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, Jay D Jenkins
Name of the Holding Company Director and Official

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

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

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

Signature of Holding Company Director and Official

March 17, 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

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

Reporter's Name, Street, and Mailing Address

Carlsbad BanCorporation, Inc
Legal Title of Holding Company

202 W Stevens
(Mailing Address of the Holding Company) Street / P.O. Box

Carlsbad	NM	88220
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Chris A Bird	EVP-Operation (CNB)
Name	Title

575-234-2500
Area Code / Phone Number / Extension

575-234-2592
Area Code / FAX Number

CBird@Carlsbadnational.com
E-mail Address

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

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

In accordance with the General Instructions for this report (check only one),

1. **a letter justifying this request is being provided along with the report** .... ☐
2. **a letter justifying this request has been provided separately** .... ☐

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

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.

12/2016

AMENDED
JUN 20 2017

Form FR Y-6

Carlsbad Bancorporation, Inc
Carlsbad, New Mexico
Fiscal Year Ending December 31, 2016

Report Item
1: Carlsbad Bancorporation, Inc. does prepare an annual report for its shareholders.

2: Organizational Chart

Carlsbad Bancorporation, Inc.
Carlsbad, NM
A New Mexico Corporation
LEI: N/A

The Carlsbad National Bank
Carlsbad, NM
100%
LEI: N/A

Results: A list of branches for your depository institution: CARLSBAD NATIONAL BANK, THE (ID_RSSD: 219651).
This depository institution is held by CARLSBAD BANCORPORATION, INC. (1131527) of CARLSBAD, NM.
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	FCIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	219651	CARLSBAD NATIONAL BANK, THE	202 W. STEVENS	CARLSBAD	NM	88220	EDDY	UNITED STATES	1491	0	CARLSBAD NATIONAL BANK, THE	219651	
OK		Full Service	634553	NORTH BRANCH	1509 W PIERCE ST	CARLSBAD	NM	88220	EDDY	UNITED STATES	192163	1	CARLSBAD NATIONAL BANK, THE	219651	
OK		Full Service	3008856	WALMART SUPER CENTER BRANCH	2401 S CANAL ST	CARLSBAD	NM	88220	EDDY	UNITED STATES	192164	2	CARLSBAD NATIONAL BANK, THE	219651	

AMENDED
JUN 20 2017

Form FR Y-6
December, 31 2016

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

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/16				Shareholders not listed in (3)(1)(a) through 3(1)(c) that had ownership,control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/16		
(1)(a) Name & Address (City,State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number of Percentage of each class of voting securities		(2)(a) Name & Address (City,State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number of Percentage of each class of voting securities
Richard Forrest, Sr. Carlsbad, NM, USA	USA	62,374	10.554% Common Stk	None	N/A	N/A
Robert H Forrest Carlsbad, NM, USA	USA	48,288	8.171% Common Stk			
Michael D Garringer Carlsbad, NM, USA	USA	36,330	6.147% Common Stk			
Don E Brewer Alto, New Mexico , USA	USA	34,067	5.764% Common Stk			
Ross Hyden Carlsbad, NM, USA	USA	32,000	5.414% Common Stk			

AMENDED
JUN 20 2017

Form FR Y-6
December 31, 2016

Report Item 4: Insiders
(1)(2)(3)(a)(b)(c) and (4)(a)(b)(c)

Name & Address (City, State, Country)	(2) Principal Occupation if other than w/ Bank Holding Company	(3) Title & Position w/Bank Holding Company	(3)(b) Title & Position w/ subsidiaries (include names of subsidiaries)	(3)(c) Title & Position w/ other Businesses (include names of other businesses)	(4)(a) Percentage of Voting shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)	
Jay D Jenkins Carlsbad, NM, USA	Banker	Director, President & CEO	President & CEO Carlsbad National Bank	Casa de Cabillo, LLC President	0.190%	N/A	Casa de Cabillo, LLC	100%
George Dunagan Carlsbad, NM, USA	Real Estate Agent & Insurance Broker	Secretary/Treasurer and Director	Chariman Carlsbad National Bank	President Dunagan & Assoc	4.749%	N/A	Dunagan Associates	74%
Robert H Forrest Carlsbad, NM, USA	Hotel Owner	Director	N/A	Carlsbad Area Retarded Citizens Farm, President Stevens Inn,Inc, President X Bar Ranch, President	8.171%	N/A	Stevens Inn, Inc X Bar Ranch	50% 100%
Richard Forrest, Sr. Carlsbad, NM, USA	Retired Tire Co. Owner	Principal Shareholder	N/A	Stevens Inn, Vice President	10.554%	N/A	Stevens Inn	50%
Michael D Garringer Carlsbad, NM, USA	Property/Investment Manager	Chairman	N/A	Southeast Royalties, Inc President	6.147%	N/A	Southeast Royalties, Inc	100%

Carlsbad Bancorporation, Inc.
2016 Annual Report

The Carlsbad National Bank

202 W. Stevens
Northgate Shopping Center
Wal-Mart Supercenter

www.carlsbadnational.com

Community
Minded.
Just like you

Dear Shareholder,

I am pleased to report your bank had a solid year in 2016 with many positive accomplishments which happened along the way. The bank assets experienced a 7% growth ending the year, and once again topped an all-time high at $357,293,937. Net income was $4,754,863 or $8.05 per share, a record and above the prior year of $4,223,160 and $7.17 per share, representing a year over year increase of 12.7%. We consistently delivered a quarterly dividend payment to the shareholders totaling $4.95 per share for the year, a 24% increase over the prior year. Our loan team has managed to grow the portfolio to $138,801,480 (net of reserves) representing an 18% increase from the prior year and finishing at another record high and one of the best performances in the state. The loan portfolio and asset quality compared to banks of similar size is ranked in the top of our pier group regionally and nationally. The investment security portfolio boasted a solid performance with an increased margin focus and our trust department continued to add a solid performance to the bottom line. Our Shareholder Equity grew 5% to $27,846,230 from $26,375,742 the year prior. Maintaining a strong Shareholder Equity component of the balance sheet has been a continued focus of the Board and our executive management team.

