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, Frank Morris
Name of the Holding Company Director and Official

Chairman of the Board
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/10/2017
Date of Signature

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

For Federal Reserve Bank Use Only

RSSD ID ____
C.I. ____

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

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

Reporter's Name, Street, and Mailing Address

Red River Bancorp, Inc.
Legal Title of Holding Company

P.O. Box 10
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Gainesville	TX	76241-0010

801 E. California St., Gainesville, TX 76240
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Brian McCain	CFO

940-668-4306
Area Code / Phone Number / Extension

940-668-4339
Area Code / FAX Number

Brian.McCain@f-s-b.com
E-mail Address

www.f-s-b.com
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.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

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FORM FR Y-6

RED RIVER BANCORP, INC.
December 31, 2016

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(With Independent Auditor's Report Thereon)

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
Red River Bancorp, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Red River Bancorp, Inc. and Subsidiaries (Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the 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 upon our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

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

Payne & Smith, LLC

February 14, 2017

5952 Royal Lane • Suite 158 • Dallas, TX 75230 • 214 / 363-9927 • Fax 214 / 363-9980

RED RIVER BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(In Thousands, Except for Share Amounts)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 47,951	$ 40,435
Interest bearing deposits in other banks	250	250
Securities available for sale	376,454	431,587
Loans held for sale	3,664	5,261
Loans held for investment	520,817	451,967
Bank premises and equipment	24,032	22,800
Intangible assets	1,064	1,310
Goodwill	12,883	12,883
Cash surrender value of life insurance	14,230	11,420
Other real estate owned	160	709
Other assets	12,267	11,807
	$ 1,013,772	$ 990,429
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 304,611	$ 289,816
Interest bearing	603,349	593,786
Total deposits	907,960	883,602
Other borrowings	20,110	23,010
Other liabilities	13,371	9,518
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, $1 par value, 2,000,000 shares authorized, 200,000 shares issued, and 172,106 shares outstanding at December 31, 2016 and 2015	2,000	2,000
Paid-in capital	18,987	18,987
Retained earnings	70,233	64,044
Accumulated other comprehensive loss	(16,097)	(7,940)
	75,123	77,091
Treasury stock, at cost	(2,792)	(2,792)
Total stockholders' equity	72,331	74,299
	$ 1,013,772	$ 990,429

See accompanying notes to consolidated financial statements.

RED RIVER BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the Years Ended December 31, 2016 and 2015

(In Thousands)

	2016	2015
Interest income:		
Interest and fees on loans	$ 26,252	$ 23,682
Interest on securities:		
Taxable	4,893	5,750
Nontaxable	2,972	2,918
Other	244	319
Total interest income	34,361	32,669
Interest expense:		
Interest on deposit accounts	1,633	1,633
Other	871	1,448
Total interest expense	2,504	3,081
Net interest income	31,857	29,588
Provision for loan losses	900	770
Net interest income after provision	30,957	28,818
Noninterest income:		
Service charges and fees	2,882	2,732
Trust fees	508	406
Net gain on sales of securities available for sale	438	837
Gain on sales of loans	3,197	2,240
Other	3,254	3,124
Total noninterest income	10,279	9,339
Noninterest expense:		
Salaries and employee benefits	17,245	16,079
Occupancy of bank premises	3,118	3,307
Legal and professional fees	451	741
Public relations	557	641
FDIC insurance assessment	447	486
Other	7,650	6,816
Total noninterest expense	29,468	28,070
Net income	$ 11,768	$ 10,087

See accompanying notes to consolidated financial statements.

RED RIVER BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2016 and 2015

(In Thousands)

	2016	2015
Net income	$ 11,768	$ 10,087
Other comprehensive loss:		
Change in net unrealized gain (loss) during the year on securities available for sale	(5,831)	(1,532)
Reclassification adjustment for net gains on sales of securities available for sale included in net income	(438)	(837)
Net unrealized loss on securities available for sale	(6,269)	(2,369)
Change in minimum pension liability	(1,888)	(822)
Other comprehensive loss	(8,157)	(3,191)
Total comprehensive income	$ 3,611	$ 6,896

See accompanying notes to consolidated financial statements.

