AMENDED

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, Raymond H. Rust III
Name of the Holding Company Director and Official

Director/President/CEO
Title of the Holding Company Director and Official

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

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

Raymond Rust
Signature of Holding Company Director and Official

06/14/2017
Date of Signature

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

For Federal Reserve Bank Use Only

RSSD ID ________
C.I. ________

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

NA
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Nacogdoches Commercial Bancshares, Inc.
Legal Title of Holding Company

P O Box 635050
(Mailing Address of the Holding Company) Street / P.O. Box

Nacogdoches	TX	75963-5050
City	State	Zip Code

215 E Main Street
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Beverly Rice	Treasurer
Name	Title

936-715-4203
Area Code / Phone Number / Extension

936-715-4355
Area Code / FAX Number

beverly@cbtx.com
E-mail Address

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.

Nacogdoches Commercial Bancshares, Inc.
FR Y-6
December 31, 2016

Report Item 1: See enclosed copy of the annual, audited report to shareholders.

Report Item 2a:

Nacogdoches Commercial Bancshares, Inc.
Nacogdoches, Texas
Incorporated in Texas
LEI – N/A

100% of voting common stock

Commercial Bank of Texas, N.A.,
Nacogdoches, Texas
LEI – N/A

Report Item 2b:

Attached

Results: A list of branches for your depository institution: COMMERCIAL BANK OF TEXAS, N.A. (ID_RSSD: 885869).
This depository institution is held by NACOGDOCHES COMMERCIAL BANCSHARES, INC. (1107595) of NACOGDOCHES, TX.
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

Reconciliation and Verification Steps

1. In the Data Action column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the Effective Date column

Actions

OK: If the branch information is correct, enter 'OK' in the Data Action column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the Data Action column and the date when this information first became valid in the Effective Date column.
Close: If a branch listed was sold or closed, enter 'Close' in the Data Action column and the sale or closure date in the Effective Date column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the Data Action column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the Data Action column and the opening or acquisition date in the Effective Date column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the FR Y-10 reporting requirements , you must also submit FR Y-10 Domestic Branch Schedules for each branch with a Data Action of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
		Full Service (Head Office)	885869	COMMERCIAL BANK OF TEXAS, N.A.	215 E. MAIN STREET	NACOGDOCHES	TX	75961	NACOGDOCHES	UNITED STATES	828	0	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	432450	ALBA BANKING CENTER	7463 US HIGHWAY 69	ALBA	TX	75410	WOOD	UNITED STATES	Not Required	Not Required	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	3656828	ALLEN BRANCH	721 CENTRAL EXPRESSWAY SOUTH	ALLEN	TX	75013	COLLIN	UNITED STATES	465569	19	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	2004477	BEDFORD BRANCH	1716 FOREST RIDGE DRIVE	BEDFORD	TX	76022	TARRANT	UNITED STATES	289695	20	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	2651871	501 N TEMPLE BRANCH	501 N TEMPLE	DIBOLL	TX	75941	ANGELINA	UNITED STATES	272299	7	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	939351	ELKHART BANKING CENTER	109 W PARKER ST	ELKHART	TX	75839	ANDERSON	UNITED STATES	Not Required	Not Required	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	371858	EMORY BRANCH	107 EAST QUITMAN STREET	EMORY	TX	75440	RAINS	UNITED STATES	Not Required	Not Required	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	743259	KENNARD BRANCH	401 MAIN STREET	KENNARD	TX	75847	HOUSTON	UNITED STATES	7112	12	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	3546433	LEWISVILLE BRANCH	201 SOUTH MILL STREET	LEWISVILLE	TX	75057	DENTON	UNITED STATES	362232	21	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	2651862	1873 W FRANK AVE BRANCH	1873 W FRANK AVE	LUFKIN	TX	75904	ANGELINA	UNITED STATES	272301	8	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	234551	LUFKIN BRANCH	600 SOUTH FIRST	LUFKIN	TX	75901	ANGELINA	UNITED STATES	2166	13	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	3351589	TULANE BRANCH	1901 TULANE DR	LUFKIN	TX	75901	ANGELINA	UNITED STATES	187997	9	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	3656837	STEPHEN F. AUSTIN STATE UNIVERSITY BRANCH	222 VISTA DRIVE	NACODOCHES	TX	75962	NACOGDOCHES	UNITED STATES	465568	18	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	3295151	JAMES STARR BRANCH	1629 N UNIVERSITY DR	NACOGDOCHES	TX	75961	NACOGDOCHES	UNITED STATES	430147	14	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Limited Service	3541719	MOBILE BRANCH	215 EAST MAIN STREET	NACOGDOCHES	TX	75961	NACOGDOCHES	UNITED STATES	187996	5	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	2633804	STALLINGS BRANCH	4929 NORTH STREET	NACOGDOCHES	TX	75965	NACOGDOCHES	UNITED STATES	187995	4	COMMERCIAL BANK OF TEXAS, N.A.	885869	
		Full Service	3187715	ROXTON BRANCH	210 HARRISON STREET	ROXTON	TX	75477	LAMAR	UNITED STATES	Not Required	Not Required	COMMERCIAL BANK OF TEXAS, N.A.	885869	
Change	4/29/2016	Full Service	493666	WELLS BRANCH	217 RUSK AVENUE	WELLS	TX	75976	CHEROKEE	UNITED STATES	5758	10	COMMERCIAL BANK OF TEXAS, N.A.	885869	

AMENDED

Nacogdoches Commercial Bancshares, Inc.
FR Y-6
December 31, 2016

Report Item 3:

Name and Address	Citizenship	Shares Owned or Controlled	
1) Shareholders over 5% at 12/31/16			
Edward B. Baker GST Trust UW Jean Blount Baker Nacogdoches, TX	U.S.A.	29,896	3.48%
Edward Baker Non-Exempt Trust UW Thomas Wilson Baker Nacogdoches, TX	U.S.A	24,774	2.89%
Bamont, LP – (Edward B. Baker) Nacogdoches, TX	U.S.A.	12,000	1.40%
Edward Baker – SEP Property Nacogdoches, TX	U.S.A.	42,344	4.94%
Dianne Baker – SEP Property - wife Nacogdoches, TX	U.S.A	4,660	.54%
John Richard Baker – son Pasadena, TX	U.S.A.	200	.02%
Hillary Baker Cangelosi – daughter Middletown, RI	U.S.A.	390	.04%
		114,264	13.32%
Thomas E. Baker II Revocable Trust Thomas E. Baker II – 50%, Edward B. Baker – 50% Nacogdoches, TX	U.S.A.	47,604	5.55%
Thomas E. Baker II GST Trust UW Jean Blount Baker Nacogdoches, TX	U.S.A.	29,898	3.48%

Nacogdoches Commercial Bancshares, Inc.
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Report Item 3 (con't):

Name and Address	Citizenship	Shares Owned or Controlled	
Thomas E. Baker II Non-Exempt Trust UW Thomas Wilson Baker			
Nacogdoches, TX	U.S.A.	24,774	2.89%
Bamont, LP – Thomas E. Baker II Nacogdoches, TX	U.S.A.	12,000	1.40%
		114,276	13.32%
R.G. Muckleroy Children Trust Steve Muckleroy Nacogdoches, Texas	U.S.A.	85,960	10.02%
Steve Muckleroy Nacogdoches, Texas	U.S.A	6,555	.76%
Martha Muckleroy - wife Nacogdoches, Texas	U.S.A	716	.08%
Robert Muckleroy III - brother Nacogdoches, Texas	U.S.A	285	.03%
William Scott Muckleroy – son Nacogdoches, Texas	U.S.A	100	.01%
		93,616	10.91%
Robert Byrd Houston, Texas	U.S.A.	42,800	4.99%
Mary Jane Byrd – wife Houston, Texas	U.S.A.	2,500	.29%
Estate of William W. Byrd Houston, Texas	U.S.A.	5,390	.63%
		50,690	5.91%

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Report Item 3 (con't):

Name and Address	Citizenship	Shares Owned or Controlled	
McFadden Mineral Trust Rosine Blount McFadden Beaumont, Texas	U.S.A.	45,500	5.30%
Benjamin D. Winston Nacogdoches, Texas	U.S.A.	3,200	.37%
Envirovac, LTD Benjamin D. Winston Nacogdoches, Texas	U.S.A.	17,830	2.08%
Winston Land and Cattle Benjamin D. Winston Nacogdoches, Texas	U.S.A.	4,800	.56%
		25,830	3.01%

Shareholders of Preferred Stock Series B Convertible into 2.39 shares of voting common stock:

Benjamin D. Winston Dee & Simon Partnership LTD Lufkin, TX	U.S.A. Convertible into	25,959 62,042 common	7.23%
Benjamin D. Winston John R. Winston Jr. Trust Lufkin, TX	U.S.A. Convertible into	1,657 3,960 common	.46%
Benjamin D. Winston Family Members Lufkin, TX	U.S.A. Convertible into	3,589 8,578 common	1.00%

AMENDED

	Convertible into	8,578 common	1.00%

Nacogdoches Commercial Bancshares, Inc.
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Report Item 3 (con't):

Name and Address	Citizenship	Shares Owned or Controlled	
Benjamin D. Winston Lufkin, TX	U.S.A.	969	
	Convertible into	2,316 common	.27%
		76,896Convertible to common	
		25,830 Common	
		102,726	11.98%

Report Item 3(2):

N/A

AMENDED

Nacogdoches Commercial Bancshares, Inc.
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December 31, 2016

(1) Name & Address	(2) Principal Occupation if other than with holding company	(3)(a) Title and Position With Holding Co.	(3)(b) Title and Position With Subsidiaries	(3)© Title and Position With Other Businesses	(4)(a) % of Voting Shares in Holding C.	(4)(b) % of voting shares in subsidiarie	(4)© Name, Position and Ownership of Other Companies If 25% or more of voting securities are held (List names of companies and % of voting securities held)
Edward B. Baker Nacogdoches, Texas	Owns/manages real estate/ family investments	Principal Shareholder	None	Managing General Partner -Lanana Watershed Partnership, LP Co-Trustee -Edward B. Baker GST Trust u/w JBB Co-Trustee - Edward B. Baker Non-Exempt Trust u/w TWB Trustee - Edward B. Baker Trust u/w CBM General Partner - Bamont, LP Co-Trustee - Ellis Marcelo Alfaro Baker Irrevocable Trust Co-Trustee -Roy Thomas Asfaro Baker Irrevocable Truest Co-Trustee -Thomas E. Baker II GST Trust u/w TWB Co-Trustee - Thomas E. Baker Non-Exempt Trust u/w TWB Co-Trustee - Thomas E. Baker II Revocable Trust Co-Manager - Cat & Mouse, LLC General Partner - KARICHI Investments, LP Co-Manager - 902 Tyler Management, LLC GP - 902 Tyler Partnership, LP	13.32%	0%	Lanana Watershed Partnership, LP- 50% Edward B. Baker GST Trust u/w JBB, Co-Trustee - 50% Edward B. Baker Non-Exempt Trust u/w TWB, Co-Trustee - 50% Edward B. Baker Trust u/w CBM, Trustee - 100% Bamont, LP, General Partner 50% Ellis Marcelo Alfaro Baker Irrevocable Trust, Co-Trustee - 50% Roy Thomas Asfaro Baker Irrevocable Truest, Co-Trustee - 50% Thomas E. Baker II GST Trust u/w TWB, Co-Trustee -50% Thomas E. Baker Non-Exempt Trust u/w TWB, Co-Trustee - 50% Thomas E. Baker II Revocable Trust, Co-Trustee -50% Cat & Mouse, LLC, Co-Manager - 50% KARICHI Investments, LP, General Partner -50% 902 Tyler Management, LLC - 50% 902 Tyler Partnership, LP - 50%
Thomas E. Baker II New Bern, North Carolina	Owns/manages real estate/	Director	Commercial Bank - Director	Co-Trustee - Thomas E. Baker II Revocable Trust Co-Trustee- Edward B. Baker Co-Manager - Cat & Mouse, LLC General Partner -Karichi Investments, LP Managing General Partner - Lanana Watershed Partnership, LP Co-Trustee - Thomas E. Baker II GST Trust u/w TWB Co-Trustee - Thomas E. Baker Non-Exempt Trust u/w TWB Co-Trustee - Thomas E. Baker Trust u/w CBM Co-Trustee - Edward B. Baker GST Trust u/w JBB Co-Trustee - Edward B. Baker Non-Exempt Trust u/w TWB	13.32%	0%	Thomas E. Baker II Revocable Trust - 50% Edward B. Baker- 50% Cat & Mouse, LLC -50% Karichi Investments, LP - 50% Lanana Watershed Partnership, LP- 50% Thomas E. Baker II GST Trust u/w TWB- 50% Thomas E. Baker Non-Exempt Trust u/w TWB - 50% Thomas E. Baker Trust u/w CBM - 100% Edward B. Baker GST Trust u/w JBB - 50% Edward B. Baker Non-Exempt Trust u/w TWB - 50%
Dianne Baker Nacogdoches, Texas	N/A	Director	Commercial Bank - Director	N/A	0.54%	0%	N/A
Jefferson B. Davis Nacogdoches, Texas	Attorney	Director	Commercial Bank- Director	Owner - Jefferson B. Davis Law	0.01%	0%	Jefferson B. Davis Law- 100%
William Miller Elliott, Jr. Nacogdoches, TX	Electrical Wholesale	Director	Commercial Bank, Director	None	0.01%	0%	None