Locally, the atmosphere among business and individuals appears to be optimistic and the community is busy. Maybe it is funny to mention the traffic jams in Carlsbad and extended time it takes to travel across town; "good problems." We had several economic challenges in 2016 but may have turned the corner to better economic times. WIPP opened in January after a 3 year shut down and the Carlsbad Caverns Elevators are working again with a plan in place for upgrades and corrective actions. Oil and gas continues to be a big and increased driver of market activity. Infrastructure for development of that industry also continues with many years of commitment in planning by utilities and users such as pipelines and others. A wet year in 2016 helped farmers and ranchers have an abundance of water! Eddy County weathered the unemployment scene in the State of NM at 6.4%, finishing the year end in the middle of all NM Counties. Two new elementary schools have been built locally with a continued focus on education and promotion at the high school and college levels.

Last year, I discussed the increased regulatory burden and the value of our community bank with few new banks coming online throughout the country, and not much has changed. Today, although we have a new presidential administration with new thoughts and ideas, we will continue to face challenges but maybe, with some regulatory relief. However, non-bank financial competition along with new technology and changing social needs will continue to escalate changes to our industry. The optimistic view, is that the human interface will always add value due to the complex regulations and outside technology threats which will continue to rise. We have a great staff and management team coupled with a diverse and experienced Board of Directors which have developed a well-defined strategic initiative to guide us through 2017 and beyond.

Thank you for the trust and confidence you have placed in me and the Carlsbad National Bank team. Should you have any questions, do not hesitate to contact or stop by and see me.

Sincerely,

Jay D. Jenkins
President & CEO

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
Carlsbad Bancorporation, Inc. and Subsidiary
Carlsbad, New Mexico

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

1850 N. Central Ave., Ste. 400 | Phoenix, AZ 85004-4624 | T 602.264.5844 | F 602.277.4845 | EOE

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

Eide Bailly LLP

Phoenix, Arizona
March 9, 2017

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Carlsbad Bancorporation, Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and due from financial institutions	$ 34,864,091	$ 19,857,786
Interest-bearing time deposits in banks	10,000,000	10,100,000
Total cash and cash equivalents	44,864,091	29,957,786
Investment securities available for sale	162,221,489	180,953,326
Loans, net of allowance for loan losses	138,801,480	117,626,270
Bank owned life insurance	5,088,482	-
Premises and equipment, net	2,253,940	2,421,017
Accrued interest receivable	1,222,913	1,032,060
Mortgage servicing rights	371,123	404,011
Other assets	1,937,821	724,380
	$ 356,761,339	$ 333,118,850
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Non-interest bearing	$ 135,875,802	$ 133,723,808
Interest-bearing	192,714,625	172,664,771
Total deposits	328,590,427	306,388,579
Accrued interest payable	30,674	29,276
Accrued expenses and other liabilities	294,008	325,253
Total liabilities	328,915,109	306,743,108
Shareholders' Equity		
Common stock - no par value; 1,000,000 shares authorized; 591,000 issued and outstanding	2,610,000	2,610,000
Additional paid-in-capital	2,164,482	2,164,482
Retained earnings	25,881,045	23,992,532
Accumulated other comprehensive loss	(2,809,297)	(2,391,272)
Total shareholders' equity	27,846,230	26,375,742
	$ 356,761,339	$ 333,118,850

See Notes to Consolidated Financial Statements

	2016	2015
Interest Income		
Loans, including fees	$ 7,165,492	$ 6,742,995
Taxable securities	2,610,776	2,542,020
Federal funds sold and other	157,115	122,366
Total interest income	9,933,383	9,407,381
Interest Expense		
Deposits	295,403	304,855
Borrowed funds	54,915	50,149
Total interest expense	350,318	355,004
Net Interest Income	9,583,065	9,052,377
Provision for Loan Losses	180,000	120,000
Net Interest Income After Provision for Loan Losses	9,403,065	8,932,377
Noninterest Income		
Service charges on deposit accounts	881,488	880,166
Trust fees	717,268	690,335
Loan servicing	337,482	362,816
Realized gain on investment securities	29,529	39,833
Discount fees	317,261	335,806
ATM/debit card interchange fees	430,735	511,806
Other	496,410	36,769
Total noninterest income	3,210,173	2,857,531
Noninterest Expenses		
Salaries and employee benefits	4,024,464	3,756,222
Occupancy and equipment	1,136,545	1,105,104
Insurance and bonds	251,168	274,473
Professional services	285,074	326,637
Postage and supplies	260,526	266,907
Directors fees	270,608	273,148
ATM and EFT service expense	270,021	265,568
Mortgage servicing rights amortization	140,179	190,315
Other	1,219,790	1,108,374
Total noninterest expense	7,858,375	7,566,748
Net income	$ 4,754,863	$ 4,223,160

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015

	2016	2015
Net Income	$ 4,754,863	$ 4,223,160
Other Comprehensive Loss		
Unrealized gains (losses) on securities		
Unrealized holding losses arising during period	(447,554)	(1,182,191)
Less: reclassification adjustment for net gains included in net income	29,529	39,833
Other Comprehensive Loss	(418,025)	(1,142,358)
Comprehensive Income	$ 4,336,838	$ 3,080,802

