ - | $ - | $ 169,375 |
| Ending balance, collectively evaluated for impairment | 599,723 | 2,755,704 | 129,531 | 115,848 | - | 3,600,806 |
| Ending balance | $ 769,098 | $ 2,755,704 | $ 129,531 | $ 115,848 | $ - | $ 3,770,181 |
| **Loans** | | | | | | |
| Ending balance, individually evaluated for impairment | $ 834,375 | $ 81,414 | $ - | $ - | $ - | $ 915,789 |
| Ending balance, collectively evaluated for impairment | 34,596,350 | 184,466,531 | 11,312,759 | $ 10,088,844 | - | 240,464,484 |
| Ending balance | $ 35,430,725 | $ 184,547,945 | $ 11,312,759 | $ 10,088,844 | $ - | $ 241,380,273 |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial and Industrial | Real Estate | Agricultural Production | Consumer and Other | Unallocated | Total |
| **Allowance for loan losses** | | | | | | |
| Balance, beginning of year | $ 589,350 | $ 1,888,172 | $ 203,059 | $ 97,204 | $ - | $ 2,777,785 |
| Provision charged to expense | 22,622 | 463,747 | 78,595 | 61,036 | - | 626,000 |
| Losses charged off | - | (2,227) | (3,612) | (81,662) | - | (87,501) |
| Recoveries | 54,000 | - | - | 20,568 | - | 74,568 |
| Balance, end of year | $ 665,972 | $ 2,349,692 | $ 278,042 | $ 97,146 | $ - | $ 3,390,852 |
| **Allowance Balances** | | | | | | |
| Ending balance, individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - |
| Ending balance, collectively evaluated for impairment | 665,972 | 2,349,692 | 278,042 | 97,146 | - | 3,390,852 |
| Ending balance | $ 665,972 | $ 2,349,692 | $ 278,042 | $ 97,146 | $ - | $ 3,390,852 |
| **Loans** | | | | | | |
| Ending balance, individually evaluated for impairment | $ 44,021 | $ 139,986 | $ - | $ - | $ - | $ 184,007 |
| Ending balance, collectively evaluated for impairment | 35,810,015 | 166,868,999 | 12,330,869 | 8,164,513 | - | 223,174,396 |
| Ending balance | $ 35,854,036 | $ 167,008,985 | $ 12,330,869 | $ 8,164,513 | $ - | $ 223,358,403 |

### *Internal Risk Categories*

Loan grades are numbered 1 through 7. Grades 1 through 3 are considered satisfactory grades. The grade of 5 or Special Mention, represents loans of lower quality and is considered criticized. The grades of 6 or Substandard, or 7, Doubtful, refer to assets that are classified. The use of and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

**Pass (1-3)** - The Bank has three levels within this category to provide granularity between loans.

**Pass Watch (4)** - Pass watch grade is used to identify credits which may have some of the following characteristics: collateral documentation deficiencies, marginal collateral support, weak or unsupported collateral valuations, lack current or complete financial data and/or analysis, needs additional monitoring, recent changes in management or operations, terms beyond policy guidelines, variations in balance sheet or cash flow/operating components or trends from prior periods or forecasts, past credit problems, high leverage, or untested performance under repayment terms, among others.

**Special Mention (OAEM) (5)** - These assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

**Substandard (6)** - These loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

**Doubtful (7) -** Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment and class of the loan portfolio are described as follows.

**Commercial:** The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

**Residential Real Estate:** The residential 1-4 family real estate are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

**Commercial and Agricultural Real Estate:** Commercial and agricultural real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

**Construction and Land Development Real Estate:** Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

**Agricultural:** The agriculture portfolio consists of lines of credit and term loans extended for the purpose of working capital and equipment purchases for borrowers engaged in farming operations. The loans in this category are repaid primarily from the cash flow of the farming operation. Credit risk in these loans is driven by commodity prices, weather and creditworthiness of the borrower.