RED RIVER BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2016 and 2015

(In Thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance January 1, 2015	$ 2,000	$ 18,987	$ 56,817	$ (4,749)	$ (2,792)	$ 70,263
Net income	-	-	10,087	-	-	10,087
Other comprehensive loss	-	-	-	(3,191)	-	(3,191)
Dividends	-	-	(2,860)	-	-	(2,860)
Balance December 31, 2015	2,000	18,987	64,044	(7,940)	(2,792)	74,299
Net income	-	-	11,768	-	-	11,768
Other comprehensive loss	-	-	-	(8,157)	-	(8,157)
Dividends	-	-	(5,579)	-	-	(5,579)
Balance December 31, 2016	$ 2,000	$ 18,987	$ 70,233	$ (16,097)	$ (2,792)	$ 72,331

See accompanying notes to consolidated financial statements.

RED RIVER BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

(In Thousands)

	2016	2015
Cash flows from operating activities:		
Net income	$ 11,768	$ 10,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,546	1,419
Amortization	5,986	5,740
Provision for loan losses	900	770
Gain on sales of loans held for sale	(3,197)	(2,240)
Net gain on sales of securities available for sale	(438)	(837)
Net gain on sales of bank premises and equipment	-	(5)
Net gain on sales of other real estate owned	-	(3)
Mortgage loans originated for sale	(92,431)	(68,519)
Proceeds from sales of mortgage loans	97,225	67,518
Net increase in cash surrender value of life insurance	(310)	(279)
(Increase) decrease in other assets	(627)	299
Increase in other liabilities	1,965	437
Net cash provided by operating activities	22,387	14,387
Cash flows from investing activities:		
Purchases of securities available for sale	(312,721)	(376,429)
Proceeds from sales, maturities and principal reductions of securities available for sale	356,450	358,799
Decrease in certificates of deposit in other banks	-	250
Purchase of bank owned life insurance	(2,500)	-
Net originations of loans	(69,750)	(55,670)
Net additions to bank premises and equipment	(2,778)	(5,586)
Proceeds from sales of bank premises and equipment	-	5
Proceeds from sales of other real estate owned	549	3
Net cash used in investing activities	(30,750)	(78,628)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	28,833	19,686
Net decrease in certificates of deposit	(4,475)	(13,339)
Net decrease in other borrowings	(2,900)	(10,000)
Cash dividends paid	(5,579)	(2,860)
Net cash provided by (used in) financing activities	15,879	(6,513)
Net increase (decrease) in cash and cash equivalents	7,516	(70,754)
Cash and cash equivalents at beginning of year	40,435	111,189
Cash and cash equivalents at end of year	$ 47,951	$ 40,435

See accompanying notes to consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by Red River BanCorp, Inc. and Subsidiaries in the preparation of its consolidated financial statements. The accounting policies conform to generally accepted accounting principles and practices generally followed within the banking industry. A description of the more significant of these policies follows.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Red River Bancorp, Inc. (Red River) and its wholly owned subsidiaries, First State Bank (FSB) and, for the period January 1, 2015 to January 31, 2015, North Texas Bank, N.A. (North Texas) (collectively referred to as the Company). All significant inter-company transactions and balances have been eliminated in consolidation.

The Company acquired Chisolm Bancshares, Inc. (Chisolm) and its wholly owned subsidiary, North Texas, on November 5, 2014. At the date of acquisition, Chisolm was merged into Red River, and North Texas became a wholly owned subsidiary of Red River. Effective January 31, 2015, North Texas was merged with and into FSB. Accordingly, the operating results of North Texas for the period January 1, 2015 to January 31, 2015 have been included in FSB's operating results for the year ended December 31, 2015 in the accompanying consolidating statements of income and comprehensive income in a manner similar to a pooling of interests.