AMENDED

Nacogdoches Commercial Bancshares, Inc.
FRY-6
December 31, 2016

(1) Name & Address	(2) Principal Occupation if other than with holding company	(3)(a) Title and Position With Holding Co.	(3)(b) Title and Position With Subsidiaries	(3)© Title and Position With Other Businesses	(4)(a) % of Voting Shares in Holding C.	(4)(b) % of voting shares in subsidiarie	(4)© Name, Position and Ownership of Other Companies If 25% or more of voting securities are held (List names of companies and % of voting securities held)
Thomas W. Ellison Farmersville, TX	Banker	Director, Chairman	Commercial Bank - Director	Trustee - Ashley Elizabeth Ellison Trust Trustee - Courtney Leigh Ellison Trust Partner - 704 Ranch	4.55% *	0%	Ashley Elizabeth Ellison Trust - 100% Courtney Leigh Ellison Trust - 100% 704 Ranch - 50%
Stephen Greak Nacogdoches, Tx	Accountant	Director	Commercial Bank - Director	None	0.01%	0%	N/A
Bryant Krenek Nacogdoches, Tx	N/A	Director	Commercial Bank - Director	Partner - Krenek, Lehman & Smith	0.12%	0%	Krenek, Lehman & Smith - 33%
W. Stephen. Muckleroy Austin, TX	N/A	Director	Commercial Bank - Director	Partner - IH 35 Realty Partner - JSRM,Inc. Partner - Enchanted Properties, LLC	10.91%	0%	IH 35 Realty - 71.88% JSRM,Inc.- 33% Enchanted Properties, LLC - 100%
Beverly Rice Nacogdoches, TX	Banker	Treasurer	Commercial Bank - SVP & CFO	None	0.05% *	0%	None
Raymond H. Rust III Nacogdoches, TX	Banker	Director/ President/CEO	Commercial Bank - President/CEO	Member - Nacogdoches Rentals, LLC Member - Elkhart TWE, LLC	0.41% *	0%	Nacogdoches Rentals, LLC - 50% Elkhart TWE, LLC - 50%
James O. Standley Nacogdoches, TX	Educator	Director	Commercial Bank - Director	None	0.14%	0%	None
Benjamin D. Winston Lufkin, TX	Construction/ Investments	Director	Commercial Bank - Director	VP - Sec - EnviroVac, Inc. Sec/Treasurer - Winston Land & Cattle President - Denall Iron & Disposal, LLC, Partner - RedZone Coil Tubing, LLC **Excludes Preferred stock convertible to common ***Preferred stock convertible to common plus Common	3.01% ** 11.98% ***	0%	EnviroVac, Inc. - 33% Winston Land & Cattle- 28% Denall Iron & Disposal, LLC, 50% RedZone Coil Tubing, LLC. 40%

* Does not include participation in the Nacogdoches Commercial Bancshares Employee Stock Ownership plan.

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

NACOGDOCHES COMMERCIAL BANCSHARES, INC.
Nacogdoches, Texas

December 31, 2016 and 2015

AXLEY & RODE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

<u>C O N T E N T S</u>

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Nacogdoches Commercial Bancshares, Inc.
and Subsidiary
Nacogdoches, Texas

We have audited the accompanying consolidated financial statements of Nacogdoches Commercial Bancshares, Inc. and Subsidiary, which comprise the consolidated statements of condition as of December 31, 2016 and 2015, and related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the 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 misstatements.

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 consolidated financial position of Nacogdoches Commercial Bancshares, Inc. and Subsidiary as of December 31, 2016 and 2015, and the results of their consolidated operations and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Schedules 1, 2 and 3 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
February 14, 2017

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CONDITION
($000's)

		DECEMBER 31, 2016		DECEMBER 31, 2015
ASSETS				
Cash and due from banks	$	11 400	$	8 477
Interest-bearing deposits with banks		24 684		20 292
TOTAL CASH AND DUE FROM BANKS		36 084		28 769
Securities available for sale		200 172		170 151
Securities to be held to maturity		5 268		8 811
Trading securities		474		446
Loans held for sale		847		1 165
Loans, net of allowance for credit losses of $5,193 and $4,183, respectively		389 289		330 416
Property and equipment		12 558		10 738
Accrued interest receivable		2 233		1 951
Bank owned life insurance		11 610		10 123
Non-residential real estate owned		2 412		2 397
Other real estate owned		-		50
Goodwill		3 677		3 492
Other assets		7 701		4 147
TOTAL ASSETS	$	672 325	$	572 656
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits:				
Noninterest-bearing deposits	$	226 364	$	164 823
Interest-bearing deposits		368 013		321 745
TOTAL DEPOSITS		594 377		486 568
Accrued interest payable		104		108
Federal Home Loan Bank advances, long-term		5 255		17 609
Other liabilities		6 479		5 747
TOTAL LIABILITIES		606 215		510 032
Stockholders' Equity:				
Preferred Stock, No Stated Value, 200,000 Shares Authorized:				
Series A, non-convertible, cumulative, 39,579 shares issued, 38,594 outstanding in 2016 and 38,636 in 2015		3 958		3 958
Series B, convertible, non-cumulative, 39,579 issued, 34,794 outstanding in 2016, 34,836 in 2015		3 958		3 958
Common stock 2,800,000 shares at $10 par value authorized; 1,000,835 shares issued, 857,695 and 857,390 shares outstanding, respectively		10 008		10 005
Capital surplus		4 392		4 380
Retained earnings		47 480		42 229
Accumulated other comprehensive income		(1 704)		67
Less: Cost of common and preferred shares held in treasury		(1 982)		(1 973)
TOTAL STOCKHOLDERS' EQUITY		66 110		62 624
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	672 325	$	572 656

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2016 and 2015
($000's)

	DECEMBER 31, 2016	DECEMBER 31, 2015
Interest Income:		
Interest and fees on loans	$ 19 819	$ 16 906
Interest and dividends on securities available for sale	2 687	2 994
Interest on securities to be held to maturity - Tax exempt	104	146
Interest on trading securities	11	27
Interest on federal funds sold	40	9
Interest on deposits with banks	62	29
TOTAL INTEREST INCOME	22 723	20 111
Interest Expense:		
Interest on deposits	1 106	1 188
Interest on bank loan and advances	124	281
TOTAL INTEREST EXPENSE	1 230	1 469
NET INTEREST INCOME	21 493	18 643
Provision for credit losses	1 624	923
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	19 869	17 720
Other Income:		
Fees on sales and servicing of loans	2 141	1 562
Income from fiduciary activities	394	421
Service charges on deposit accounts	3 517	3 383
Other service charges and fees	2 552	2 324
Net realized gains (losses) on sales of securities	493	139
Gains (losses) on valuation changes of trading securities	29	73
Other income	679	1 477
TOTAL OTHER INCOME	9 805	9 379
Other Expenses:		
Salaries and benefits	10 522	10 192
Occupancy	1 605	1 533
Furniture and equipment	1 299	1 113
Deposit insurance and professional fees	1 178	938
Lending and collection	1 074	595
Advertising and community relations	610	628
Other operating	4 123	3 498
TOTAL OTHER EXPENSE	20 411	18 497
INCOME BEFORE FEDERAL INCOME TAXES	9 263	8 602
Federal income taxes	2 942	2 492
NET INCOME	$ 6 321	$ 6 110
Earnings Per Common Share (Not Rounded):		
Basic	$ 6.88	$ 6.63
Diluted	$ 6.27	$ 6.05

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015
($000's)

	2016	2015
NET INCOME	$ 6 321	$ 6 110
Other Comprehensive Income, Net of Tax:		
Unrealized Gains (Losses) on Securities:		
Changes in net unrealized gains on securities available for sale, net of income taxes of $(658) in 2016 and $(48) in 2015	(1 278)	(95)
Reclassification adjustment for gains realized, net of income taxes of $(254) in 2016 and $(72) in 2015	(493)	(139)
OTHER COMPREHENSIVE INCOME	(1 771)	(234)
COMPREHENSIVE INCOME	$ 4 550	$ 5 876

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015
($000's)

	PREFERRED STOCK SERIES A	PREFERRED STOCK SERIES B	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	CAPITAL SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL STOCK-HOLDERS' EQUITY
Balance, December 31, 2014	$ 3 958	$ 3 958	857 095	$ 10 002	$ 4 367	$ 37 156	$ 301	$ (1 973)	$ 57 769
Comprehensive income	-	-	-	-	-	6 110	(234)	-	5 876
Purchase of preferred stock	-	-	-	-	-	-	-	-	-
Stock based compensation	-	-	-	-	5	-	-	-	5
Cash Dividends Declared:									
Preferred, $5.75 per share	-	-	-	-	-	(422)	-	-	(422)
Common, $.68 per share	-	-	-	-	-	(617)	-	-	(617)
Stock options exercised	-	-	295	3	8	2	-	-	13
Balance, December 31, 2015	3 958	3 958	857 390	10 005	4 380	42 229	67	(1 973)	62 624
Comprehensive income	-	-	-	-	-	6 321	(1 771)	-	4 550
Purchase of preferred stock	-	-	-	-	-	-	-	(9)	(9)
Stock based compensation	-	-	-	-	4	4	-	-	8
Cash Dividends Declared:									
Preferred, $5.75 per share	-	-	-	-	-	(422)	-	-	(422)
Common, $.68 per share	-	-	-	-	-	(652)	-	-	(652)
Stock options exercised	-	-	305	3	8	-	-	-	11
Balance, December 31, 2016	$ 3 958	$ 3 958	857 695	$ 10 008	$ 4 392	$ 47 480	$ (1 704)	$ (1 982)	$ 66 110

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
($000's)