See Notes to Consolidated Financial Statements

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	591,000	$ 2,610,000	$ 2,164,482	$ 22,133,372	$ (1,248,914)	$ 25,658,940
Net income	-	-	-	4,223,160	-	4,223,160
Other comprehensive loss	-	-	-	-	(1,142,358)	(1,142,358)
Distributions to shareholders ($4 per share)	-	-	-	(2,364,000)	-	(2,364,000)
Balance, December 31, 2015	591,000	2,610,000	2,164,482	23,992,532	(2,391,272)	26,375,742
Net income	-	-	-	4,754,863	-	4,754,863
Other comprehensive loss	-	-	-	-	(418,025)	(418,025)
Distributions to shareholders ($4.85 per share)	-	-	-	(2,866,350)	-	(2,866,350)
Balance, December 31, 2016	591,000	$ 2,610,000	$ 2,164,482	$ 25,881,045	$ (2,809,297)	$ 27,846,230

Carlsbad Bancorporation, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Net income	$ 4,754,863	$ 4,223,160
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	180,000	120,000
Depreciation of premises and equipment	372,361	386,137
Net amortization of securities	2,188,590	1,728,613
Realized gain on investment securities	(29,529)	(39,833)
Amortization of mortgage servicing rights	140,179	190,315
Loss on sale/write-down of other real estate	75,082	-
Federal Home Loan Bank dividends	(2,023)	(440)
Net change in		
Interest from bank owned life insurance	(88,482)	-
Accrued interest receivable and other assets	(1,090,962)	7,168
Accrued interest payable and other liabilities	(29,847)	21,344
Net Cash Provided by Operating Activities	6,470,232	6,636,464
Cash Flows from Investing Activities		
Activity in securities available for sale		
Maturities, prepayments and calls	81,245,405	62,070,267
Purchases	(65,090,654)	(99,433,099)
Purchase of bank owned life insurance	(5,000,000)	-
Purchase of Federal Home Loan Bank stock	(418,600)	(14,400)
Loan originations and principal collections, net	(21,699,227)	(3,245,269)
Proceeds from sale of other real estate	268,935	-
Additions to premises and equipment, net	(205,284)	(131,084)
Net Cash Used in Investing Activities	(10,899,425)	(40,753,585)
Cash Flows from Financing Activities		
Net change in deposits	22,201,848	20,002,030
Distributions to shareholders	(2,866,350)	(2,364,000)
Net Cash Provided by Financing Activities	19,335,498	17,638,030
Net Change in Cash and Cash Equivalents	14,906,305	(16,479,091)
Cash and Cash Equivalents at Beginning of Year	29,957,786	46,436,877
Cash and Cash Equivalents at End of Year	$ 44,864,091	$ 29,957,786
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for		
Interest expense	$ 348,920	$ 358,088
Other real estate transfers from loans	$ 707,487	$ -

See Notes to Consolidated Financial Statements

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Note 1 - Significant Accounting Policies

The accounting and reporting policies of Carlsbad National Bank conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

Nature of Operations

Carlsbad National Bank ("the Bank") is a wholly-owned subsidiary of Carlsbad Bancorporation, Inc. ("the Holding Company"). Collectively, these entities are referred to as the "Company." Intercompany transactions and balances are eliminated in consolidation.

The Bank provides a full range of banking and mortgage services to individual and business customers through its locations in Carlsbad, New Mexico.

The Bank is subject to competition from other financial institutions for loans and deposit accounts. The Bank is also subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies. The Bank's primary regulator is the Office of the Comptroller of the Currency.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize loan losses, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Significant Group Concentrations of Credit Risk

There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the Carlsbad, New Mexico area.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash and cash equivalents include cash, interest-bearing time deposits in banks, balances due from banks and federal funds sold, all of which mature within 90 days.

Balances in transaction accounts at other financial institutions may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

Investment Securities Available for Sale

Securities, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company follows the accounting guidance related to recognition and presentation of other-than-temporary impairment. This accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When a company does not intend to sell the security, and it is more likely than not that the company will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Nonmarketable Equity Securities

The Company, as a member of the Federal Reserve Bank and Federal Home Loan Bank systems, is required to maintain investments in the capital stock of the Federal Reserve and the Federal Home Loan Bank of Dallas. No ready market exists for these stocks, and they have no quoted market value. For reporting purposes, such stock is considered restricted and evaluated periodically for impairment and is carried at cost under the caption "other assets."

Loans

Loans are reported at their outstanding unpaid principal balance adjusted for any charge-offs and the allowance for loan losses and net deferred loan fees.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All current year interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method.

Allowance for Loan Losses

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

General reserves cover non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the Company include residential 1-4 family, commercial, commercial real estate, construction, equity lines of credit, and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to income, collateral type and loan-to-value ratios for consumer loans.

Bank Owned Life Insurance

Bank owned life insurance is stated at cash surrender value of the various insurance policies. The income on the investment is included in other noninterest income."

Premises and Equipment

Land is carried at cost. Buildings and improvements, furniture, equipment, and software are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs, which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

Mortgage Servicing Rights

The Company sells loans to investors in the secondary market and generally retains the right to service mortgage loans originated. Mortgage servicing rights retained are initially measured at fair value and have been recognized as a separate asset and are being amortized in proportion to and over the period of estimated net servicing income. Mortgage servicing rights are evaluated annually for impairment based on the fair value of those rights. The Company determines the fair value of mortgage servicing rights using a valuation model that calculates the present value of estimated future net servicing income. The Company utilizes assumptions in the valuation model that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, costs to service, escrow account earnings and contractual servicing fee income. The amount of impairment recognized is the amount, if any, by which the amortized cost of the rights for each stratum exceeds their fair value.