**Consumer:** The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

The following table presents the credit risk profile of the Company's loan portfolio based on internal rating category and payment activity as of December 31, 2016 and 2015:

| | 2016 | | | |
|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Total |
| Commercial and industrial | $ 33,489,124 | $ 295,038 | $ 1,646,563 | $ 35,430,725 |
| Real estate | | | | |
| Commercial real estate | 70,126,554 | 2,964,170 | 4,318,795 | 77,409,519 |
| Residential real estate | 52,899,300 | - | 546,833 | 53,446,133 |
| Agricultural real estate | 11,299,995 | - | - | 11,299,995 |
| Construction | 42,020,985 | - | 371,313 | 42,392,298 |
| Agricultural production | 11,312,759 | - | - | 11,312,759 |
| Consumer and other | 10,080,829 | - | 8,015 | 10,088,844 |
| Total | $ 231,229,546 | $ 3,259,208 | $ 6,891,519 | $ 241,380,273 |

| | 2015 | | | |
|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Total |
| Commercial and industrial | $ 35,166,458 | $ - | $ 687,578 | $ 35,854,036 |
| Real estate | | | | |
| Commercial real estate | 66,451,788 | 2,983,426 | 2,646,675 | 72,081,889 |
| Residential real estate | 54,036,291 | - | 306,089 | 54,342,380 |
| Agricultural real estate | 10,365,913 | - | - | 10,365,913 |
| Construction | 29,529,733 | - | 689,070 | 30,218,803 |
| Agricultural production | 10,543,415 | - | 1,787,454 | 12,330,869 |
| Consumer and other | 8,153,050 | - | 11,463 | 8,164,513 |
| Total | $ 214,246,648 | $ 2,983,426 | $ 6,128,329 | $ 223,358,403 |

## First San Benito Bancshares Corporation
### Notes to Consolidated Financial Statements
### December 31, 2016 and 2015

The following tables present the Company's loan portfolio aging analysis as of December 31, 2016 and 2015:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | 30-90 Days Past Due | Greater than 90 Days and Accruing | Nonaccrual | Total Past Due | Current | Total Loans Receivable |
| Commercial and industrial | $ 300,506 | $ - | $ 834,000 | $ 1,134,506 | $ 34,296,219 | $ 35,430,725 |
| Real estate | | | | | | |
| Commercial real estate | 73,888 | - | - | 73,888 | 77,335,631 | 77,409,519 |
| Residential real estate | 309,782 | 81,414 | 81,000 | 472,196 | 52,973,937 | 53,446,133 |
| Agricultural real estate | - | - | - | - | 11,299,995 | 11,299,995 |
| Construction | 7,041 | - | - | 7,041 | 42,385,257 | 42,392,298 |
| Agricultural production | - | - | - | - | 11,312,759 | 11,312,759 |
| Consumer and other | 59,728 | 3,176 | 8,000 | 70,904 | 10,017,940 | 10,088,844 |
| Total | $ 750,945 | $ 84,590 | $ 923,000 | $ 1,758,535 | $ 239,621,738 | $ 241,380,273 |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | 30-90 Days Past Due | Greater than 90 Days and Accruing | Nonaccrual | Total Past Due | Current | Total Loans Receivable |
| Commercial and industrial | $ 51,000 | $ - | $ 44,000 | $ 95,000 | $ 35,759,036 | $ 35,854,036 |
| Real estate | | | | | | |
| Commercial real estate | - | - | 127,000 | 127,000 | 71,954,889 | 72,081,889 |
| Residential real estate | 858,000 | - | 16,000 | 874,000 | 53,468,380 | 54,342,380 |
| Agricultural real estate | - | - | - | - | 10,365,913 | 10,365,913 |
| Construction | 110,000 | - | - | 110,000 | 30,108,803 | 30,218,803 |
| Agricultural production | - | - | - | - | 12,330,869 | 12,330,869 |
| Consumer and other | 129,000 | - | 11,000 | 140,000 | 8,024,513 | 8,164,513 |
| Total | $ 1,148,000 | $ - | $ 198,000 | $ 1,346,000 | $ 222,012,403 | $ 223,358,403 |