	2016	2015
Cash Flows from Operating Activities:		
Net income	$ 6 321	$ 6 110
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	986	884
Amortization core deposit intangible	234	62
Provision for credit losses	1 624	923
Deferred income taxes	(724)	(220)
Principal proceeds from sales of loans held for sale	65 063	50 507
Originations of loans held for sale	(63 356)	(49 962)
Net realized (gains) losses on securities available for sale	(493)	(139)
Net realized gains on sales of loans held for sale	(1 389)	(898)
Net amortization of premiums on investment securities	332	66
Decrease (increase) in accrued income	(48)	248
(Increase) decrease in bank owned life insurance	(244)	536
Decrease (increase) in other assets	(361)	143
Increase (decrease) in accrued expenses and other liabilities	531	462
Stock dividends	(6)	(5)
Unrealized (gain) loss on valuation of trading securities	(29)	(73)
Loss on sale or exchange of foreclosed real estate	(17)	(19)
TOTAL ADJUSTMENTS	2 103	2 515
NET CASH PROVIDED BY OPERATING ACTIVITIES	8 424	8 625
Cash Flows from Investing Activities:		
Purchases of securities available for sale	(110 280)	(81 706)
Purchases of securities held to maturity	(1 138)	-
Purchases of FHLB and Federal Reserve stock	-	(3 205)
Proceeds from sale of FHLB and Federal Reserve stock	-	3 190
Proceeds from sales and maturities of securities available for sale	87 830	72 437
Proceeds from sales and maturities of securities held to maturity	4 630	2 190
Net decrease (increase) in loans held to maturity	(20 821)	(27 839)
(Purchases) sales of properties and equipment, net of retirements	(1 778)	(2 032)
Branch acquisition premium	(3 000)	-
Proceeds from sale of fixed assets	11	-
Proceeds from sale of foreclosed real estate	67	200
NET CASH USED BY INVESTING ACTIVITIES	(44 479)	(36 765)
Cash Flows from Financing Activities:		
Net increase (decrease) in demand and savings accounts	60 145	43 944
Net increase (decrease) in other time deposits	(3 357)	(21 417)
Net increase (decrease) in notes payable and advances	(12 354)	4 556
Stock options exercised	18	19
Purchase of treasury stock	(8)	-
Payments of dividends	(1 074)	(1 040)
NET CASH PROVIDED BY FINANCING ACTIVITIES	43 370	26 062
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	7 315	(2 078)
Cash and due from banks at January 1	28 769	30 847
CASH AND DUE FROM BANKS AT DECEMBER 31	$ 36 084	$ 28 769

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
For the Years Ended December 31, 2016 and 2015
($000's)

	2016	2015
Interest paid	$ 1 251	$ 1 526
Income taxes paid	$ 3 624	$ 2 309
Supplementary Schedule of Noncash Investing and Financing Activities:		
Loans transferred to other real estate	$ 15	$ 90
Total increase (decrease) in unrealized gain on securities available for sale	$ (2 684)	$ (354)

The accompanying notes are an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Nacogdoches Commercial Bancshares, Inc. (the Company) and its subsidiary, Commercial Bank of Texas, N.A. (the Bank) conform to accounting principles generally accepted in the United States of America. The following is a summary of the Company's significant accounting policies.

Nature of Operations - The Bank provides a variety of financial services to individuals and corporate customers through its four branches located in Nacogdoches County, its four branches located in Angelina County, its single branches located in Cherokee, Houston, and Anderson Counties, its four branches located in North Texas (Allen, Lewisville, Bedford and Roxton) and its two branches in Rains County. All locations are in the state of Texas. Its primary lending products consist of automobile loans, single family residential loans, and loans to locally owned businesses, including business loans secured by real estate. Its primary deposit products consist of regular and interest-bearing checking accounts and certificates of deposit. The Bank offers fiduciary and investment services through its Trust Department and insurance products through its Insurance Department.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the loan portfolio is diversified, its debtors' ability to honor their contracts is heavily dependent upon economic conditions in the service area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

Cash Equivalents - For the purpose of presentation in the Consolidated Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in the Statement of Condition caption "Cash and due from banks," all of which mature within 90 days.

Investments in Securities - The Bank's investment portfolio is classified into three categories and accounted for as follows:

Securities classified as trading securities are equity securities held principally for resale in the near term. These securities are recorded at their estimated fair values. Unrealized gains and losses on these securities are included in other income.

Securities classified as held to maturity are those debt securities for which the Bank has the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are reported at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives.

Securities classified as available for sale are equity securities with readily determinable fair values and those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of shareholders' equity, net of the related deferred tax effect.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Premiums and discounts on investment securities are recognized in interest income using the interest method over the period to maturity.

Declines in the fair value of individual securities to be held to maturity and securities available for sale below their cost that are other than temporary are accounted for as a write-down of the individual securities to their fair value. Any related write-downs are included in earnings as realized losses. Unrealized holding gains and losses on securities available for sale are reported in other comprehensive income. Realized gains and losses on securities available for sale are included in other income or expense and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on the sale of securities are determined using the specific-identification method. Investment securities are accounted for on a trade date basis.

Professional standards require the Bank to recognize all financial derivatives on the balance sheet at fair value. At December 31, 2016 and 2015, the Bank had no derivative instruments.

Loans Receivable - Loans are carried at the amount of unpaid principal. The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout the northern and eastern region of Texas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the area.

Loans held for investment are stated at the amount of unpaid principal and reduced by an allowance for loan losses.

Mortgage loans held for sale are recorded at the lower of cost or market. Gains and losses on sales are computed on the basis of specific identification.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Income on impaired loans is recognized in accordance with the accounting principles employed in the recognition of income on nonimpaired loans, unless, in the opinion of management, the accrual of income should be discontinued due to the inability of the borrower to meet payments as they become due.

Loans that have been categorized by management as nonaccrual are included in the total loan portfolio being reported. Loans are deemed nonaccrual because collection of interest is doubtful. When the payment of principal or interest on a loan is delinquent for 90 days, or earlier in some cases, the loan is placed on nonaccrual status unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan. When a loan is placed on nonaccrual status, all interest previously accrued is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Loan origination and commitment fees are recognized as income when received. Direct loan origination costs are expensed when paid. Professional accounting standards require the net effect of loan origination and commitment fees and certain direct loan origination costs to be deferred and recognized over the life of the related loan as an adjustment of yield. The application of these standards would not have a material effect on the consolidated financial position or results of operations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allowance for Credit Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Bank has concerns about the ability 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 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.

The Bank's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Bank's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, real estate, or consumer and credit card). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements). The allowance factors assigned differ by loan type.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibits one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the Bank will not collect amounts due according to the contractual terms or sustain some loss if the deficiencies are not corrected.

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain loans have been paying as agreed and have remained current, with some financial issues related to cash flow that have caused some concern as to the ability of the borrower to perform in accordance with the current loan terms but not to such an extent as to require the loan be put into a nonaccruing status. Cash receipts on impaired loans are recorded as interest income is received, unless the loan is in a nonaccrual status.

Loan Charge-Offs - The Bank uses the Federal Financial Institutions Examination Council's Uniform Retail Credit Classification and Account Management Policy for loan charge-offs.

For consumer and commercial loans, the Bank generally fully or partially charges down to the fair value of collateral securing the asset when:

- management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Bank's internal loan review process or external examiners;
- the borrower has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- the loan is 180 days past due unless both well secured and in the process of collection.

The Bank's charge-off policies by segment of the loan portfolio are as follows:

- *Real Estate* - The Bank generally writes down to the net realizable value when the loan is no later than 180 days past due.
- *Auto Loans* - The Bank generally fully or partially charges down to the net realizable value when the loan is 60 days past due.
- *Unsecured Loans* - The Bank generally charges off when the loan is 90 days past due.
- *Other Secured Loans* - The Bank generally fully or partially charges down to the net realizable value when the loan is 120 days past due for closed-end loans and 180 days past due for open-end loans.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Troubled Debt Restructurings - In situations where, for economic or legal reasons related to a member's financial difficulties, the Bank grants a concession for other than an insignificant period of time to the member that the Bank would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Bank strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principle forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Bank grants the member new terms that provide for a reduction of either interest or principal, the Bank measures any impairment on the restructuring as previously noted for impaired loans.

In addition to the allowance for the pooled portfolios, the Bank develops a separate allowance for loans that are identified as impaired through TDR. After a period of time, usually 6 months, if the loan is performing under the restructured payment amount, and after review, the Bank believes the status will continue, the loan is moved back into the respective segment or class and the allowance is calculated using the pooling method for the respective pool.

Property and Equipment - Land is carried at cost. Bank premises, furniture, and equipment are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method and is charged to operations over the estimated useful lives of the assets. Buildings are depreciated over 39 years, equipment over 3 to 10 years, and vehicles over 5 years. Maintenance and repairs of property and equipment are charged to operations; however, major improvements are capitalized. A capitalization threshold of $500 is used. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss is included in operations.

Bank Owned Life Insurance - The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified in noninterest income.

Other Real Estate Owned - Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value at the date of foreclosure. Any write-downs at the time of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of (1) cost or (2) fair value minus estimated costs to sell. Gains and losses realized on the sale, and any adjustments resulting in periodic re-evaluation of the property are included in noninterest income and expense, as appropriate. Net cost of maintaining and operating the properties are expensed as incurred.

Financial Instruments - In the ordinary course of business, the Bank has entered into off balance sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Fair Values of Financial Instruments - FASB Codification Section 825-10-50 requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. This standard excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes - Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Provisions for income taxes are based on amounts reported in the consolidated statements of income (after exclusion of non-taxable income such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Items of deferral include differences related to the allowance for credit losses, allowance for losses on foreclosed real estate, accumulated depreciation, accretion of discounts, Federal Home Loan Bank and mutual fund stock dividends, the unrealized gains or losses on securities held as available for sale, and liabilities being accrued for the payment of insurance benefits to officers and directors. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The Company files a consolidated return with its wholly owned subsidiary, the Bank. Federal income taxes are allocated to members of the controlled group on a separate entity basis.

Transfers of Financial Assets - The Company accounts for transfers and servicing of financial assets in accordance with FASB ASC 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only 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, (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.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains and losses on the sales of loans are determined by differences between the yield rate guaranteed to the buyer on those loans and the contract interest rate being collected and are recognized in the financial statements in the year of sale.

Mortgage Servicing Rights - The Bank services some mortgage loans that it has originated and sold. Such loan balances are not included in the accompanying consolidated Statements of Condition. Mortgage servicing rights on loans originated by the Bank, and on those purchased, are capitalized as assets at the estimated fair value on the date of origination or purchase. Management periodically evaluates mortgage servicing rights for impairment. Mortgage servicing rights are considered to be impaired when the carrying value exceeds the estimated fair value at the date of evaluation. Mortgage servicing rights are amortized against servicing income over the lives of the respective loans.

Earnings Per Share - Basic earnings per common share is computed on the basis of the weighted-average number of shares of common stock outstanding and includes net income less dividends paid on preferred stock. Diluted earnings per common share reflects the assumed effects of converting Series B preferred shares to common shares, if those effects are dilutive (reducing earnings per share).

Trust Fees - Trust fees (Income from fiduciary activities) are recorded monthly.

Goodwill - In acquisitions accounted for using the purchase method, the Company allocates any excess of the purchase price over the book value of the acquired company first to the assets and liabilities of the acquired company based on their respective current fair values, then to goodwill.

The Company conducts an annual impairment test for goodwill and other intangible assets with indefinite useful lives based on the fair value of the applicable reporting unit. If the reporting unit's fair value is greater than its carrying amount, goodwill is not impaired and no loss is recognized. If the implied fair value of a reporting unit's goodwill is less than its recorded amount, goodwill is considered impaired and the Company must recognize a loss. Management has conducted goodwill assessments as of December 31, 2016 and 2015. Management has concluded that there was no impairment as of those dates. Goodwill in the amounts of $3,677,459 and $3,492,936 is being carried on the statement

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

of condition as of December 31, 2016 and 2015, respectively, related to the acquisitions of the Bank of East Texas, SSB and First National Bank of Emory.

Core Deposit Intangible - Core deposit intangible is recorded at fair value at the date of acquisition and is being amortized over 5 years using the sum-of-the-years digits method.

Comprehensive Income - Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities are reported as a separate component of the stockholder's equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Advertising - The Company expenses all advertising costs when incurred. For 2016 and 2015, advertising and community relations expenses amounted to $609,770 and $627,536, respectively.