Income Taxes

The Company is taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company neither pays corporate income taxes on its taxable income nor is allowed a net operating loss carryover or carryback as a deduction. Instead, the shareholders of the Holding Company include their respective share of the Company's taxable income or loss in their individual income tax returns. Accordingly, no income taxes are reflected in the consolidated financial statements.

The Company accounts for income taxes in accordance with income tax accounting guidance, FASB Accounting Standards Codification (ASC) Topic 740-10, *Income Taxes*. As of December 31, 2016 and 2015, the unrecognized tax benefit accrual was zero.

The Company undergoes an analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by FASB ASC 740-10, *Income Taxes*. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The Company is no longer subject to Federal or State tax examinations for years before 2013.

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 equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, standby letters of credit and undisbursed loans in process. These financial instruments are recorded in the financial statements when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Value Measurements

The Company determined the fair value of certain assets in accordance with the provisions of FASB Accounting Standard Codification Topic ASC 820, Fair Value Measurements, which provides a framework for measuring fair value under generally accepted accounting principles.

ASC 820 defines fair value as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs and establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

Advertising Costs

Advertising costs are expensed as incurred. Such costs were $84,983 and $125,389, respectively, for the years ended December 31, 2016 and 2015.

Subsequent Events

The Company evaluated subsequent events through March 9, 2017, the date which the consolidated financial statements were available to be issued.

Note 2 - Restriction on Cash and Due from Banks

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements. These balances do not earn interest. As of December 31, 2016 and 2015, the Company had no reserve requirement.

Note 3 - Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
U.S. Government and federal agency	$ 11,490,141	$ -	$ (143,083)	$ 11,347,058
State and municipal	22,349,900	3,093	(626,159)	21,726,834
GSE residential mortgage-backed	98,430,847	47,673	(1,557,190)	96,921,330
Collateralized mortgaged obligations	32,759,898	10,785	(544,416)	32,226,267
	$ 165,030,786	$ 61,551	$ (2,870,848)	$ 162,221,489

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
U.S. Government and federal agency	$ 20,714,831	$ -	$ (93,322)	$ 20,621,509
State and municipal	14,080,049	129,712	(10,704)	14,199,057
GSE residential mortgage-backed	100,723,300	155,585	(1,694,274)	99,184,611
Collateralized mortgaged obligations	47,826,418	5,380	(883,649)	46,948,149
	$ 183,344,598	$ 290,677	$ (2,681,949)	$ 180,953,326

Securities with a carrying value of approximately $41,055,153 and $37,057,877 as of December 31, 2016 and 2015 were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities at December 31, 2016, by contractual maturity, follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 728,915	$ 728,157
Due after one year through five years	13,922,743	13,779,322
Due after five years through ten years	18,814,427	18,211,556
Due in more than ten years	373,956	354,857
Mortgage-backed securities	131,190,745	129,147,597
	$ 165,030,786	$ 162,221,489

Mortgage-backed securities are not included in the maturity categories in the above summary. Mortgage-backed securities may mature earlier than their contractual maturities because borrowers have the right to call or prepay their obligations with or without penalties.

The Company sold securities available for sale totaling $33,397,010 and $22,161,980 in 2016 and 2015, respectively. Gross gains realized from the sales were $29,529 and $39,833 in 2016 and 2015, respectively.

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

	Less than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2016				
U.S. Government and federal agency	$ 143,083	$ 11,347,058	$ -	$ -
State and municipal	624,817	20,357,113	1,342	502,260
GSE residential mortgage-backed	1,193,819	70,298,605	363,371	20,403,374
Collateralized mortgaged obligations	296,341	22,065,370	248,075	8,244,555
	$ 2,258,060	$ 124,068,146	$ 612,788	$ 29,150,189
December 31, 2015				
U.S. Government and federal agency	$ 63,433	$ 16,152,822	$ 29,889	$ 4,468,687
State and municipal	7,549	3,365,881	3,156	864,376
GSE residential mortgage-backed	1,190,727	54,963,500	503,546	26,449,251
Collateralized mortgaged obligations	486,583	29,128,323	397,066	12,704,214
	$ 1,748,292	$ 103,610,526	$ 933,657	$ 44,486,528

Unrealized losses on municipal, mortgage-backed, and agency securities have not been recognized into income because management has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market rates change.

On a quarterly basis, the Company evaluates each security in the portfolio with an individual unrealized loss to determine if that loss represents other-than-temporary impairment. The factors considered in evaluating the securities include whether the securities were guaranteed by the U.S. government or its agencies and the securities' public ratings, if available, and how those two factors affect credit quality and recovery of the full principal balance, whether the market decline was affected by macroeconomic conditions, the length of time the securities have had temporary impairment and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The Company also reviews the payment performance, delinquency history and credit support of the underlying collateral for certain securities in our portfolio as part of our impairment analysis and review. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When other-than-temporary impairment occurs, for debt securities the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current period credit loss. If the Company intends to sell or it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, less any current period credit loss, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date.

If the Company does not intend to sell the security and it is not more likely than not that the Company would be required to sell the security before recovery of its amortized cost basis less any current period loss, the other-than-temporary impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment.