Nature of Operations

The Company is principally engaged in traditional community banking activities provided through its banking offices in Cooke, Denton, Wise and Montague counties, Texas. Community banking activities include the Company's commercial and retail lending, deposit gathering and investment, and liquidity management activities. The Company also leases excess office space not used by the Bank.

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.

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

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

Cash and Cash Equivalents

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

Interest Bearing Deposits in Other Banks

Interest bearing deposits in other banks are carried at cost and generally mature within one year of purchase.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, 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. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held for Sale

The Company originates mortgage loans both for sale and for investment purposes. The designation of mortgage loans is made by management at the time of origination. Mortgage loans designated as held for sale are stated at the lower of aggregate cost, net of discounts or premium, or estimated fair market value. Market value is based on the contract prices at which the mortgage loans will be sold or, if the loans are not committed for sale, the current market price. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

Gain or loss on the sale of mortgage loans held for sale is generally determined by the difference between the carrying amounts of the related loans sold and the net proceeds thereof. Since the Company does not retain servicing on the sold loans, proceeds from loans typically include a service release premium.

Loans

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

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

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company's collateral position. Regulatory provisions typically require the placement of a loan on nonaccrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is not expected. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest on nonaccrual loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment based on historical loss experience, current economic conditions, and performance trends.

Interest payments on impaired loans are typically applied to the principal amount unless collectibility of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Troubled Debt Restructured (TDR) Loans

A TDR loan is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms, which have been modified or restructured due to a borrower's financial difficulty, include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals, and rewrites. A TDR loan would generally be considered impaired in the year of modification and will be assessed periodically for further impairment.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to provide for estimated loan losses inherent in the loan portfolio. The allowance for possible loan losses includes allowance allocations calculated in accordance with ASC Topic 310, *Receivables* and allowance allocations calculated in accordance with ASC Topic 450, *Contingencies*. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications.

The allowance consists of specific and general allocations. The specific allocation relates to loans that are impaired. For such loans, 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 allocation is calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity, and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves, which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Off-Balance Sheet Credit Related Financial Instruments

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

Bank Premises and Equipment

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

Foreclosed Assets

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

Intangible Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. The Company's intangible assets relate to core deposits. Intangible assets with definite useful lives are amortized over their estimated life.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. Goodwill is assigned to reporting units and evaluated for impairment at least annually, or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value.

Income Taxes

The Company files a consolidated Federal income tax return.

The Company with the consent of its stockholders has elected to be an S corporation under the Internal Revenue Code. In lieu of corporate income taxes, the stockholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Following this election the Company will generally report no Federal income tax expense or benefit in its financial statements. Because the Company's stockholders are obligated to pay Federal income taxes on the earnings of the Company, the Company expects to declare cash dividends sufficient to fund stockholders' tax payments as they become due in the future.

Accounting principles generally accepted in the United States of America require Company management to evaluate tax positions taken by the Company. Management evaluated the Company's tax positions and concluded that the Company had maintained its S corporation status and had taken no uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Therefore, no liability for tax penalties has been included in the consolidated financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2013.

Advertising

Advertising consists of the Company's advertising in its local market area. Advertising is expensed as incurred. Advertising expense was approximately $766,000 and $692,000 for the years ended December 31, 2016 and 2015, respectively.

Fair Values of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Trust Fee Income

Trust fee income is recognized generally on the cash basis in accordance with customary banking practice. This method of income recognition is not materially different from the result of using the accrual basis.

Pension Plan

ASC Topic 105, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans*, requires an employer to recognize all transactions and events affecting the overfunded or underfunded status of a defined benefit postretirement plan in comprehensive income in the year in which they occur. See also Note 11.

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.

Treasury Stock

Treasury stock is recorded at cost. At December 31, 2016 and 2015, the Company had 27,894 shares held in treasury.