Uncertain Tax Positions - Financial Accounting Standards Board Codification Section 740 requires recognition, measurement and disclosure of uncertain tax positions. The Company currently accounts for uncertain tax positions based on the estimated likelihood of assessment and has not determined that any tax positions require an accrual based on current standards of accounting. The Company is generally no longer subject to Federal tax examinations for years before 2013.

Stock-Based Compensation - The Company has a stock-based employee compensation plan, which is described more fully in Stock Option Plan disclosure, which provide for grants of incentive stock options. The plan has been presented to and approved by the Company's shareholders. Professional standards require that all equity-based compensation, including grants of stock options, to employees be expensed based on the fair value on the date of grant recognized over the service period for awards expected to vest. For awards with graded vesting schedules, the Company uses the straight-line method of attributing the value of stock-based compensation expense based on the applicable vesting schedule.

Segment Reporting - FASB ASC 280, *Segmenting Reporting*, requires that an enterprise report selected information about operating segments in its financial reports issued to its shareholders. Based on the analysis performed by the Company, management has determined that the Company only has one operating segment, which is commercial banking. The chief operating decision-makers use consolidated results to make operating and strategic decisions, and therefore, are not required to disclose any additional segment information.

Subsequent Events - Management has evaluated subsequent events through February 14, 2017, the date the financial statements were available to be issued.

BRANCH ACQUISITION

Effective at the close of business September 16, 2016, the Bank entered a merger transaction whereby FNB Emory was merged with and into CBTx, with CBTx surviving the merger as a national banking association. The following table reflects the fair value of the assets purchased and liabilities assumed at the merger date.

		FAIR VALUE
Cash	$	34 866 402
Investments		9 991 136
Loans		39 690 234
Accrued interest receivable		233 597
Federal Home Loan Bank stock		44 400
Goodwill		184 523
Core deposit intangible		1 790 562
Bank Owned Life Insurance		1 243 238
Property and equipment		1 040 000
Demand and savings		(63 565 910)
Time deposits		(22 321 199)
Accrued interest payable		(17 628)
Accrued expenses		(179 355)
NET BANK ACQUISITION PREMIUM	$	3 000 000

The core deposit intangible is included in other assets on the consolidated statement of condition. The following table represents the activity in the core deposit intangible for the years presented.

		AMOUNT
Balance December 31, 2014	$	123 511
Amortization		(61 958)
Balance December 31, 2015		61 553
Core Deposit Intangible for Emory transaction		1 790 562
Amortization		(233 505)
Balance December 31, 2016	$	1 618 610

RESTRICTED EQUITY SECURITIES

The Bank invests in stock of the Federal Reserve Bank and the Federal Home Loan Bank. No ready market exists for these stocks and they have no quoted market value. They are therefore carried at cost in the financial statements. These stocks are included in securities available for sale in the consolidated statements of condition.

INVESTMENT SECURITIES

The following tables reflect the amortized cost and estimated fair values of debt, equity, and mortgage-backed securities held at December 31, 2016 and 2015. In addition, gross recognized but unrealized gains and losses are disclosed for trading securities and gross unrealized gains and losses are disclosed for available for sale and held to maturity securities as of December 31, 2016 and 2015.

TRADING SECURITIES

		AMORTIZED COST		UNREALIZED GAINS		UNREALIZED LOSSES		FAIR VALUE
December 31, 2016:								
Equity securities	$	143 100	$	331 387	$	-	$	474 487
TOTALS	$	143 100	$	331 387	$	-	$	474 487

INVESTMENT SECURITIES – CONTINUED

December 31, 2015:				
Equity securities	143 100	$ 302 796	$ -	$ 445 896
TOTALS	$ 143 100	$ 302 796	$ -	$ 445 896

SECURITIES AVAILABLE FOR SALE

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
December 31, 2016:				
U.S. government	$ -	$ -	$ -	$ -
U.S. agency sponsored securities	166 179 193	441 289	1 978 769	164 641 713
Mortgage-backed securities	33 936 690	456	1 044 057	32 893 090
Equity securities	709 948	-	-	709 948
Restricted equity securities	1 927 200	-	-	1 927 200
TOTALS	$ 202 753 031	$ 441 745	$ 3 022 826	$ 200 171 951
December 31, 2015:				
U.S. government	$ 19 996 499	$ 267 101	$ -	$ 20 263 600
U.S. agency sponsored securities	143 049 245	510 965	657 073	142 903 137
Mortgage-backed securities	4 417 911	-	18 154	4 399 757
Equity securities	707 775	-	-	707 775
Restricted equity securities	1 876 900	-	-	1 876 900
TOTALS	$ 170 048 330	$ 778 066	$ 675 227	$ 170 151 169

SECURITIES TO BE HELD TO MATURITY

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
December 31, 2016:				
State and municipal securities	$ 5 267 571	$ 19 519	$ 33 682	$ 5 253 408
December 31, 2015:				
State and municipal securities	$ 8 810 929	$ 65 368	$ 3 851	$ 8 872 446

Proceeds from the sale of trading securities were $-0- in 2016 and $-0- in 2015. Proceeds from the redemption of equity shares held as available for sale were $-0- in 2016 and $-0- in 2015. Proceeds from the sale of available for sale securities were $55,184,929 in 2016 and $39,119,204 in 2015. Gross realized gains from the sale of trading securities in 2016 were $-0- and $-0- in 2015. Gross recognized gains (losses) from the valuation of trading securities were $28,591 in 2016 and $73,277 in 2015. Gross realized gains from the sale of available for sale securities were $611,686 in 2016 and $215,744 in 2015. Gross realized losses from the sale of available for sale securities were $118,672 in 2016 and $77,102 in 2015.

The net carrying amount of held to maturity securities that were sold during 2016 and 2015 was $-0- and $-0-, respectively.

Management evaluates securities for other-than-temporary impairment on a periodic basis. Consideration is given to 1) the length of time and the extent to which the fair value has been less than cost, 2) the financial condition and near term prospects of the issuer, 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

INVESTMENT SECURITIES – CONTINUED

Debt securities with unrealized losses have depreciated 2.24% and .85% from the Company's amortized cost basis at December 31, 2016 and 2015, respectively. These securities are guaranteed by either the U.S. Government agencies thereof or municipalities. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Information pertaining to available for sale and held to maturity securities with gross unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that the individual securities have been in a continuous loss position follows:

AVAILABLE FOR SALE AND HELD TO MATURITY - LESS THAN 12 MONTHS

	AMORTIZED COST	UNREALIZED LOSSES	FAIR VALUE
December 31, 2016:			
U.S. agency sponsored securities	$ 101 553 293	$ 1 978 769	$ 99 574 524
Mortgage-backed securities	32 079 838	1 044 057	31 035 781
State and municipal securities	1 597 817	32 088	1 565 729
TOTALS	$ 135 230 948	$ 3 054 914	$ 132 176 034

AVAILABLE FOR SALE AND HELD TO MATURITY - GREATER THAN 12 MONTHS

	AMORTIZED COST	UNREALIZED LOSSES	FAIR VALUE
December 31, 2016:			
U.S. agency sponsored securities	$ -	$ -	$ -
Mortgage-backed securities	-	-	-
State and municipal securities	1 011 637	1 594	1 010 043
TOTALS	$ 1 011 637	$ 1 594	$ 1 010 043

Information pertaining to securities with gross unrealized losses at December 31, 2015, aggregated by investment category and length of time that the individual securities have been in a continuous loss position follows:

AVAILABLE FOR SALE AND HELD TO MATURITY - LESS THAN 12 MONTHS

	AMORTIZED COST	UNREALIZED LOSSES	FAIR VALUE
December 31, 2015:			
U.S. agency sponsored securities	$ 71 464 803	$ 657 073	$ 70 807 730
U.S. government	4 417 911	18 154	4 399 757
State and municipal securities	2 775 966	3 181	2 772 786
TOTALS	$ 78 658 680	$ 678 407	$ 77 980 273

INVESTMENT SECURITIES - CONTINUED

AVAILABLE FOR SALE AND HELD TO MATURITY - GREATER THAN 12 MONTHS

	AMORTIZED COST	UNREALIZED LOSSES	FAIR VALUE
December 31, 2015:			
U.S. agency sponsored securities	$ -	$ -	$ -
State and municipal securities	821 730	671	822 401
TOTALS	$ 821 730	$ 671	$ 822 401

The amortized cost and estimated fair value of available for sale and held to maturity debt securities held at fair value at December 31, 2016 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	AVAILABLE FOR SALE		HELD TO MATURITY	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 4 995 882	$ 5 026 150	$ 2 809 040	$ 2 810 699
Due after one through five years	161 183 311	159 615 563	1 608 637	1 617 697
Due after five through ten years	-	-	849 894	825 012
Due after ten years	-	-	-	-
Mortgage-backed securities	33 936 690	32 893 090	-	-
Equity securities	2 637 148	2 637 148	-	-
TOTAL	$ 202 753031	$ 200 171 951	$ 5 267 571	$ 5 253 408

Securities carried at $127,752,000 and $111,020,000 at December 31, 2016 and 2015, respectively, were pledged to secure deposits and for other purposes required or permitted by law.

LOANS - CREDIT QUALITY

The Company's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

As of December 31, 2016, the real estate loan portfolio constituted 76% of the total loan portfolio. Included in this amount were 13% construction and land development, 52% commercial real estate and 35% residential real estate loans.

The Company's construction and land development loans are secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner occupied commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. These loans are generally underwritten with a term not greater than 5 years at a fixed rate then adjusting annually with a maximum amortization based on 20 years. The preferred term is 3 years, with a balloon payment based on a 15 year amortization period.

LOANS - CREDIT QUALITY - CONTINUED

Residential real estate loans are secured by the improved real property of the borrower and are usually underwritten with a term of 1 to 5 years, but may be underwritten with terms up to 30 years.

The Company also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. This category represents about 14% of the loan portfolio at December 31, 2016 and was generally with a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

Outstanding Loans:

The table below presents total outstanding loans at December 31, 2016 and 2015 and an aging analysis at December 31, 2016.

	DECEMBER 31, 2016				
	30-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE 30 DAYS OR MORE	TOTAL CURRENT OR LESS THAN 30 DAYS PAST DUE	TOTAL OUT-STANDING
Real Estate:					
Commercial real estate	$ 354 519	$ 256 312	$ 610 831	$ 144 988 592	$ 145 599 423
Commercial construction	-	-	-	17 783 672	17 783 672
1-4 family residential	-	-	-	11 665 000	11 665 000
Residential mortgages	1 861 739	348 663	2 210 402	84 598 865	86 809 266
Home equity and home improvement	318 808	26 998	345 805	16 638 907	16 984 712
Agriculture	380 511	3 298	383 809	9 582 082	9 965 891
VA/FHA	59 689	15 789	75 478	1 259 458	1 334 936
SBA/FSA	37 746	-	37 746	11 711 837	11 749 583
TOTAL REAL ESTATE	3 013 012	651 060	3 664 071	298 228 413	301 892 483
Consumer:					
Indirect	139 495	200 120	339 615	6 556 491	6 896 106
Retail	703 458	156 932	860 390	23 615 900	24 476 290
CD secured	47 915	-	47 915	4 848 151	4 896 066
Fresh start	901	-	901	43 769	44 670
TOTAL CONSUMER	891 769	357 052	1 248 821	35 064 311	36 313 132
Commercial:					
Agriculture	23 817	-	23 817	7 579 834	7 603 651
Secured and unsecured	471 013	72 533	543 546	46 679 241	47 222 787
TOTAL COMMERCIAL	494 830	72 533	567 363	54 259 075	54 826 438
Loans in-process and dealer prepaid				2 960 751	2 960 751
Overdrafts				467 061	467 061
TOTAL LOANS	$ 4 399 611	$ 1 080 645	$ 5 480 255	$ 389 848 121	395 328 376
Allowance for credit losses					5 193 171
NET LOANS					$ 390 135 205