The table below presents a schedule of the credit losses recognized in earnings for the years ended December 31:

	2016	2015
Beginning balance	$ -	$ 15,645
Credit losses removed for securities no longer in other-than-temporary loss position	-	(15,645)
Ending balance	$ -	$ -

Note 4 - Loans

A summary of the balances of loans follows:

	2016	2015
Residential 1 4 Family	$ 56,826,045	$ 47,761,049
Commercial	31,658,527	27,590,615
Commercial real estate	37,897,750	30,938,499
Construction	780,996	1,862,569
Equity lines of credit	1,861,657	2,111,700
Consumer	11,681,931	8,876,473
Loans receivable, gross	140,706,906	119,140,905
Deferred loan fees, net	(381,816)	(173,051)
Allowance for losses on loans	(1,523,610)	(1,341,584)
	$ 138,801,480	$ 117,626,270

Note 5 - Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses for the year 2016 and 2015 and the recorded investment in loans and impairment method as of December 31, 2016 and 2015 by portfolio segment:

December 31, 2016	Residential 1 4 Family	Commercial	Commercial Real Estate	Construction	Equity Lines of Credit	Consumer	Total
Allowance for Credit Losses							
Balance at beginning of period	$ 671,126	$ 214,956	$ 348,315	$ 21,689	$ 45,568	$ 39,930	$ 1,341,584
Charge-offs	-	(45,374)	-	-	-	(73,849)	(119,223)
Recoveries	5,828	35,191	-	-	-	80,230	121,249
Provisions	90,045	28,841	46,733	2,910	6,114	5,357	180,000
Balance at end of period	$ 766,999	$ 233,614	$ 395,048	$ 24,599	$ 51,682	$ 51,668	$ 1,523,610
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	766,999	233,614	395,048	24,599	51,682	51,668	1,523,610
Balance at end of period	$ 766,999	$ 233,614	$ 395,048	$ 24,599	$ 51,682	$ 51,668	$ 1,523,610
Loans							
Individually evaluated for impairment	$ -	$ 1,291,530	$ -	$ -	$ -	$ -	$ 1,291,530
Collectively evaluated for impairment	56,826,045	30,366,997	37,897,750	780,996	1,861,657	11,681,931	139,415,376
Balance at end of period	$ 56,826,045	$ 31,658,527	$ 37,897,750	$ 780,996	$ 1,861,657	$ 11,681,931	$ 140,706,906

December 31, 2015	Residential 1 4 Family	Commercial	Commercial Real Estate	Construction	Equity Lines of Credit	Consumer	Total
Allowance for Credit Losses							
Balance at beginning of period	$ 627,916	$ 296,918	$ 317,153	$ 19,813	$ 43,441	$ 45,844	$ 1,351,085
Charge-offs	(4,895)	(146,443)	-	-	-	(17,207)	(168,545)
Recoveries	-	36,691	-	-	-	2,353	39,044
Provisions	48,105	27,790	31,162	1,876	2,127	8,940	120,000
Balance at end of period	$ 671,126	$ 214,956	$ 348,315	$ 21,689	$ 45,568	$ 39,930	$ 1,341,584
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	671,126	214,956	348,315	21,689	45,568	39,930	1,341,584
Balance at end of period	$ 671,126	$ 214,956	$ 348,315	$ 21,689	$ 45,568	$ 39,930	$ 1,341,584
Loans							
Individually evaluated for impairment	$ -	$ 398,312	$ -	$ -	$ -	$ -	$ 398,312
Collectively evaluated for impairment	47,761,049	27,192,303	30,938,499	1,862,569	2,111,700	8,876,473	118,742,593
Balance at end of period	$ 47,761,049	$ 27,590,615	$ 30,938,499	$ 1,862,569	$ 2,111,700	$ 8,876,473	$ 119,140,905

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as residential 1-4 family, commercial, commercial real estate, construction, equity lines of credit, and consumer loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

Pass – Loans classified as pass represent loans that are evaluated and are performing under the stated terms. Pass rated assets are analyzed by the paying capacity, the current net worth, and the value of the loan collateral of the obligor.

Special Mention – Loans classified as special mention possess potential weaknesses that require management attention, but do not yet warrant adverse classification. While the status of a loan put on this list may not technically trigger their classification as Substandard or Doubtful, it is considered a proactive way to identify potential issues and address them before the situation deteriorates further and does result in a loss for the Company.

Substandard – Loans classified as substandard are inadequately protected by the current net worth, paying capacity of the obligor, or by the collateral pledged. Substandard loans must have a well-defined weakness or weaknesses that jeopardize the repayment of the debt as originally contracted. They are characterized by the distinct possibility that the Company will sustain a loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have the weaknesses of those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans in this category are allocated a specific reserve based on the estimated discounted cash flows from the loan (or collateral value less cost to sell for collateral dependent loans) or are charged off if deemed uncollectible. Therefore, there is no balance to report at December 31, 2016 or 2015.

Loss – An asset or portion thereof, classified as loss is considered uncollectible and of such little value that its continuance on the Company's books as an asset is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value; but rather, that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Therefore, there is no balance to report at December 31, 2016 or 2015.