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

# First San Benito Bancshares Corporation
## Notes to Consolidated Financial Statements
## December 31, 2016 and 2015

The following tables present impaired loans for the years ended December 31, 2016 and 2015:

| 2016 | Unpaid Contractual Balance | Recorded Investment with No Specific Allowance | Recorded Investment with Specific Allowance | Total Recorded Investment | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|---|---|
| Commercial and industrial | $ 834,375 | $ - | $ 834,375 | $ 834,375 | $ 169,375 | $ 885,938 | $ 2,548 |
| Real estate | | | | | | | |
| Commercial real estate | - | - | - | - | - | - | - |
| Residential real estate | 81,414 | 81,414 | - | 81,414 | - | 82,468 | 14,219 |
| Agricultural real estate | - | - | - | - | - | - | - |
| Construction | - | - | - | - | - | - | - |
| Agricultural production | - | - | - | - | - | - | - |
| Consumer and other | - | - | - | - | - | - | - |
| Total | $ 915,789 | $ 81,414 | $ 834,375 | $ 915,789 | $ 169,375 | $ 968,406 | $ 16,767 |

| 2015 | Unpaid Contractual Balance | Recorded Investment with No Specific Allowance | Recorded Investment with Specific Allowance | Total Recorded Investment | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|---|---|
| Commercial and industrial | $ 44,021 | $ 44,021 | $ - | $ 44,021 | $ - | $ 44,559 | $ - |
| Real estate | | | | | | | |
| Commercial real estate | 127,131 | 127,131 | - | 127,131 | - | 127,457 | 1,076 |
| Residential real estate | 12,855 | 12,855 | - | 12,855 | - | 13,367 | 480 |
| Agricultural real estate | - | - | - | - | - | - | - |
| Construction | - | - | - | - | - | - | - |
| Agricultural production | - | - | - | - | - | - | - |
| Consumer and other | - | - | - | - | - | - | - |
| Total | $ 184,007 | $ 184,007 | $ - | $ 184,007 | $ - | $ 185,383 | $ 1,556 |

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. These loans had originally been classified as troubled debt restructurings in previous years. The primary reason for the troubled debt restructuring classifications were modifications of terms to allow interest-only payments or an amortization period that was in excess of loans with similar characteristics. At December 31, 2016 and 2015, the Company had no troubled debt restructurings that were classified as impaired.

## Note 5: Foreclosed Assets Held for Sale

Activity in the allowance for losses on foreclosed assets was as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance, beginning of year | $ 47,861 | $ 24,300 |
| Provision charged to expense | 29,763 | 23,561 |
| Sales of properties with allowances | (28,363) | - |
| Balance, end of year | $ 49,261 | $ 47,861 |

Expenses applicable to foreclosed assets at December 31 include the following:

| | 2016 | 2015 |
|---|---|---|
| Net losses (gains) on sales of real estate | $ (88,957) | $ 2,133 |
| Provision for losses | 29,763 | 23,561 |
| Operating expenses, net of rental income | 93,750 | 35,805 |
| | $ 34,556 | $ 61,499 |

## Note 6: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

| | 2016 | 2015 |
|---|---|---|
| Land | $ 3,078,504 | $ 3,078,504 |
| Buildings and improvements | 13,215,296 | 11,185,648 |
| Automobile | 120,495 | 89,546 |
| Construction in progress | 86,615 | 989,574 |
| Equipment | 6,201,954 | 5,816,368 |
| | 22,702,864 | 21,159,640 |
| Less accumulated depreciation | 8,500,157 | 7,871,118 |
| Net premises and equipment | $ 14,202,707 | $ 13,288,522 |

### Note 7: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2016 and 2015, were:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Core deposits | $ 390,000 | $ 117,000 | $ 390,000 | $ 78,000 |

Amortization expense for the years ended December 31, 2016 and 2015, was $39,000. Estimated amortization expense for each of the following five years and thereafter is:

| | |
|---|---|
| 2017 | $ 39,000 |
| 2018 | 39,000 |
| 2019 | 39,000 |
| 2020 | 39,000 |
| 2021 | 39,000 |
| Thereafter | 78,000 |
| | $ 273,000 |

### Note 8: Interest-bearing Deposits

Interest-bearing time deposits in denominations of more than $250,000 were approximately $21,621,000 on December 31, 2016, and $13,337,000 on December 31, 2015.