LOANS - CREDIT QUALITY - CONTINUED

	DECEMBER 31, 2015				
	30-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE 30 DAYS OR MORE	TOTAL CURRENT OR LESS THAN 30 DAYS PAST DUE	TOTAL OUT-STANDING
Real Estate:					
Commercial real estate	$ 807 779	$ 106 461	$ 914 240	$ 122 562 939	$ 123 477 179
Commercial construction	-	-	-	26 813 382	26 813 382
1-4 family residential	-	-	-	8 937 727	8 937 727
Residential mortgages	913 159	532 503	1 445 662	64 984 631	66 430 293
Home equity and home improvement	123 763	63 357	187 120	12 638 377	12 825 497
Agriculture	-	-	-	5 769 531	5 769 531
VA/FHA	144 130	17 065	161 195	1 107 389	1 268 583
SBA/FSA	-	-	-	11 158 957	11 158 957
TOTAL REAL ESTATE	1 988 831	719 386	2 708 217	253 972 933	256 681 149
Consumer:					
Indirect	196 472	30 890	227 362	11 197 567	11 424 928
Retail	811 396	52 199	863 595	18 887 903	19 751 498
CD secured	4 343	9 396	13 739	3 473 641	3 487 381
Fresh start	-	-	-	36 036	36 036
TOTAL CONSUMER	1 012 211	92 485	1 104 696	33 595 147	34 699 843
Commercial:					
Agriculture	89 491	-	89 491	4 394 014	4 483 505
Secured and unsecured	214 834	724 554	939 388	35 533 388	36 472 776
TOTAL COMMERCIAL	304 325	724 554	1 028 879	39 927 402	40 956 281
Loans in-process and dealer prepaid				1 938 044	1 938 044
Overdrafts				323 589	323 589
TOTAL LOANS	$ 3 305 367	$ 1 536 425	$ 4 841 792	$ 329 757 115	334 598 906
Allowance for credit losses					4 182 993
NET LOANS					$ 330 415 913

Nonaccrual Loans:

The table below includes the Company's nonaccrual loans, including nonperforming troubled debt restructures, and loans past due 90 days or more at December 31, 2016 and 2015:

	NONACCRUAL LOANS AND LEASES DECEMBER 31,		ACCRUING PAST DUE 90 DAYS OR MORE DECEMBER 31,	
	2016	2015	2016	2015
Real Estate:				
Commercial real estate	$ -	$ -	$ 256 312	$ 106 461
Residential mortgages	-	68 478	348 663	464 025
Home equity and home improvement	-	63 357	26 998	-
VA/FHA	-	-	15 789	17 065
SBA/FSA	-	-	-	-
TOTAL REAL ESTATE	-	131 835	647 762	587 551
Consumer:				
Indirect	189 460	2 230	10 660	30 890
Retail	139 933	30 531	38 045	52 199
TOTAL CONSUMER	329 393	32 761	48 705	83 089
Commercial:				
Agriculture	-	59 671	-	-
Secured and unsecured	-	807 785	72 533	232 051
TOTAL COMMERCIAL	-	867 456	72 533	232 051
TOTAL	$ 329 393	$ 1 032 052	$ 769 000	$ 902 691

LOANS - CREDIT QUALITY - CONTINUED

Credit Quality Indicators:

The Company monitors credit quality within its four segments based on primary credit quality indicators. The Company loans are evaluated using the pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans that are internally classified or listed by the Company as substandard, doubtful, or loss.

Pass - loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention - loans in this category are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard - loans in this category show signs of continuing negative financial trends and unprofitability and therefore, are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful - loans in this category are illiquid and highly leveraged, have negative net worth, cash flow, and continuing trend serious losses. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as loss is deferred until its more exact status may be determined.

Loss - loans in this category are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the loan has no recovery value, but that it is not practical to defer writing it off, even though partial recovery may be affected in the future. Such credits should be recommended for charge-off.

The information for each of the credit quality indicators is updated on a quarterly basis in conjunction with the determination of the adequacy of the allowance for loan losses.

Credit risk profile by internally assigned grade:

	2016 RISK RATING		2015 RISK RATING	
	PASS	RESERVABLE CRITICIZED	PASS	RESERVABLE CRITICIZED
Real Estate:				
Commercial real estate	$ 135 546 309	$ 10 053 114	$ 117 205 613	$ 6 271 566
Commercial construction	17 783 672	-	26 813 382	-
1-4 family residential	11 665 000	-	8 937 727	-
Residential mortgages	84 192 939	1 484 838	65 758 763	671 530
Home equity and home improvement	16 804 446	180 266	12 582 411	243 086
Agriculture	9 037 952	927 939	5 011 588	757 943
VA/FHA	1 288 646	46 290	1 107 388	161 195
SBA/FSA	9 932 524	1 817 059	11 146 075	12 882
TOTAL REAL ESTATE	286 251 488	14 509 506	248 562 947	8 118 202
Consumer:				
Indirect	6 603 518	292 588	11 228 144	196 784
Retail	23 489 889	986 401	18 687 450	1 064 048
CD secured	4 896 066	-	3 487 381	-
Fresh start	44 670	-	36 036	-
TOTAL CONSUMER	35 034 143	1 278 989	33 439 011	1 260 832
Commercial:				
Agriculture	7 186 277	417 374	4 262 881	220 624
Secured and unsecured	40 242 111	6 980 676	33 716 980	2 755 796
TOTAL COMMERCIAL	47 428 388	7 398 050	37 979 861	2 976 420
TOTAL	$ 368 714 019	$ 23 186 545	$ 319 981 819	$ 12 355 454

LOANS - CREDIT QUALITY - CONTINUED

Impaired Loans and Trouble Debt Restructurings:

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan.

	DECEMBER 31, 2016			
	UNPAID PRINCIPAL BALANCE	CARRYING VALUE	RELATED ALLOWANCE	AVERAGE CARRYING AMOUNT
With an Allowance Recorded:				
Real estate	$ -	$ -	$ -	$ -
Commercial	$ 673 673	$ 335 673	$ 338 000	$ 347 527
Consumer	$ -	$ -	$ -	$ -

	DECEMBER 31, 2015			
	UNPAID PRINCIPAL BALANCE	CARRYING VALUE	RELATED ALLOWANCE	AVERAGE CARRYING AMOUNT
With an Allowance Recorded:				
Real estate	$ -	$ -	$ -	$ -
Commercial	$ 707 380	$ 359 380	$ 348 000	$ 591 380
Consumer	$ -	$ -	$ -	$ -

Allowance for Credit Losses:

The table below summarizes the changes in the allowance for credit losses for 2016 and 2015:

	COMMERCIAL	REAL ESTATE	CONSUMER	UNALLOCATED	TOTAL ALLOWANCE 2016
Allowance for loan and lease losses January 1	$ 773 000	$ 2 550 000	$ 551 000	$ 308 993	$ 4 182 993
Loans and leases charged off	(26 700)	(14 843)	(674 523)	-	(716 066)
Recoveries of loans and leases previously charged off	7 858	-	94 386	-	102 244
NET CHARGE OFFS	(18 842)	(14 843)	(580 137)	-	(613 822)
Provision for loan and lease losses	(71 158)	(42 157)	469 137	1 268 178	1 624 000
ALLOWANCE FOR LOAN AND LEASE LOSSES DECEMBER 31, 2016	$ 683 000	$ 2 493 000	$ 440 000	$ 1 577 171	$ 5 193 171

	COMMERCIAL	REAL ESTATE	CONSUMER	UNALLOCATED	TOTAL ALLOWANCE 2015
Allowance for loan and lease losses January 1	$ 408 000	$ 2 523 000	$ 425 000	$ 408 000	$ 3 764 000
Loans and leases charged off	(127 011)	(32 164)	(401 536)	-	(560 711)
Recoveries of loans and leases previously charged off	4 698	15 317	36 689	-	56 703
NET CHARGE OFFS	(122 313)	(16 847)	(364 847)	-	(504 008)
Provision for loan and lease losses	487 313	43 847	490 847	(99 007)	923 000
ALLOWANCE FOR LOAN AND LEASE LOSSES DECEMBER 31, 2015	$ 773 000	$ 2 550 000	$ 551 000	$ 308 993	$ 4 182 993

LOANS - CREDIT QUALITY - CONTINUED

The table below represents the allowance and the carrying value of outstanding loans and leases by portfolio segment at December 31, 2016 and 2015.

	COMMERCIAL	REAL ESTATE	CONSUMER	TOTAL
December 31, 2016				
Impaired Loans and Troubled Debt Restructurings:				
Allowance for loans and lease losses	$ 338 000	$ -	$ -	$ 338 000
Unpaid principal balance	$ 673 673	$ -	$ -	$ 673 673
Allowance as a percentage of unpaid principal balance	50.20%	- %	- %	50.20%
Collectively Evaluated for Impairment:				
Allowance for loans and lease losses	$ 345 000	$ 2 493 000	$ 440 000	$ 3 278 000
Unpaid principal balance	$ 54 152 765	$ 300 760 994	$ 39 740 944	$ 394 654 703
Allowance as a percentage of unpaid principal balance	0.64%	0.83%	1.11%	0.83%
Total:				
Allowance for loans and lease losses	$ 683 000	$ 2 493 000	$ 440 000	$ 3 616 000
Unpaid principal balance	$ 54 826 438	$ 300 760 994	$ 39 740 944	$ 395 328 376
Allowance as a percentage of unpaid principal balance	1.25%	0.83%	1.11%	0.91%

	COMMERCIAL	REAL ESTATE	CONSUMER	TOTAL
December 31, 2015				
Impaired Loans and Troubled Debt Restructurings:				
Allowance for loans and lease losses	$ 348 000	$ -	$ -	$ 348 000
Unpaid principal balance	$ 707 380	$ -	$ -	$ 707 380
Allowance as a percentage of unpaid principal balance	49.20%	- %	- %	49.20%
Collectively Evaluated for Impairment:				
Allowance for loans and lease losses	$ 425 000	$ 2 550 000	$ 551 000	$ 3 526 000
Unpaid principal balance	$ 40 248 901	$ 256 681 149	$ 34 699 843	$ 331 629 893
Allowance as a percentage of unpaid principal balance	1.06%	0.99%	1.59%	1.06%
Total:				
Allowance for loans and lease losses	$ 773 000	$ 2 550 000	$ 551 000	$ 3 874 000
Unpaid principal balance	$ 40 956 281	$ 256 681 149	$ 34 699 843	$ 332 337 273
Allowance as a percentage of unpaid principal balance	1.89%	0.99%	1.59%	1.17%

Mortgage loans held for sale at December 31, 2016 and 2015 totaled approximately $846,516 and $1,165,000, respectively. These loans consisted of loans which management intended to sell in the secondary market at the next available opportunity. Since these mortgage loans were originated shortly before year end at current market rates, the carrying value of the held for sale loan portfolio approximated the market value and no provisions for unrealized losses were made. Aggregate gains on sales of mortgage loans amounted to $1,388,738 and $897,703 in 2016 and 2015, respectively. These are included in "Fees on sales and servicing of loans" on the Consolidated Statements of Income.

LOAN SERVICING

Mortgage loans serviced for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation are not included in the accompanying consolidated Statements of Condition. The unpaid balances of those loans at December 31, 2016 and 2015 were $249,638,894 and $223,619,581, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, totaled $1,418,635 and $1,223,679 at December 31, 2016 and 2015, respectively.

LOAN SERVICING - CONTINUED

Mortgage servicing rights (MSR) originated by the Bank are capitalized and included in "other assets" in the Consolidated Statements of Condition. These balances at December 31, 2016 and 2015 were $1,442,323 and $1,287,155, respectively. During 2016 and 2015, $361,470 and $284,012 of MSRs were capitalized, respectively. These rights are being amortized concurrently with the associated loans. Amortization expense of MSR's in 2016 totaled $206,302 and in 2015 totaled $200,213. Amortization is recorded as a reduction of servicing income under the caption "fees on sales and servicing of loans" in the Consolidated Statements of Income.