Transfers of Financial Assets

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

Comprehensive Income (Loss)

Comprehensive income (loss) includes both net income and other comprehensive income (loss), which includes the change in unrealized gains and losses on securities available for sale and changes in the minimum pension liability.

Subsequent Events

The Company has evaluated events and transactions for potential recognition or disclosure through February 14, 2017, the date the financial statements were available to be issued.

Reclassification

Certain amounts previously reported have been reclassified to conform to the current format.

2. Recent Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The amendment relates to equity securities without readily determinable fair values and will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. Earlier application is permitted under certain circumstances. The amendment will be applied by means of a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. This statement is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842).* The amendment to the Leases topic of the Accounting Standards Codification was to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendment will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted. This statement is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. The amendment clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendment will be effective for reporting periods beginning after December 15, 2016. Earlier application is permitted. This statement is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-07, *Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The update simplifies the transition to the equity method of accounting by eliminating retroactive adjustment of the investment when an investment qualifies for use of the equity method, among other things. The amendment will be effective for reporting periods beginning after December 15, 2016. Earlier application is permitted. This statement is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* Under the update, all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. The amendment will be effective for reporting periods beginning after December 15, 2016. Earlier application is permitted. This statement is not expected to have a material impact on the Company's consolidated financial statements.

In June, 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The update requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment will be effective for reporting periods beginning after December 15, 2020. The Company is evaluating the impact this amendment will have on the Company's consolidated financial statements.

In August, 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The update addresses eight specific cash flow issues with the objective of reducing the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendment will be effective for reporting periods beginning after December 15, 2017. Early adoption is permitted. This statement is not expected to have a material impact on the Company's consolidated financial statements.

In October, 2016, the FASB issued Accounting Standards Update 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control.* This update amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendment will be effective for reporting periods beginning after December 15, 2016. This statement is not expected to have a material impact on the Company's consolidated financial statements.

In November, 2016, the FASB issued Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The amendment will be effective for reporting periods beginning after December 15, 2017. Early adoption is permitted. This statement is not expected to have a material impact on the Company's consolidated financial statements.

3. Statement of Cash Flows

The Company reports on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, loans made to customers and principal collections on those loans.

The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information for the years ended December 31, 2016 and 2015 is presented as follows (in thousands):

	2016	2015
Cash transactions:		
Interest expense paid	$ 2,526	$ 3,050
Noncash transactions:		
Net disposition of other real estate owned	$ -	$ (45)

4. Debt and Equity Securities

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities and their approximate fair values at December 31, 2016 and 2015 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2016:				
Mortgage-backed securities	$ 191,184	$ -	$ 4,325	$ 186,859
Small business administration securities	82,479	-	1,267	81,212
State and political subdivisions	108,886	1,379	1,882	108,383
	$ 382,549	$ 1,379	$ 7,474	$ 376,454
December 31, 2015:				
U.S. Government Agency obligations	$ 603	$ -	$ 1	$ 602
Mortgage-backed securities	247,728	84	3,070	244,742
Small business administration securities	81,369	-	955	80,414
State and political subdivisions	101,713	4,169	53	105,829
	$ 431,413	$ 4,253	$ 4,079	$ 431,587

Securities with recorded values of approximately $70,754,000 and $82,719,000 at December 31, 2016 and 2015, respectively, were pledged to secure public fund deposits.

Proceeds from the sales of securities classified as available for sale were approximately $58,905,000 and $61,981,000, respectively, for the years ended December 31, 2016 and 2015. Gross gains of approximately $501,000 and $854,000, respectively, were recognized on sales in 2016 and 2015. Gross losses of approximately $63,000 and $17,000 were recognized on sales in 2016 and 2015.