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

| | |
|---|---|
| 2017 | $ 49,977,328 |
| 2018 | 8,257,547 |
| 2019 | 1,943,334 |
| 2020 | - |
| 2021 | 116,129 |
| | $ 60,294,338 |

### Note 9: Short-term Borrowings

At December 31, 2016 and 2015, short-term borrowings consisted of repurchase agreements totaling $4,342,143 and $1,800,000, respectively. Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The obligations are secured by available-for-sale securities, and such collateral is held by Frost Bank. The maximum amount of outstanding agreements at any month end during 2016 and 2015 totaled $6,363,601 and $1,800,000, respectively, and the monthly average of such agreements for 2016 totaled $2,501,478. Repurchase agreements totaling $4,037,859 at December 31, 2015, were included in deposits on the consolidated balance sheet and have not been reclassified.

## Note 10: Other Borrowings

Other borrowings consisted of the following components:

| | 2016 | 2015 |
|---|---|---|
| FHLB advances | $ - | $ 15,137,706 |
| Junior subordinated deferrable interest debentures | 3,093,000 | 3,093,000 |
| Promissory note - Rio Bank | - | 3,150,000 |
| Promissory note - Frost Bank | 2,400,000 | - |
| Total | $ 5,493,000 | $ 21,380,706 |

### *FHLB Advances*

The FHLB advances are secured by a blanket lien on all qualifying first lien real estate loans, the FHLB capital stock owned by the Company and any funds on deposit with the FHLB. The advances outstanding at December 31, 2015, had a weighted average interest rate of 0.42 percent and were repaid during 2016.

### *Promissory Note – Rio Bank*

In December 2013, the Company entered into a loan agreement with Rio Bank for $3,500,000. Principal payments were due monthly and began in January 2015. Interest was payable quarterly at the Wall Street Journal Prime Rate plus 0.75 percent which was 4.25 percent at December 31, 2015. The Company had pledged collateral of 125,000 shares (100 percent) of the Bank's common stock. The Company repaid the note during 2016.

### *Promissory Note – Frost Bank*

In October 2016, the Company entered into a loan agreement with Frost Bank for $2,400,000. Principal and interest payments are due quarterly and begin in January 2017. The interest rate is fixed at 3.977 percent. The Company has pledged collateral of 125,000 shares (100 percent) of the Bank's common stock. The agreement contains restrictions regarding, among other matters, the minimum maintenance of certain regulatory and operating ratios, the issuance of additional debt and changes in ownership. At December 31, 2016, the Company was in compliance with all of the debt covenants.

### *Junior Subordinated Deferrable Interest Debentures*

The Company has issued a total of $3,093,000 of junior subordinated deferrable interest debentures to the Trust. The Trust funded the purchase of the subordinated debentures through the sale of trust-preferred securities to a third-party with a liquidation value not to exceed $3,000,000. Using interest payments made by the Company on the debentures, the Trust pays dividends to preferred security holders. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is three-month LIBOR plus 3.15 percent. The preferred securities mature on March 20, 2033, unless the Company elects and obtains regulatory approval to accelerate the maturity date. The Trust's obligations under the trust preferred securities are fully and unconditionally guaranteed by the Company.