For measuring impairment, mortgage service rights are stratified based on one or more of the predominant risk characteristics of the underlying loans. Such characteristics include (1) loan type, (2) loan size, (3) interest rate and (4) loan term.

The estimated aggregate fair value of mortgage service rights equals book value. Fair value is based on the present value of expected future cash inflows. In estimating fair value, assumptions are made regarding prepayment, default, and interest rates.

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 consisted of:

	2016	2015
Land	$ 3 413 974	$ 3 139 124
Buildings	13 319 184	11 247 136
Furniture and equipment	5 266 713	4 984 035
Vehicles	276 267	154 069
Construction in process	10 241	438 339
TOTAL COST	22 286 379	19 962 703
Accumulated depreciation	(9 727 919)	(9 224 732)
NET BOOK VALUE	$ 12 558 460	$ 10 737 971

Depreciation expense totaled $986,092 and $884,048 for 2016 and 2015, respectively.

OTHER REAL ESTATE OWNED

A comparative summary of activity on foreclosed real estate follows:

	2016	2015
Balance at January 1	$ 2 446 729	$ 2 185 000
Foreclosed during the year	103 478	90 000
From purchase of Elkhart State Bank	-	352 247
Write-downs	-	-
Sales and other dispositions	(138 478)	(180 518)
BALANCE AT DECEMBER 31	$ 2 411 729	$ 2 446 729
As shown on the statement of condition		
Non-residential real estate owned	$ 2 411 729	$ 2 396 729
Residential real estate owned	-	50 000
	$ 2 411 729	$ 2 446 729

During the years presented, there were no significant investments in mortgage loans secured by residential real estate properties where formal foreclosure procedures were in process at year end.

DEPOSITS

Components of deposits included in the Consolidated Statements of Condition at December 31, 2016 and 2015 were as follows:

		2016		2015
Demand and Savings:				
Demand deposits	$	225 864 468	$	164 822 878
Savings		51 841 815		38 762 571
NOW accounts		126 149 235		116 951 346
Money market accounts		80 653 220		75 127 134
		484 508 738		395 663 929
Time:				
Certificates of deposit of $250,000 or more		22 829 961		9 665 515
Other time deposits		87 038 364		81 238 923
		109 868 325		90 904 438
TOTAL DEPOSITS	$	594 377 063	$	486 568 367

The maturity distribution of time deposits at December 31, 2016, was as follows:

Within one year	$	72 241 012
One to two years		16 941 289
Two to three years		7 786 764
Three to five years		12 594 911
Over five years		304 349
	$	109 868 325

Interest on deposits for the years ended December 31, 2016 and 2015 consists of the following:

		2016		2015
Savings	$	35 131	$	28 665
NOW accounts		260 910		214 016
Money market accounts		126 268		107 340
Certificates of deposit		683 623		838 006
	$	1 105 932	$	1 188 027

NOTES PAYABLE AND FEDERAL HOME LOAN BANK ADVANCES

In August, 2008, the Bank borrowed $6,000,000 from the FHLB to fund the purchase of securities for the investment portfolio. The advance is amortizing, with final maturity on September 4, 2018. The advance bears interest at 4.53%. The outstanding balance at December 31, 2016 and 2015 was $1,255,044 and $1,928,837, respectively.

Short term advances for liquidity purposes were taken in December 2015. The December 2015 advance was paid in January 2016. The balance outstanding at December 31, 2015 was $11,680,000 at an interest rate of .05%. The balance outstanding at December 31, 2016 was -0-.

On January 8, 2013, the Bank borrowed $4,000,000 from FHLB for the purpose of funding certain existing mortgage loans in its own portfolio at a favorable interest spread. The advance is not amortizing, with final maturity on January 8, 2018. The advance bears interest at 1.100%. The outstanding balance was $4,000,000 at December 31, 2016.

NOTES PAYABLE AND FEDERAL HOME LOAN BANK ADVANCES - CONTINUED

All advances were collateralized by a blanket lien on the Bank's mortgage loans and may be subject to prepayment fees. The Bank may borrow up to 65% of the book value of its first lien mortgage loans, not to exceed 35% of its total assets, without specifically listing, segregating, or delivering collateral to the FHLB. Additionally, the Bank is required to own stock in the FHLB which varies in relation to the level of debt. FHLB stock balances held by the Bank at December 31, 2016 and 2015 were $1,347,600 and $1,297,300, respectively, which exceeded the minimum levels required by the FHLB. The long-term advances are generally subject to prepayment penalties.

Interest expense on debt with the FHLB totaled $124,327 and $280,555 in 2016 and 2015, respectively.

The future principal requirements of the long term debt are as follows:

Within one year	$	704 978
One to two years		4 550 066
Two to three years		-
Three to four years		-
Four to five years		-
Over five years		-
	$	5 255 044

LEASE OBLIGATIONS

The Bank has long term lease obligations for branch office space. The related lease expense for 2016 and 2015 was $199,932 and $257,265, respectively.

The Bank has a long-term lease agreement with Stephen F. Austin State University for a branch office. The lease expires on May 31, 2017. The Bank has options to extend the lease for five years. The related lease expense was $32,256 for 2016 and 2015.

The Bank has a yearly agreement for its Gaslight Branch in Lufkin. The lease expires on December 31, 2017 and does not have an option to renew. The related lease expense for 2016 and 2015 was $31,476 and $30,876, respectively.

The Bank entered into a lease agreement for branch facilities in Allen. The Allen lease will expire in 2017. The related lease expense was $117,000 for 2016 and $174,933 for 2015.

The Company has a long-term lease agreement for the land where the Starr Branch in Nacogdoches is located. The lease expires in December 2023. The related lease expense was $19,200 for 2016 and 2015.

The Bank entered into a lease agreement in Elkhart with a related party. The Elkhart lease will expire in January 2020. The related lease expense was $4,000 in 2016.

Future long term lease payments to third parties under their current terms are as follows:

2017	$	107 417
2018		4 000
2019		4 000
2020		4 000
2021		-
Over 5 years		-
	$	119 417

STOCKHOLDERS' EQUITY

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. National banks may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's earnings plus the retained earnings from the prior two years. The dividends, as of December 31, 2016, that the Bank could declare, without the prior approval of the OCC, amounted to approximately $14,980,124.

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by registered bank holding companies. Compliance with such standards, as presently in effect, or as they may be amended from time to time, could possibly limit the amount of dividends that the Company may pay in the future. In 1985, the Federal Reserve Board issued a policy statement on the payment of cash dividends by bank holding companies. In the statement, the Federal Reserve Board expressed its view that a holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income, or which could only be funded in ways that weaken the holding company's financial health, such as by borrowing.

Restrictions on Lending from Subsidiary to Parent:

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

The Bank is also subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the 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 regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016, that 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 the Currency 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, Tier I risk-based, 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 institution's category.

Actual capital amounts and ratios are presented in the table for the Bank (in thousands). Bank only amounts and percentages are presented as they do not differ materially from bank holding company amounts and percentages.

STOCKHOLDERS' EQUITY - CONTINUED

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	(000's) AMOUNT	RATIO	(000's) AMOUNT	RATIO	(000's) AMOUNT	RATIO
As of December 31, 2016:						
Total Capital (to risk weighted assets)	$ 63 801	15.35%	$ 33 188	≥8.0%	$ 41 486	≥10.0%
Tier I Capital (to risk weighted assets)	$ 58 616	14.13%	$ 16 594	≥4.0%	$ 24 891	≥ 6.0%
Tier I Capital (to average total assets)	$ 58 616	8.88%	$ 26 404	≥4.0%	$ 33 006	≥ 5.0%
Common Equity Tier I Capital (to risk weighted assets)	$ 58 616	14.13%	$ 18 668	≥4.5%	$ 26 966	≥ 6.5%
As of December 31, 2015:						
Total Capital (to risk weighted assets)	$ 58 646	16.64%	$ 28 195	≥8.0%	$ 35 244	≥10.0%
Tier I Capital (to risk weighted assets)	$ 54 463	15.45%	$ 14 100	≥4.0%	$ 21 151	≥ 6.0%
Tier I Capital (to average total assets)	$ 54 463	9.84%	$ 22 139	≥4.0%	$ 27 674	≥ 5.0%
Common Equity Tier I Capital (to risk weighted assets)	$ 54 463	15.45%	$ 15 863	≥4.5%	$ 22 913	≥ 6.5%

INCOME PER SHARE

The weighted average number of shares outstanding used in computing earnings per common share was 857,695 in 2016 and 857,390 in 2015. Dividends on preferred stock were deducted from net income in computing earnings per common share. The effects of the conversion of the Company's outstanding Series B preferred stock to common stock have been reflected in the earnings per share disclosures for 2016 and 2015 since such a conversion would have been dilutive to earnings per common share. The weighted average Series B shares outstanding during 2016 and 2015 were 34,794 and 34,835, respectively. The assumed number of additional common shares due to the conversion was 83,158 and 83,256 in 2016 and 2015, respectively.

TREASURY STOCK

Shares held in treasury are being carried by the Company at original cost. At December 31, 2016 and 2015, the Company held 143,140 shares of its own common stock in treasury with a cost basis of $1,571,565. At December 31, 2016 and 2015, the Company held 985 and 943 shares of Series A preferred stock, respectively. At December 31, 2016 and 2015, the Company held 4,785 and 4,743 shares of Series B preferred stock, respectively. The preferred stock had a cost basis of $410,800 at December 31, 2016 and $402,400 at December 31, 2015.

PREFERRED STOCK

The Company is authorized to issue up to 200,000 of Serial Preferred Stock with no stated value. As of December 31, 2016 and 2015, 38,594 and 38,636 shares of Series A stock were outstanding, respectively, and 34,794 and 34,836 shares of Series B stock were outstanding, respectively.

Holders of the Series A Preferred Stock are entitled to receive cumulative cash dividends at an annual rate of 5.75% based upon the stock's redemption value of $100 per share. The dividends have to be approved by the Board of Directors each year to be cumulative. All approved dividends on Series A Preferred stock have been paid to the related shareholders, so there are no cumulative cash dividends outstanding for the years presented.

Holders of the Series B Preferred Stock are entitled to receive non-cumulative cash dividends at an annual rate of 5.75% based upon the stock's redemption value of $100 per share. The holders of Series B Preferred Stock may convert those shares into shares of the Company's common stock. Each outstanding share of Series B Preferred Stock is convertible into 2.39 shares of the Company's common stock. The Board of Directors of the Company may, at any time after 20 years after the date of issuance (1998), redeem the whole, or from time to time redeem any part, of either Series A or Series B Preferred Stock by paying in cash the sum of $100 per share plus all accrued dividends.

EMPLOYEE STOCK OWNERSHIP PLAN

Effective January 1, 1994, the Company adopted an Employee Stock Ownership Plan (Plan) containing Internal Revenue Code 401(k) provisions for all employees of the subsidiary Bank who have attained age 18 and have completed one year of service with the Bank. Three types of contributions can be made to the Plan by the Company: discretionary contributions made for all non-highly compensated participants in order to satisfy the nondiscrimination requirements of the IRS Code, matching contributions which are currently set at 50% of the first 6% of each employee's salary reduction contribution, and optional contributions which, when made by the Company, are allocated to the accounts of participants on the basis of total relative compensation. All Company contributions except for the optional contributions are automatically 100% vested. The optional contributions are vested evenly over a 4 year period.

On November 4, 2016, the ESOP trust borrowed approximately $40,000 from the Company that was secured by 1,000 shares of common stock at a price of $40.00 per share. The loan is due in monthly installments of $10,000, has a variable interest rate of Prime and matures in June 2016. Balance as of December 31, 2016 was $20,193.