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

	Amortized Cost	Fair Value
Securities Available for Sale		
Due in one year or less	$ 4,398	$ 4,425
Due from one year to five years	247,951	243,816
Due from five years to ten years	78,603	78,106
Due after ten years	51,597	50,107
	$ 382,549	$ 376,454

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2016 and 2015, are summarized as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale						
December 31, 2016:						
Mortgage-backed securities	$ 155,489	$ 3,241	$ 31,370	$ 1,084	$ 186,859	$ 4,325
Small business adminstration securities	13,603	147	67,609	1,120	81,212	1,267
State and political subdivisions	54,569	1,823	1,322	59	55,891	1,882
	$ 223,661	$ 5,211	$ 100,301	$ 2,263	$ 323,962	$ 7,474
December 31, 2015:						
U.S. Government Agency obligations	$ 602	$ 1	$ -	$ -	$ 602	$ 1
Mortgage-backed securities	125,083	1,069	103,904	2,001	228,987	3,070
Small business adminstration securities	65,674	809	11,335	146	77,009	955
State and political subdivisions	3,821	36	2,525	17	6,346	53
	$ 195,180	$ 1,915	$ 117,764	$ 2,164	$ 312,944	$ 4,079

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2016, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2016 and 2015, management believes the unrealized losses detailed in the table above are temporary and no impairment loss has been realized in the Company's income statement.

5. Loans and Allowance for Loan Losses

Loans at December 31, 2016 and 2015 consisted of the following (in thousands):

	2016	2015
Real estate:		
Construction, land development, land	$ 77,355	$ 60,823
Farmland	28,080	26,642
1-4 family residential properties	109,730	105,398
Multi-family residential	20,135	12,781
Nonfarm nonresidential owner occupied	90,270	75,775
Nonfarm nonresidential other	47,859	39,094
Total real estate	373,429	320,513
Commercial	66,068	70,731
Agricultural	15,141	12,270
Consumer	18,174	18,990
Other	54,198	34,897
	527,010	457,401
Allowance for loan losses	(6,193)	(5,434)
	$ 520,817	$ 451,967

At December 31, 2016 and 2015, the Bank had total commercial real estate loans of $235,619,000 and $188,473,000, respectively. Included in these amounts, the Bank had construction, land development, and other land loans representing 79% and 64% of total risk based capital at December 31, 2016 and 2015, respectively. The Bank had non-owner occupied commercial real estate loans representing 149% and 119%, respectively, of total risk based capital at December 31, 2016 and 2015. Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program (CRE). Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on CRE concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk-based capital, or total non-owner occupied commercial real estate loans representing 300% or more of the institution's total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration.

The Bank extends commercial and consumer credit primarily to customers in the state of Texas. At December 31, 2016 and 2015, the majority of the Bank's loans were collateralized with real estate. The real estate collateral provides an alternate source of repayment in the event of default by the borrower, and may deteriorate in value during the time the credit is extended. The weakening of real estate markets may have an adverse effect on the Bank's profitability and asset quality. If the Bank were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, earnings and capital could be adversely affected. Additionally, the Bank has loans secured by inventory, accounts receivable, equipment, marketable securities, or other assets. The debtors' ability to honor their contracts on all loans is substantially dependent upon the general economic conditions of the region.

Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2016 and 2015 is as follows (in thousands):

	Beginning Balance	Provision	Charge offs	Recoveries	Ending Balance
December 31, 2016:					
Real estate:					
Construction, land development, land	$ 735	$ 138	$ -	$ -	$ 873
Farmland	269	25	-	-	294
1-4 family residential properties	1,063	91	-	-	1,154
Multi-family residential	129	83	-	-	212
Nonfarm nonresidential owner occupied	804	274	-	-	1,078
Nonfarm nonresidential other	415	156	-	-	571
Total real estate	3,415	767	-	-	4,182
Commercial	1,295	(194)	(51)	7	1,057
Agricultural	123	36	-	-	159
Consumer	249	77	(137)	47	236
Other	352	214	(7)	-	559
	$ 5,434	$ 900	$ (195)	$ 54	$ 6,193
December 31, 2015:					
Real estate:					
Construction, land development, land	$ 692	$ 43	$ -	$ -	$ 735
Farmland	289	(20)	-	-	269
1-4 family residential properties	776	287	-	-	1,063
Multi-family residential	98	31	-	-	129
Nonfarm nonresidential owner occupied	737	67	-	-	804
Nonfarm nonresidential other	424	(9)	-	-	415
Total real estate	3,016	399	-	-	3,415
Commercial	902	471	(100)	22	1,295
Agricultural	111	27	(15)	-	123
Consumer	546	(277)	(34)	14	249
Other	202	150	-	-	352
	$ 4,777	$ 770	$ (149)	$ 36	$ 5,434