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2016 and 2015:

Credit Risk Profile by Internally Assigned Grade

	Pass	Special Mention	Substandard	Total
December 31, 2016				
Residential 1 4 Family	$ 54,562,954	$ 651,539	$ 1,611,552	$ 56,826,045
Commercial	30,924,952	-	733,575	31,658,527
Commercial real estate	37,291,791	605,959	-	37,897,750
Construction	738,063	-	42,933	780,996
Equity lines of credit	1,861,657	-	-	1,861,657
Consumer	11,666,818	-	15,113	11,681,931
	$ 137,046,235	$ 1,257,498	$ 2,403,173	$ 140,706,906

	Pass	Special Mention	Substandard	Total
December 31, 2015				
Residential 1 4 Family	$ 47,391,201	$ 90,048	$ 279,800	$ 47,761,049
Commercial	26,628,185	265,976	696,454	27,590,615
Commercial real estate	30,576,613	110,088	251,798	30,938,499
Construction	1,818,064	-	44,505	1,862,569
Equity lines of credit	2,111,700	-	-	2,111,700
Consumer	8,825,646	30,914	19,913	8,876,473
	$ 117,351,409	$ 497,026	$ 1,292,470	$ 119,140,905

Mortgage loans serviced for others are not reported as assets. The Company was servicing approximately $95,233,487 and $98,267,994 at December 31, 2016 and 2015, respectively, for the Federal Home Loan Mortgage Corporation. Custodial escrow balances maintained in connection with serviced loans were $542,945 and $922,142 at December 31, 2016 and 2015, respectively.

The following tables summarize the aging of the past due loans by loan class within the portfolio segments at December 31, 2016 and 2015:

December 31, 2016	Current	Still Accruing 30-89 Days Past Due	Still Accruing Over 90 Days Past Due	Nonaccrual Balance	Total Loans
Residential 1 4 Family	$ 53,733,283	$ 1,669,502	$ 131,730	$ 1,291,530	$ 56,826,045
Commercial	30,768,539	746,808	143,180	-	31,658,527
Commercial real estate	37,386,627	511,123	-	-	37,897,750
Construction	780,996	-	-	-	780,996
Equity lines of credit	1,843,374	18,283	-	-	1,861,657
Consumer	11,522,085	149,586	10,260	-	11,681,931
Total	$ 136,034,904	$ 3,095,302	$ 285,170	$ 1,291,530	$ 140,706,906

December 31, 2015	Current	Still Accruing 30-89 Days Past Due	Still Accruing Over 90 Days Past Due	Nonaccrual Balance	Total Loans
Residential 1 4 Family	$ 46,490,951	$ 1,001,659	$ 268,439	$ -	$ 47,761,049
Commercial	26,955,282	237,021	-	398,312	27,590,615
Commercial real estate	30,938,499	-	-	-	30,938,499
Construction	1,731,569	131,000	-	-	1,862,569
Equity lines of credit	2,086,700	25,000	-	-	2,111,700
Consumer	8,692,389	184,084	-	-	8,876,473
Total	$ 116,895,390	$ 1,578,764	$ 268,439	$ 398,312	$ 119,140,905

Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

For nonperforming loans, cash receipts are applied entirely against principal until the loan has been collected in full, after which time any additional cash receipts are recognized as interest income. When, in management's judgment, the borrower's ability to make required interest and principal payments resumes and collectability is no longer in doubt, the loan or lease is returned to accrual status. When interest accruals are suspended, accrued interest income is reversed against earnings.

The Company had two loans modified in troubled debt restructuring totaling $1,010,881 during the year ended December 31, 2016. The two loans restructured in 2016 had a total reserve of $127,935 prior to modification, no reserve after the modification and no reserve as of December 31, 2016. The restructurings resulted from extensions of maturity. One of the restructurings has subsequently defaulted in the amount of $373,696. During the year ended December 31, 2015, the Company did not modify any loans considered troubled debt restructurings.

The following tables summarize individually impaired loans by class of loans as of December 31, 2016 and 2015:

December 31, 2016	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Residential 1 - 4 family	$ -	$ -	$ -	$ -	$ -
Commercial	1,291,530	1,291,530	-	322,883	63,798
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Consumer	-	-	-	-	-
	$ 1,291,530	$ 1,291,530	$ -	$ 322,883	$ 63,798
With an allowance recorded					
Residential 1 - 4 family	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Consumer	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -

(1) Represents the borrower's loan obligation, gross of any previously charged-off amounts.

December 31, 2015	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Residential 1 - 4 family	$ -	$ -	$ -	$ -	$ -
Commercial	398,312	398,312	-	445,462	5,732
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Consumer	-	-	-	-	-
	$ 398,312	$ 398,312	$ -	$ 445,462	$ 5,732
With an allowance recorded					
Residential 1 - 4 family	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Consumer	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -

(1) Represents the borrower's loan obligation, gross of any previously charged-off amounts.

Note 6 - Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	2016	2015
Land	$ 175,329	$ 175,329
Premises and improvements	4,491,300	4,464,339
Furniture, fixtures and equipment	3,644,848	3,547,782
	8,311,477	8,187,450
Less accumulated depreciation	(6,057,537)	(5,766,433)
	$ 2,253,940	$ 2,421,017

Depreciation expense was $372,361 and $386,137 for the years ended December 31, 2016 and 2015, respectively.

Operating Leases

The Company leases a branch under an operating lease which expires on December 31, 2018, and the Company and landlord have the option to extend the lease for two five-year terms. Rent expense was $63,108 and $60,912 for 2016 and 2015, respectively. The Company entered into operating leases for branch operations and ATM space fees effective January 1, 2013 for three five-year periods. The branch operations lease requires $4,400 per month to be increased annually for inflation by four percent per annum. The ATM space lease requires $500 per month.