Total contributions expensed for the Plan by the Company during 2016 and 2015 were $161,896 and $125,738, respectively, which were recognized as salary and benefits expense in the consolidated statement of income. All participants have the option to put their shares back to the Plan at fair value in the event of termination of employment. Cash available in the plan for future stock purchases or debt service (temporarily invested in money market funds) totaled $20,469 in December 31, 2016 and $5,566 at December 31, 2015.

At December 31, 2016 and 2015, shares allocated, and shares remaining in suspense were as follows:

	2016	2015
Numbers of Shares:		
Released and allocated	45 132	41 601
Suspense	505	2 078
Fair Value:		
Released and allocated	$ 3 147 969	$ 2 620 863
Suspense	$ 35 212	$ 130 914

Dividends declared and paid on stock held by the Plan were charged against retained earnings in the same manner as dividends paid to other shareholders. Stock held by the Plan was included in the calculation of average shares outstanding and in the earnings per share computation.

EXECUTIVE SUPPLEMENTAL INCOME PLAN

Certain officers of the Bank are covered by an Executive Supplemental Income Plan (ESI) which provides retirement and/or life insurance benefits to each participant. The Plan is funded by life insurance products purchased and owned by the Bank which is designed to be self-sustaining after the first five years. The asset values of the policies totaled $10,950,810 at December 31, 2016, and $9,392,057 at December 31, 2015. A portion of the future retirement benefits which will be paid to the participants are accrued and expensed annually. The total accrued retirement benefit was $1,348,152 and $1,300,831 at December 31, 2016 and 2015, respectively. This benefit is included in "Other liabilities" in the consolidated statements of condition.

DIRECTORS' DEFERRED INCOME PLAN

The Directors' Deferred Income Plan (DDI) provides retirement and/or life insurance benefits to each participating director. The Plan is substantially funded by the deferral of fees otherwise payable to those directors who elect to participate. The asset values of the policies totaled $659,374 at December 31, 2016, and $731,188 at December 31, 2015. A portion of the future retirement benefits which will be paid to the participants are accrued and expensed annually. The total accrued retirement benefit was $1,836,540 and $1,737,287 at December 31, 2016 and 2015, respectively. This benefit is included in "Other liabilities" in the consolidated statement of condition.

FINANCIAL INSTRUMENTS, COMMITMENTS, AND CONTINGENCIES

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit card lines, fund loans and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Consolidated Statements of Condition. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in those particular financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for instruments that are reflected on the Consolidated Statements of Condition.

	CONTRACT OR NOTIONAL AMOUNT	
	2016	2015
Financial Instruments Whose Contract Amounts Represent Credit Risk:		
Commitments to fund loans	$ 56 792 000	$ 49 101 000
Standby letters of credit	$ 229 000	$ 135 000

Commitments to fund loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. The collateral held varies but may include accounts receivable, inventory, property, equipment, commercial properties, and single-family residences. Credit card lines are generally unsecured.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private arrangements in which the customer has guaranteed payment to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Bank has not incurred materially significant losses on its commitments in either 2016 or 2015. The Bank primarily serves customers located in Texas. As such, the Bank's loans, commitments, and standby letters of credit have been granted to customers in that area.

In the normal course of business, the Company and its subsidiaries are involved in various legal proceedings. Management has concluded based upon advice of counsel, that the result of these proceedings will not have a material effect on the Company's consolidated financial condition or results of operations.

FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active 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

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by this guidance, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include less liquid mortgage products, less liquid equities, and state, municipal and provincial obligations, Such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Company. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified previously.

FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The following are the assets accounted for and carried at fair value on a recurring basis on the statements of condition.

December 31, 2016:		
Trading Securities:		
Equity securities	$	474 487
Available for Sale Securities:		
U.S. sponsored agency securities	$	164 641 713
Mortgage-backed securities	$	32 893 090
Equity securities	$	709 948
Restricted equity securities	$	1 927 200
Loans held for sale	$	846 516
December 31, 2015:		
Trading Securities:		
Equity securities	$	445 896
Available for Sale Securities:		
U.S. government	$	20 263 600
U.S. sponsored agency securities	$	142 903 137
Mortgage-backed securities	$	4 399 757
Equity securities	$	707 775
Restricted equity securities	$	1 876 900
Loans held for sale	$	1 164 581

The following table presents the Company's fair value hierarchy for the above assets measured at fair value on a recurring basis as of December 31:

		QUOTED MARKET PRICES IN ACTIVE MARKETS (LEVEL 1)		OTHER OBSERVABLE INPUTS (LEVEL 2)		UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2016:						
Trading Securities:						
Equity securities	$	-	$	474 487	$	-
Available for Sale Securities:						
U.S. sponsored agency securities	$	-	$	164 641 713	$	-
Mortgage-backed securities	$	-	$	32 893 090	$	-
Equity securities	$	657 448	$	52 500	$	-
Restricted equity securities	$	-	$	1 927 200	$	-
Loans held for sale	$	-	$	846 516	$	-
December 31, 2015:						
Trading Securities:						
Equity securities	$	-	$	445 895	$	-
Available for Sale Securities:						
U.S. government	$	-	$	20 263 600	$	-
U.S. sponsored agency securities	$	-	$	142 903 137	$	-
Mortgage-backed securities	$	-	$	4 399 757	$	-
Equity securities	$	655 275	$	52 500	$	-
Securities available for sale	$	-	$	1 876 900	$	-
Loans held for sale	$	-	$	1 164 581	$	-

FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

Each major category of assets and liabilities presented on the consolidated balance sheets measured at fair value on a nonrecurring basis during the period are presented as follows:

DESCRIPTION	YEAR END	FAIR VALUE MEASUREMENTS USING: QUOTED MARKET PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)
	12/31/2016			
Impaired loans	$ 336 000	$ -	$ -	$ 336 000
Other real estate owned	$ 2 411 729	$ -	$ -	$ 2 411 729
Goodwill	$ 3 677 459	$ -	$ -	$ 3 677 459
	12/31/2015			
Impaired loans	$ 360 000	$ -	$ -	$ 360 000
Other real estate owned	$ 2 446 729	$ -	$ -	$ 2 446 729
Goodwill	$ 3 492 936	$ -	$ -	$ 3 492 936

In accordance with the disclosure requirements of FASB ASC 825, *Financial Instruments*, the estimated fair values of the Company's financial instruments are as follows:

	CARRYING AMOUNT	FAIR VALUE
December 31, 2016		
Financial Assets:		
Cash and due from banks	$ 11 400 395	$ 11 400 395
Interest bearing deposits with banks	$ 24 683 595	$ 24 683 595
Securities available for sale	$ 202 753 031	$ 200 171 951
Securities to be held to maturity	$ 5 267 571	$ 5 253 408
Trading securities	$ 474 487	$ 474 487
Loans held for sale	$ 846 516	$ 846 516
Loans, net of allowance	$ 389 288 689	$ 382 552 000
Accrued interest receivable	$ 2 232 763	$ 2 232 763
Cash value of life insurance	$ 11 610 184	$ 11 610 184
Financial Liabilities:		
Deposit liabilities	$ 594 377 063	$ 549 813 000
Accrued interest payable	$ 104 082	$ 104 082
FHLB advances	$ 5 255 044	$ 5 255 044

FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

		CARRYING AMOUNT		FAIR VALUE
December 31, 2015				
Financial Assets:				
Cash and due from banks	$	8 477 019	$	8 477 019
Interest bearing deposits with banks	$	20 292 298	$	20 292 298
Securities available for sale	$	170 151 169	$	170 151 169
Securities to be held to maturity	$	8 810 929	$	8 872 446
Trading securities	$	445 895	$	445 895
Loans held for sale	$	1 164 581	$	1 164 581
Loans, net of allowance	$	330 415 913	$	320 427 000
Accrued interest receivable	$	1 950 950	$	1 950 950
Cash value of life insurance	$	10 123 245	$	10 123 245
Financial Liabilities:				
Deposit liabilities	$	486 568 367	$	487 707 000
Accrued interest payable	$	107 541	$	107 541
The Independent Bankers Bank advance	$	-	$	-
FHLB advances	$	17 608 837	$	17 608 837

The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

Cash and Due from Banks, Interest Bearing Deposits with Banks and Federal Funds Sold - The carrying amounts of cash and short-term deposits with other banks approximate their fair value (Level 1).

Securities to be Held to Maturity, Securities Available for Sale, Trading Securities - Fair values for investment securities, excluding restricted equity securities, are based on quoted market prices for an individual bond or on quoted market prices for similar bonds traded in active markets, where available (Level 1). If quoted market price is not available, fair value is estimated based on discounted cash flow analysis using observable inputs (Level 2). The carrying values of restricted equity securities approximate fair values.

Bank Owned of Life Insurance - The carrying amount reported approximates fair value.

Loans Receivable - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values (Level 2). Fair values for other loans are estimated based on discounted cash flow analyses, using estimated pre-payment speeds and interest rates currently being offered for loans with similar terms to borrowers of similar credit quality (Level 2). Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable (Level 3). Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

Deposit Liabilities - The fair values disclosed for demand deposits (including interest bearing checking accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying values of savings accounts approximate fair values. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities (Level 2).

FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

Accrued Interest Receivable and Payable - The carrying amounts of accrued interest approximate their fair values.

Long Term Debt - The fair value is based upon a discounted cash flow analysis, using interest rates currently being offered by the FHLB or other lenders, as applicable, for approximately identical maturities (Level 2).

The fair value of commitments to extend credit and standby letters of credit are approximately the same as the amounts disclosed in these footnotes. Commitments to extend credit are usually made without fees and on a short term, variable interest rate basis. Fees for standby letters of credit similar to those outstanding at December 31, 2016 and 2015 do not exceed $500.

INCOME TAXES

The provision for income taxes consisted of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Currently Payable:		
Federal	$ 3 666 273	$ 2 711 772
Deferred:		
Federal	(724 545)	(220 203)
TOTAL INCOME TAX EXPENSE	$ 2 941 728	$ 2 491 569

The provision for federal income tax differs from that computed by applying the federal statutory rate of 34% in 2016 and in 2015, as indicated in the following analysis:

	2016	2015
Statutory rate	34.00 %	34.00 %
Increase (Decrease) Resulting from:		
Effect of tax-exempt income	(.51)%	(.48)%
Nondeductible interest, entertainment and amortization expenses	.07 %	.08 %
Insurance cash surrender value increase	(1.07)%	(1.28)%
Life insurance proceeds	(.09)%	(3.78)%
Other	- %	- %
	32.40 %	28.54 %

The components of deferred income taxes included in the Consolidated Statements of Condition in the captions "Other assets" or "Other liabilities," are as follows:

	2016	2015
Deferred Tax Asset:		
Federal	$ 4 336 118	$ 2 628 964
Deferred Tax Liability:		
Federal	(971 617)	(901 460)
NET DEFERRED TAX ASSET (LIABILITY)	$ 3 364 501	$ 1 727 504

INCOME TAXES - CONTINUED

The tax effects of each type of significant item that gave rise to deferred taxes are:

	2016	2015
Allowance for credit losses	$ 1 923 778	$ 1 346 824
Depreciation	(656 192)	(408 746)
Deferred gain	-	(189 723)
Amortization of intangibles	169 012	118 376
Accretion of discounts	(114 239)	(105 243)
Benefit accruals	1 054 689	1 004 854
Interest accrued on non-accrual loans	12 059	12 259
Capitalization of loan origination costs	181 879	185 044
Stock dividends	(84 467)	(80 906)
Unrealized (gain) or loss on securities available for sale	877 567	(34 965)
Recognized unrealized (gain) loss on trading securities	(91 598)	(81 877)
Real estate owned expense	153 000	
Other	(60 987)	(38 393)
BALANCE AT DECEMBER 31	$ 3 364 501	$ 1 727 504

RELATED PARTY TRANSACTIONS

The Bank has entered into transactions with its executive officers, directors, significant shareholders, and their affiliates (related parties). In the opinion of management, such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties was $1,110,000 and $5,503,000 at December 31, 2016 and 2015, respectively. Deposits owed to such related parties consisted of $12,904,000 and $12,048,000 at December 31, 2016 and 2015, respectively.