The Company's individual ALLL allocations are established for probable losses on specific loans. The Company's general ALLL allocations are established based upon historical loss experience for similar loans with similar characteristics and on economic conditions and other qualitative risk factors both internal and external to the Company. Further information pertaining to the allowance for loan losses (ALLL) at December 31, 2016 and 2015 is as follows (in thousands):

	Loan Evaluation			ALLL Allocations			
					General		
	Individually	General	Total loans	Individually	Historical	Other	Total ALLL
December 31, 2016:							
Real estate:							
Construction, land development, land	$ -	$ 77,355	$ 77,355	$ -	$ -	$ 873	$ 873
Farmland	107	27,973	28,080	-	3	291	294
1-4 family residential properties	8	109,722	109,730	-	10	1,144	1,154
Multi-family residential	-	20,135	20,135	-	2	210	212
Nonfarm nonresidential owner occupied	-	90,270	90,270	-	55	1,023	1,078
Nonfarm nonresidential other	-	47,859	47,859	-	29	542	571
Total real estate	115	373,314	373,429	-	99	4,083	4,182
Commercial	117	65,951	66,068	-	288	769	1,057
Agricultural	39	15,102	15,141	-	1	158	159
Consumer	11	18,163	18,174	-	11	225	236
Other	-	54,198	54,198	-	5	554	559
	$ 282	$ 526,728	$ 527,010	$ -	$ 404	$ 5,789	$ 6,193
December 31, 2015:							
Real estate:							
Construction, land development, land	$ 7	$ 60,816	$ 60,823	$ -	$ 81	$ 654	$ 735
Farmland	-	26,642	26,642	-	5	264	269
1-4 family residential properties	-	105,398	105,398	-	19	1,044	1,063
Multi-family residential	-	12,781	12,781	-	2	127	129
Nonfarm nonresidential owner occupied	-	75,775	75,775	-	23	781	804
Nonfarm nonresidential other	-	39,094	39,094	-	12	403	415
Total real estate	7	320,506	320,513	-	142	3,273	3,415
Commercial	-	70,731	70,731	-	278	1,017	1,295
Agricultural	-	12,270	12,270	-	2	121	123
Consumer	2	18,988	18,990	1	25	223	249
Other	-	34,897	34,897	-	6	346	352
	$ 9	$ 457,392	$ 457,401	$ 1	$ 453	$ 4,980	$ 5,434

Impaired Loans

Impaired loans may include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. Average impaired loans during 2016 and 2015 were approximately $827,000 and $106,000, respectively. No significant interest income was recognized on impaired loans during 2016 and 2015. Included in impaired loans at December 31, 2016 are performing troubled debt restructured loans in the amount of $224,000. The following is a summary of information pertaining to impaired loans at December 31, 2016 and 2015 (in thousands):

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment Total	Related Allowance
December 31, 2016:					
Real estate:					
Construction, land development, land	$ -	$ -	$ -	$ -	$ -
Farmland	107	107	-	107	-
1-4 family residential properties	9	8	-	8	-
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential owner occupied	-	-	-	-	-
Nonfarm nonresidential other	-	-	-	-	-
Total real estate	116	115	-	115	-
Commercial	117	117	-	117	-
Agricultural	41	39	-	39	-
Consumer	11	11	-	11	-
Other	-	-	-	-	-
	$ 285	$ 282	$ -	$ 282	$ -
December 31, 2015:					
Real estate:					
Construction, land development, land	$ 7	$ 7	$ -	$ 7	$ -
Farmland	-	-	-	-	-
1-4 family residential properties	-	-	-	-	-
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential owner occupied	-	-	-	-	-
Nonfarm nonresidential other	-	-	-	-	-
Total real estate	7	7	-	7	-
Commercial	-	-	-	-	-
Agricultural	-	-	-	-	-
Consumer	6	1	1	2	1
Other	-	-	-	-	-
	$ 13	$ 8	$ 1	$ 9	$ 1