The future minimum rental commitments under the operating leases referred to above, expiring through 2027, are as follows:

2017	$ 67,769
2018	70,239
2019	72,809
2020	75,481
2021	78,260
Thereafter	534,223
	$ 898,781

Note 7 - Mortgage Servicing Rights

Loans serviced for others totaled $95,233,487 and $98,267,994 at December 31, 2016 and 2015, respectively. The activity in mortgage servicing rights and the related valuation allowance is summarized as follows:

	2016	2015
Mortgage servicing rights at beginning of year	$ 404,011	$ 481,475
Mortgage servicing rights capitalized	107,291	112,851
Amortization	(140,179)	(190,315)
Mortgage servicing rights at end of year	$ 371,123	$ 404,011
Estimated fair value of servicing rights	$ 904,461	$ 861,260

Fair values of mortgage servicing rights are determined using the present value of estimated future cash flows, using assumptions that market participants would use in their estimates of values.

The following table indicates the estimated future amortization expense for mortgage servicing rights:

2017	$ 130,476
2018	77,535
2019	61,331
2020	41,904
2021	31,332
Thereafter	28,545
	$ 371,123

Projections of amortization are based on existing asset balances and the existing interest rate environment as of December 31, 2016. The Bank's actual experiences may be significantly different depending upon changes in mortgage interest rates and other market conditions.

Note 8 - Interest-Bearing Deposits

Time deposits that meet or exceed the FDIC insurance coverage of $250,000 were approximately $9,045,000 and $8,648,000 at December 31, 2016 and 2015, respectively. At December 31, 2016, the scheduled maturities of time deposits are as follows:

2017	$ 22,547,297
2018	6,562,567
2019	2,047,447
2020	1,762,891
2021	1,902,041
	$ 34,822,243

The aggregate amount of overdrafts reclassified as loan balances was $48,532 and $124,044 at December 31, 2016 and 2015, respectively.

Note 9 - Financial Instruments with Off-Balance Sheet Risk

The Company is a party to credit related 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, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2016	2015
Unused lines of credit	$ 21,953,113	$ 18,355,369
Standby letters of credit	1,004,190	1,434,894
	$ 22,957,303	$ 19,790,263

Commitments to extend credit are agreements to lend to a customer as long as there is no violation or any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments if deemed necessary.

Note 10 - Profit Sharing Plan

The Company has a qualified profit sharing plan, which benefits all full-time employees. Company contributions are discretionary. Contributions for the years ending December 31, 2016 and 2015 were $147,851 and $172,648, respectively.

Note 11 - Related Party Transactions

In the ordinary course of business, the Company grants loans to executive officers, principal shareholders and directors and parties affiliated with those persons (collectively, "insiders"). The Company has loans to insiders aggregating $4,792,661 and $6,936,931 at December 31, 2016 and 2015, respectively. In management's opinion, the terms of these loans, including interest rates and collateral, were comparable to terms afforded non-insider borrowers.

Deposits by insiders totaled approximately $9,511,000 and $8,748,000 as of December 31, 2016 and 2015, respectively.

Note 12 - Minimum Regulatory Capital Requirements

In July 2013, the federal banking agencies published final rules (the “Basel III Capital Rules”) that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to implement, in part, agreements reached by the Basel Committee and certain provisions of the Dodd-Frank Act. The Basel III Capital Rules apply to banking organizations, including the Bank.

In connection with the effective date of Basel III, most banks were required to decide whether to elect to opt-out of the inclusion of Accumulated Other Comprehensive Income (“AOCI”) in their Common Equity Tier 1 Capital. This was a one-time election and generally irrevocable. The Bank has elected to opt-out of the inclusion.

Among other things, the Basel III Capital Rules: (i) introduce a new capital measure entitled “Common Equity Tier 1” (“CET1”); (ii) specify that tier 1 capital consist of CET1 and additional financial instruments satisfying specified requirements that permit inclusion in tier 1 capital; (iii) define CET1 narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions or adjustments from capital as compared to the existing regulations.

A minimum leverage ratio (tier 1 capital as a percentage of total assets) of 4.0% is also required under the Basel III Capital Rules (even for highly rated institutions). The Basel III Capital Rules additionally require institutions to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers.

The Basel III Capital Rules became effective as applied to the Bank on January 1, 2015, with a phase in period that generally extends from January 1, 2015 through January 1, 2019.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the 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 their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Common Equity Tier 1 Capital ("CET1"), Tier 1 Capital, Total Capital and leverage ratio of Tier 1 Capital. As of January 1, 2015 the requirements are:

- 4.5% based upon CET1
- 6.0% based upon tier 1 capital
- 8.0% based on total regulatory capital
- Leverage ratio of Tier 1 Capital assets equal to 4%

As of December 31, 2016 and 2015, management believes the Bank met 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 (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

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

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Common Equity Tier I ratio Bank	$ 30,635	19.8%	≥$6,963	4.5%	≥$10,058	6.5%
Tier I Capital to Risk Weighted Assets Bank	$ 30,635	19.8%	≥$9,284	6.0%	≥$12,379	8.0%
Total Risk Based Capital to Risk Weighted Assets Bank	$ 32,187	20.8%	≥$12,379	8.0%	≥$15,473	10.0%
Tier I Capital to Average Assets Bank	$ 30,635	9.4%	≥$13,095	4.0%	≥$16,369	5.0%
As of December 31, 2015						
Common Equity Tier I ratio Bank	$ 28,802	21.5%	≥$6,020	4.5%	≥$8,696	6.5%
Tier I Capital to Risk Weighted Assets Bank	$ 28,802	21.5%	≥$8,027	6.0%	≥$10,702	8.0%
Total Risk Based Capital to Risk Weathed Assets Bank	$ 30,172	22.6%	≥$10,702	8.0%	≥$13,378	10.0%
Tier I Capital to Average Assets Bank	$ 28,802	8.9%	≥$12,917	4.0%	≥$16,147	5.0%

Various restrictions limit the extent to which dividends may be paid by the Bank. Regulatory approval is required for the Bank to pay dividends in any calendar year which exceed the Bank's net profit for that year combined with its retained profits for the preceding two years. In addition, dividends paid by the Bank to its parent company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below minimum capital requirements.