The Company rents the parking lot at the Elkhart branch from a company that is owned by the President of the Bank and the Chairman of the Board. The lease expires in January 2020 and has an annual rental fee of $4,000.

CONCENTRATION OF CREDIT

Substantially all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market areas. Many such customers are depositors of the Bank. The concentrations of credit by type of loan are set forth in the notes above. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of the legal lending limit.

The Company carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. At December 31, 2016 deposits at Texas Capital totaled $39,775, and there were no other financial institution over FDIC limits as of December 31, 2015. Also, from time to time, the Bank is due amounts in excess of FDIC insurance limits for checks and transit items. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Bank.

CONCENTRATION OF CREDIT - CONTINUED

The Bank is required to maintain certain reserves in cash and on deposit with the Federal Reserve Bank against outstanding domestic deposit liabilities. The required reserve was approximately $16,004,000 and $11,963,000 at December 31, 2016 and 2015, respectively. These reserves are included in the Consolidated Statements of Condition caption "Cash and due from banks." Balances on deposit at the Federal Reserve totaled $24,004,127 and $20,096,200 at December 31, 2016 and 2015, respectively.

TRUST ASSETS

Trust assets and other property (except cash deposits), held by the Bank in agency or other fiduciary capacities for its customers are not included in the financial statements as they are not assets of the Bank. The market value of the trust assets at December 31, 2016 and 2015 was $67,207,310 and $65,841,540, respectively.

STOCK OPTION PLAN

The stockholders of the Company have approved the 2016 employee incentive stock option plan which provides for the granting of qualified incentive stock options to key employees of the Company and the Bank. The period of time over which options may be exercised is ten years from the date of grant for each option agreement. The purchase price of each option is determined at the date of grant, but cannot be less than 100% of fair market value. In the case of incentive stock options granted to an existing holder of 10% or more of common stock, the option price cannot be less than 110% of fair market value. Options vest on a graduated scale and are fully vested in the fourth year.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Volatility is based on changes observed in the price of the stock as it has been internally-traded as well as changes observed in price/earnings ratios and multiples of regional banks that have been sold in recent years. The expected term of options granted is based on historical data regarding time frames that options have been outstanding. Expected dividends are based on historical data of dividends declared in recent years. The risk-free rate is based on the yield of 10-year Treasury notes as of the date of grant.

Volatility	30%
Expected dividends	$0.68
Expected term (in years)	10
Risk-free rate	1.75%

A summary of option activity under the plans as of December 31, 2016, and changes during the year then ended is presented below:

OPTIONS	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VALUE
Outstanding at January 1, 2016	1 460	$ 49.72		
Granted	250	$ 64.24		
Exercised	(305)	$ 49.05		
Forfeited or expired	(76)	$ 49.05		
Outstanding at December 31, 2016	1 279	$ 52.15	8 years	$ 22 470
Exercisable at December 31, 2016	305		8 years	$ 6 006

STOCK OPTION PLAN - CONTINUED

As of December 31, 2016, there were 970 non-vested shares under option with a weighted-average grant-date fair value of $52.79 per share, and there was approximately $14,000 of unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over the next 5 years.

Total compensation cost related to the stock option plan for the years ended December 31, 2016 and 2015 was approximately $5,200 and $5,500, with approximately $1,800 and $1,900 of deferred federal income tax benefit recognized, respectively.

During 2016, total cash received from options exercised approximated $14,960.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CONDITION
December 31, 2016

SCHEDULE 1

	NACOGDOCHES COMMERCIAL BANCSHARES, INC.	COMMERCIAL BANK OF TEXAS, N.A.	ELIMINATIONS	CONSOLIDATED TOTAL
ASSETS				
Cash and due from banks	$ 499 646	$ 11 400 395	$ (499 646)	$ 11 400 395
Interest-bearing deposits with banks	-	24 683 595	-	24 683 595
Securities available for sale	52 500	200 119 451	-	200 171 951
Securities to be held to maturity	-	5 267 571	-	5 267 571
Trading securities	-	474 487	-	474 487
Investment in subsidiary	61 560 143	-	(61 560 143)	-
Loans held for sale	-	846 516	-	846 516
Loans, net of allowance for credit losses of $5,193,171	-	389 288 689	-	389 288 689
Property and equipment	3 919 945	8 638 515	-	12 558 460
Accrued interest receivable	-	2 232 763	-	2 232 763
Bank owned life insurance	-	11 610 184	-	11 610 184
Other real estate owned	-	2 411 729	-	2 411 729
Goodwill	-	3 677 459	-	3 677 459
Other assets	870 030	7 680 903	(849 837)	7 701 096
TOTAL ASSETS	$ 66 902 264	$ 668 332 257	$ (62 909 626)	$ 672 324 895
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits:				
Noninterest bearing	$ -	$ 226 364 114	$ -	$ 226 364 114
Interest bearing	-	368 512 595	(499 646)	368 012 949
TOTAL DEPOSITS		594 876 709	(499 646)	594 377 063
Accrued interest payable	-	104 082	-	104 082
Notes payable	-	-	-	-
Federal Home Loan Bank advances	-	5 255 044	-	5 255 044
Other liabilities	791 919	6 536 279	(849 837)	6 478 361
TOTAL LIABILITIES	791 919	606 772 114	(1 349 483)	606 214 550
Stockholders' Equity:				
Preferred Stock, No Stated Value, 200,000 Shares Authorized:				
Series A, 39,579 shares issued; 38,594 shares outstanding	3 957 900	-	-	3 957 900
Series B, 39,579 shares issued; 34,794 shares outstanding	3 957 900	-	-	3 957 900
Common stock, 2,800,000 shares at $10 par value authorized; 1,000,837 shares issued; 857,695 shares outstanding	10 008 350	1 000 000	(1 000 000)	10 008 350
Capital surplus	4 392 088	18 319 525	(18 319 525)	4 392 088
Retained earnings	47 479 984	43 944 130	(43 944 130)	47 479 984
Accumulated other comprehensive income	(1 703 512)	(1 703 512)	1 703 512	(1 703 512)
Less: Cost of 143,140 common and 5,770 preferred shares held in treasury	(1 982 365)	-	-	(1 982 365)
TOTAL STOCKHOLDERS' EQUITY	66 110 345	61 560 143	(61 560 143)	66 110 345
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 66 902 264	$ 668 332 257	$ (62 909 626)	$ 372 324 895

See accompanying independent auditors' report.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2016

SCHEDULE 2

	NACOGDOCHES COMMERCIAL BANCSHARES, INC.	COMMERCIAL BANK OF TEXAS, N.A.	ELIMINATIONS	CONSOLIDATED TOTAL
Interest Income:				
Interest and fees on loans	$ 612	$ 19 817 926	$ -	$ 19 818 538
Interest and dividends on securities available for sale	-	2 687 376	-	2 687 376
Interest on securities to be held to maturity	-	104 080	-	104 080
Interest on trading securities	-	11 293	-	11 293
Interest on federal funds sold	-	40 448	-	40 448
Interest on deposits with banks	-	61 905	-	61 905
TOTAL INTEREST INCOME	612	22 723 028	-	22 723 640
Interest Expense:				
Interest on deposits	-	1 105 932	-	1 105 932
Interest on bank loans and advances	-	124 327	-	124 327
TOTAL INTEREST EXPENSE	-	1 230 259	-	1 230 259
NET INTEREST INCOME	612	21 492 769	-	21 493 381
Provision for credit losses	-	1 624 000	-	1 624 000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	612	19 868 769	-	19 869 381
Other Income:				
Fees on sales and servicing of loans	-	2 141 378	-	2 141 378
Income from fiduciary activities	-	393 675	-	393 675
Service charges on deposit accounts	-	3 517 200	-	3 517 200
Other service charges and fees	-	2 552 428	-	2 552 428
Net realized gains (losses) on sales of securities	-	493 014	-	493 014
Gains (losses) on sales and valuation changes of trading securities	-	28 592	-	28 592
Other income	334 873	669 813	(325 565)	679 121
TOTAL OTHER INCOME	334 873	9 796 100	(325 565)	9 805 408
Other Expenses:				
Salaries and benefits	75 564	10 447 018	-	10 522 582
Occupancy	195 026	1 736 156	(325 565)	1 605 617
Furniture and equipment	-	1 299 161	-	1 299 161
Deposit insurance and professional fees	5 000	1 172 832	-	1 177 832
Lending and collection	-	1 073 826	-	1 073 826
Advertising and community relations	-	609 770	-	609 770
Other operating	117 146	4 005 937	-	4 123 086
TOTAL OTHER EXPENSES	392 736	20 344 700	(325 565)	20 411 874
INCOME (LOSS) BEFORE FEDERAL INCOME TAXES	(57,251)	9 320 169	-	9 262 915
Federal income taxes	(21 307)	2 963 035	-	2 941 728
NET INCOME BEFORE EQUITY IN INCOME OF SUBSIDIARY	(35 944)	6 357 134	-	6 321 187
Equity in income of subsidiary	6 357 131	-	(6 357 131)	-
NET INCOME	$ 6 321 187	$ 6 357 134	$ (6 357 131)	$ 6 321 187
Earnings Per Common Share:				
Basic	$ 6.88	$ 63.57		$ 6.88
Diluted	$ 6.27			$ 6.27

See accompanying independent auditors' report.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015

SCHEDULE 3

	NACOGDOCHES COMMERCIAL BANCSHARES, INC.	COMMERCIAL BANK OF TEXAS N.A.	ELIMINATIONS	CONSOLIDATED TOTAL
Preferred Stock - Series A:				
Balance December 31, 2015	$ 3 957 900	$ -	$ -	$ 3 957 900
BALANCE DECEMBER 31, 2016	3 957 900	-	-	3 957 900
Preferred Stock - Series B:				
Balance December 31, 2015	3 957 900	-	-	3 957 900
BALANCE DECEMBER 31, 2016	3 957 900	-	-	3 957 900
Common Stock:				
Balance December 31, 2015	10 005 300	1 000 000	(1 000 000)	10 005 300
Stock options exercised	3 050	-	-	3 050
BALANCE DECEMBER 31, 2016	10 008 350	1 000 000	(1 000 000)	10 008 350
Capital Surplus:				
Balance December 31, 2015	4 380 406	18 319 525	(18 319 525)	4 380 406
Stock based compensation	3 474	-	-	3 474
Stock options exercised	8 208	-	-	8 208
BALANCE DECEMBER 31, 2016	4 392 088	18 319 525	(18 319 525)	4 392 088
Retained Earnings:				
Balance December 31, 2015	42 229 053	38 661 996	(38 661 996)	42 229 053
Net income	6 321 187	6 357 134	(6 357 134)	6 321 187
Stock options exercised	3 571	-	-	3 571
Preferred dividends declared	(421 998)	-	-	(421 998)
Common dividends declared	(651 831)	(1 075 000)	1 075 000	(651 831)
BALANCE DECEMBER 31, 2016	47 479 984	43 944 130	(43 944 130)	47 479 984
Treasury Stock:				
Balance December 31, 2015	(1 973 965)	-	-	(1 973 965)
Purchase of preferred shares Series A and B	(8 400)	-	-	(8 400)
BALANCE DECEMBER 31, 2016	(1 982 365)	-	-	(1 982 365)
Accumulated Other Comprehensive Income:				
Balance December 31, 2015	67 875	67 875	(67 875)	67 875
Other comprehensive income	(1 771 387)	(1 771 387)	1 771 387	(1 771 387)
BALANCE DECEMBER 31, 2016	(1 703 512)	(1 703 512)	1 703 512	(1 703 512)
TOTAL STOCKHOLDERS' EQUITY	$ 66 110 345	$ 61 560 143	$ (61 560 143)	$ 66 110 345

See accompanying independent auditors' report.