Aggregate annual maturities of other borrowings debt at December 31, 2016, are:

| | |
|---|---|
| 2017 | $ 600,000 |
| 2018 | 600,000 |
| 2019 | 600,000 |
| 2020 | 600,000 |
| 2021 | - |
| Thereafter | 3,093,000 |
| | $ 5,493,000 |

## Note 10: Changes in Accumulated Other Comprehensive Income (AOCI) by Component

Amounts reclassified from AOCI and the affected line items in the statements of income during the years ended December 31, 2016 and 2015, were as follows:

| AOCI Component | Amounts Reclassified from AOCI 2016 | 2015 | Affected Line Item in the Statements of Income |
|---|---|---|---|
| Unrealized gains on available-for-sale securities | $ 180,771 | $ 21,958 | Net realized gains on sales of available-for-sale securities |
| | (61,462) | (7,466) | Tax (expense) benefit |
| | $ 119,309 | $ 14,492 | Net reclassified amount |

## Note 11: Income Taxes

The provision for income taxes includes these components:

| | 2016 | 2015 |
|---|---|---|
| Taxes currently payable | $ 1,537,177 | $ 1,507,750 |
| Deferred income taxes | (127,635) | (320,398) |
| Total income tax expense | $ 1,409,542 | $ 1,187,352 |

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

| | 2016 | 2015 |
|---|---|---|
| Computed at the statutory rate (34%) | $ 1,599,235 | $ 1,289,298 |
| Increase (decrease) resulting from | | |
| Tax exempt interest | (216,641) | (226,642) |
| Increase in cash surrender value of life insurance | (33,145) | (36,815) |
| Nondeductible expenses | 24,128 | 19,430 |
| State income taxes | 18,044 | 33,528 |
| Other | 17,921 | 108,553 |
| Actual tax expense | $ 1,409,542 | $ 1,187,352 |

The tax effects of temporary differences related to net deferred taxes included in other assets at December 31, 2016 and 2015, in the consolidated balance sheets were:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for loan losses | $ 1,281,862 | $ 1,152,890 |
| Allowance for losses on unfunded commitments | 71,634 | 71,634 |
| Accretable discount on purchased loans | 8,214 | 20,472 |
| Net unrealized losses on securities available-for-sale | 356,249 | - |
| Valuation of foreclosed assets | 18,109 | 31,386 |
| | 1,736,068 | 1,276,382 |
| Deferred tax liabilities | | |
| Properties and equipment | 645,734 | 677,243 |
| Net unrealized gain on securities available-for-sale | - | 290,393 |
| Core deposits intangible asset | 92,820 | 106,080 |
| Prepaid expenses | 97,513 | 86,849 |
| Accretion on investment securities | 56,097 | 47,788 |
| Other | 21,732 | 20,134 |
| | 913,896 | 1,228,487 |
| Net deferred tax asset | $ 822,172 | $ 47,895 |

## Note 12: Regulatory Matters

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

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the Office of the Comptroller of Currency (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table below (dollars in thousands):

| | Actual | | Minimum Capital Requirement | | Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2016 | | | | | | |
| Total risk-based capital (to risk-weighted assets) | $ 33,136 | 12.6% | $ 22,733 | 8.6% | $ 26,357 | 10.0% |
| Tier I capital (to risk-weighted assets) | $ 29,833 | 11.3% | $ 17,461 | 6.6% | $ 21,085 | 8.0% |
| Common Equity Tier I capital (to risk-weighted assets) | $ 29,833 | 11.3% | $ 13,508 | 5.1% | $ 17,132 | 6.5% |
| Tier I capital (to adjusted total assets) | $ 29,833 | 8.5% | $ 16,251 | 4.6% | $ 17,569 | 5.0% |

| | Actual | | Minimum Capital Requirement | | Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2015 | | | | | | |
| Total risk-based capital (to risk-weighted assets) | $ 30,827 | 13.0% | $ 18,921 | 8.0% | $ 23,652 | 10.0% |
| Tier I capital (to risk-weighted assets) | $ 27,863 | 11.8% | $ 14,191 | 6.0% | $ 18,921 | 8.0% |
| Common Equity Tier I capital (to risk-weighted assets) | $ 27,863 | 11.8% | $ 10,643 | 4.5% | $ 15,374 | 6.5% |
| Tier I capital (to adjusted total assets) | $ 27,863 | 8.3% | $ 13,451 | 4.0% | $ 16,813 | 5.0% |

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer was 0.625% at December 31, 2016. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2016, approximately $6,537,000 of retained earnings was available for dividend declaration without prior regulatory approval.