Note 13 - Fair Value of Financial Instruments

Fair Value Measurement

Assets measured at fair value on a recurring basis at December 31, 2016 and 2015, are as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2016				
Securities available for sale				
U.S. Government and federal agency	$ 11,347,058	$ -	$ 11,347,058	$ -
State and municipal	21,726,834	-	21,726,834	-
GSE residential mortgage-backed	96,921,330	-	96,921,330	-
Collateralized mortgaged obligations	32,226,267	-	32,226,267	-
	$ 162,221,489	$ -	$ 162,221,489	$ -
December 31, 2015				
Securities available for sale				
U.S. Government and federal agency	$ 20,621,509	$ -	$ 20,621,509	$ -
State and municipal	14,199,057	-	14,199,057	-
GSE residential mortgage-backed	99,184,611	-	99,184,611	-
Collateralized mortgaged obligations	46,948,149	-	46,948,149	-
	$ 180,953,326	$ -	$ 180,953,326	$ -

The fair value of available for sale securities is estimated based on third-party pricing services information. This information is derived from using discounted cash flow methodologies.

Under certain circumstances the Company may make adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The Company only had Level 3 financial assets measured at fair value on a nonrecurring basis, which is summarized below:

	2016	2015
Impaired loans	$ 1,291,530	$ 398,312

Impaired Loans - The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with ASC Topic 310. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral was determined based on appraisals with further adjustments made to the appraisal values due to various factors including the age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where estimates of fair value used for other collateral supporting commercial loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3. Specific reserves for loans that are not collateral dependent are based on the present value of expected future cash flows. The cash flows are estimated based on the most recent borrower financial information, known changes to the cash flow stream, changes in the market, and past performance. The significant unobservable inputs used in valuing impaired loans were to discount the collateral valuation from market value by a range of 5% to 10% resulting in a weighted average discount of 6%.

Note 14 - Accumulated Other Comprehensive Income (Loss)

The line items in the consolidated statements of income affected by the reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2016 and 2015 are as follows:

2016

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement where Net Income is Presented
Unrealized gains (losses) on available for sale securities	$ 29,529	Realized gain on investment securities

2015

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement where Net Income is Presented
Unrealized gains (losses) on available for sale securities	$ 39,833	Realized gain on investment securities

Note 15 - Parent Company Only Condensed Financial Information

Condensed financial information of Carlsbad Bancorporation, Inc. follows:

Condensed Balance Sheets

	2016	2015
Assets		
Cash and cash equivalents	$ 77,809	$ 37,863
Investment in banking subsidiary	27,825,231	26,410,804
Total assets	$ 27,903,040	$ 26,448,667
Liabilities and Shareholders' Equity		
Accrued expenses and other liabilities	$ 56,810	$ 72,925
Shareholders' equity	27,846,230	26,375,742
Total liabilities and shareholders' equity	$ 27,903,040	$ 26,448,667

Condensed Statements of Income

	2016	2015
Dividends from banking subsidiary and other income	$ 2,922,411	$ 2,419,000
Other expenses	-	(4,329)
Income before undistributed subsidiary income	2,922,411	2,414,671
Equity in undistributed subsidiary income	1,832,452	1,808,489
Net income	$ 4,754,863	$ 4,223,160

Condensed Statements of Cash Flows

	2016	2015
Cash Flows from Operating Activities		
Net income	$ 4,754,863	$ 4,223,160
Adjustments		
Equity in undistributed subsidiary income (distribution in excess of subsidiary income)	(1,832,452)	(1,808,489)
Change in accrued expenses and other liabilities	(16,115)	(23,187)
Net Cash Provided by Operating Activities	2,906,296	2,391,484
Cash Flows from Financing Activities		
Distributions to shareholders	(2,866,350)	(2,364,000)
Net Change in Cash and Cash Equivalents	39,946	27,484
Cash and Cash Equivalents at Beginning of Year	37,863	10,379
Cash and Cash Equivalents at End of Year	$ 77,809	$ 37,863

DIRECTORS

George T. Dunagan
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Chairman of the Board, The Carlsbad National Bank
Secretary/Treasurer, Carlsbad Bancorporation, Inc.

Michael D. Garringer
President, Southeast Royalties, Inc.
Chairman, Carlsbad Bancorporation, Inc.

Jay Jenkins
President, Carlsbad Bancorporation, Inc.
President & CEO, The Carlsbad National Bank

Robert H. Forrest, Jr.
General Manager, Stevens Inn, Inc.

Dean Calvani
Farm Manager, Calvani Farms Pecan Co.

Danny Cross
President & CEO, Corner Drug Store Inc.

Jill Holt
Managing Member, RMI Properties, LLC

David M. Shoup
President, Constructors, Inc.

Keith Sparks
President, Sparks Office Supply, Inc.

Richard J. Forrest, Jr.
President, Forrest Tire Company

DIRECTOR EMERITUS

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President, Stevens Inn, Inc.
Vice Chairman, Carlsbad Bancorporation, Inc.

James D. Renfrow
Retired Carlsbad National Bank

Ross Hyden
Retired Car Dealer

Don Brewer
Rancher

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JAMES BRYSON
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