### *Basel III Capital Rules*

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

## Note 13: Related Party Transactions

At December 31, 2016 and 2015, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $1,030,363 and $1,820,858, respectively.

Annual activity consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Beginning balance | $ 1,820,858 | $ 3,257,800 |
| New loans | 36,219 | 60,691 |
| Repayments | (826,714) | (1,497,633) |
| Ending balance | $ 1,030,363 | $ 1,820,858 |

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held by the Company at December 31, 2016 and 2015, totaled approximately $1,026,426 and $1,323,231, respectively. During the years ended December 31, 2016 and 2015, the Company paid approximately $49,000 and $32,000, respectively, for legal services provided by a law firm whose partner is an immediate family member of a member of executive management and the board of directors.

## Note 14: Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute a portion of their compensation subject to IRS limitations. The Company matches 100 percent of the employee's contribution on the first six percent of the employee's compensation. Employer contributions charged to expense for 2016 and 2015, were approximately $267,000 and $245,000, respectively.

## Note 15: Operating Leases

At December 31, 2015, the Company had a noncancellable operating lease for a facility that expired in 2016. Rental expense for this lease was approximately $13,000 and $53,000 for the years ended December 31, 2016, and 2015, respectively.

## Note 16: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

### *Recurring Measurements*

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2016 | | | | |
| U.S. Government sponsored enterprises (GSE) residential mortgage-backed securities | $ 35,656,891 | $ - | $ 35,656,891 | $ - |
| State and political subdivisions | 31,121,710 | - | 31,121,710 | - |
| | $ 66,778,601 | $ - | $ 66,778,601 | $ - |
| December 31, 2015 | | | | |
| U.S. Government and federal agency | $ 1,005,745 | $ - | $ 1,005,745 | $ - |
| U.S. Government sponsored enterprises (GSE) residential mortgage-backed securities | 47,526,252 | - | 47,526,252 | - |
| State and political subdivisions | 35,127,693 | - | 35,127,693 | - |
| | $ 83,659,690 | $ - | $ 83,659,690 | $ - |

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2016 and 2015. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

#### *Available-for-sale Securities*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. There were no Level 1 securities identified by the Company. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Government and agency bonds, GSE residential mortgage-backed securities and debt obligations and certain state and local political subdivision bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities identified by the Company.

Third-party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Matrix pricing is utilized in the valuation of the U.S. Government and agency debt and mortgage-backed securities as well as securities issued by state and political subdivisions.

### *Nonrecurring Measurements*

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2016 | | | | |
| Foreclosed assets held for sale | $ 350,000 | $ - | $ - | $ 350,000 |
| December 31, 2015 | | | | |
| Foreclosed assets held for sale | $ 678,658 | $ - | $ - | $ 678,658 |

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

#### *Foreclosed Assets Held for Sale*

Foreclosed assets held for sale or other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and, subsequently, as deemed necessary. Appraisals are reviewed for accuracy and consistency by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts ranged from 6 percent to 15 percent for OREO at December 31, 2016 and 2015.

## Note 17: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

### *Investments*

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

## Note 18: Commitments and Credit Risk

### *Commitments to Originate Loans and Lines of Credit*

Commitments to originate loans and lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments and lines of credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2016 and 2015, the Company had outstanding commitments to originate loans and unused lines of credit aggregating approximately $30,455,000 and $30,182,000, respectively.

The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

### *Standby Letters of Credit*

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to $812,000 and $526,000 at December 31, 2016 and 2015, respectively, with terms ranging from seven months to two years.

## Note 19: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

### Condensed Balance Sheets

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 25,046 | $ 16,051 |
| Investment in Bank | 29,773,946 | 28,906,513 |
| Investment in Trust | 93,000 | 93,000 |
| Due from bank subsidiary | 272,972 | 138,309 |
| Total assets | $ 30,164,964 | $ 29,153,873 |
| **Liabilities and Stockholders' Equity** | | |
| **Liabilities** | | |
| Long-term debt | $ 5,493,000 | $ 6,243,000 |
| Other liabilities | 288,420 | 188,314 |
| Total liabilities | 5,781,420 | 6,431,314 |
| **Stockholders' Equity** | | |
| Common stock | 188,928 | 188,928 |
| Additional paid-in capital | 4,606,345 | 4,606,345 |
| Retained earnings | 20,279,813 | 17,363,580 |
| Accumulated other comprehensive income (loss) | (691,542) | 563,706 |
| Total stockholders' equity | 24,383,544 | 22,722,559 |
| Total liabilities and stockholders' equity | $ 30,164,964 | $ 29,153,873 |

### Condensed Statements of Comprehensive Income

| | 2016 | 2015 |
|---|---|---|
| **Income** | | |
| Dividends from Bank | $ 1,330,000 | $ 590,000 |
| Interest income | 3,623 | 3,237 |
| Total income | 1,333,623 | 593,237 |
| **Expenses** | | |
| Interest expense | 239,493 | 242,118 |
| Other expense | 4,423 | 9,482 |
| Total expenses | 243,916 | 251,600 |
| **Income (Loss) Before Income Tax and Equity in Undistributed Net Income of Bank** | 1,089,707 | 341,637 |
| **Income Tax Benefit** | (81,700) | (84,442) |
| **Income Before Equity in Undistributed Net Income of Bank** | 1,171,407 | 426,079 |
| **Equity in Undistributed Net Income of Bank** | 2,122,682 | 2,178,623 |
| **Net Income** | 3,294,089 | 2,604,702 |
| Other comprehensive income (loss) | (1,255,248) | 102,516 |
| **Comprehensive Income** | $ 2,038,841 | $ 2,707,218 |

### Condensed Statements of Cash Flows

| | 2016 | 2015 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 3,294,089 | $ 2,604,702 |
| Equity in undistributed income of Bank | (2,122,682) | (2,178,623) |
| Net change in due from Bank and other assets | (134,663) | (71,278) |
| Net change in other liabilities | 100,107 | 97,469 |
| Net cash provided by operating activities | 1,136,851 | 452,270 |
| **Financing Activities** | | |
| Dividends paid | (377,856) | (188,932) |
| Repayments of long-term debt | (3,150,000) | (350,000) |
| Proceeds of other borrowings | 2,400,000 | - |
| Net cash used in financing activities | (1,127,856) | (538,932) |
| **Net Change in Cash and Cash Equivalents** | 8,995 | (86,662) |
| **Cash and Cash Equivalents, Beginning of Year** | 16,051 | 102,713 |
| **Cash and Cash Equivalents, End of Year** | $ 25,046 | $ 16,051 |

## Note 20: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor`s Report on the consolidated financial statements, which is the date the consolidated financial statements were available to be issued.

# FIRST IN THE COMMUNITY



# BANKING CENTERS

**BROWNSVILLE** 470 E. Morrison Road


**HARLINGEN** 405 N. Stuart Place Road

**HARLINGEN** 806 S. 77 Sunshine Strip

**LOS FRESNOS** 205 E. Ocean Boulevard


**McALLEN** 8000 N. Tenth Street

**RAYMONDVILLE** 729 E. Hidalgo Avenue


**SAN BENITO** 1151 W. Highway 77

**SAN BENITO** 600 S. Sam Houston

**SOUTH PADRE ISLAND** 2701 Padre Boulevard

# FIRST COMMUNITY BANK

**BROWNSVILLE**
470 E. Morrison Road / 956.547.5100

**HARLINGEN MAIN**
806 S. 77 Sunshine Strip / 956.428.4100

**HARLINGEN**
405 N. Stuart Place Road / 956.428.4100

**LOS FRESNOS**
205 E. Ocean Boulevard / 956.233.4100

**McALLEN**
8000 N. Tenth Street / 956.664.8000

**RAYMONDVILLE**
729 E. Hidalgo Avenue / 956.699.4000

**SAN BENITO MAIN**
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**SAN BENITO EXPRESSWAY MOTOR BANK**
600 S. Sam Houston / 956.399.3331

**SOUTH PADRE ISLAND**
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