Past Due and Nonaccrual Loans

The following is a summary of past due and nonaccrual loans at December 31, 2016 and 2015 is as follows (in thousands):

	30-89 Days Past Due	Past Due 90 Days or More Still Accruing	Nonaccrual	Total Past Due and Nonaccrual
December 31, 2016:				
Real estate:				
Construction, land development, land	$ 260	$ -	$ -	$ 260
Farmland	-	-	-	-
1-4 family residential properties	508	-	8	516
Multi-family residential	-	-	-	-
Nonfarm nonresidential owner occupied	300	-	-	300
Nonfarm nonresidential other	190	-	-	190
Total real estate	1,258	-	8	1,266
Commercial	973	-	-	973
Agricultural	-	-	39	39
Consumer	82	-	11	93
Other	35	-	-	35
	$ 2,348	$ -	$ 58	$ 2,406
December 31, 2015:				
Real estate:				
Construction, land development, land	$ 3,307	$ 432	$ 7	$ 3,746
Farmland	1,088	-	-	1,088
1-4 family residential properties	2,018	-	-	2,018
Multi-family residential	-	-	-	-
Nonfarm nonresidential owner occupied	265	97	-	362
Nonfarm nonresidential other	333	-	-	333
Total real estate	7,011	529	7	7,547
Commercial	465	258	-	723
Agricultural	95	-	-	95
Consumer	282	-	2	284
Other	-	-	-	-
	$ 7,853	$ 787	$ 9	$ 8,649

Approximately $35,000 and $6,000 of additional interest would have been recognized on nonaccrual loans if they had been on accrual status during 2016 and 2015, respectively.

Troubled Debt Restructurings

The restructuring of a loan is considered a troubled debt restructuring (TDR) if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. At December 31, 2016, TDRs totaled approximately $224,000. The Company had not provided any specific allowance allocations in regard to these loans at December 31, 2016. The Company had no TDR's for the periods ending December 31, 2015.

During 2016, the Company had two loans which were modified as TDRs. The TDRs related to one commercial loan and one farmland loan with term modifications. Collectively, these loans had principal balances of approximately $227,000 both before and after the restructurings. These restructurings did not significantly impact the Company's determination of the allowance for loan losses.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans according to credit risk. The Company uses the following definitions for risk ratings:

Pass

Loans classified as pass are loans with low to average risk.

Special Mention

Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful

Loans classified as doubtful have all the weaknesses inherent in 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.

As of December 31, 2016 and 2015, based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2016:					
Real estate:					
Construction, land development, land	$ 75,767	$ -	$ 1,588	$ -	$ 77,355
Farmland	27,973	107	-	-	28,080
1-4 family residential properties	109,638	83	9	-	109,730
Multi-family residential	20,135	-	-	-	20,135
Nonfarm nonresidential owner occupied	89,866	404	-	-	90,270
Nonfarm nonresidential other	47,859	-	-	-	47,859
Total real estate	371,238	594	1,597	-	373,429
Commercial	65,084	275	709	-	66,068
Agricultural	15,088	14	39	-	15,141
Consumer	18,174	-	-	-	18,174
Other	54,198	-	-	-	54,198
	$ 523,782	$ 883	$ 2,345	$ -	$ 527,010
December 31, 2015:					
Real estate:					
Construction, land development, land	$ 59,035	$ -	$ 1,788	$ -	$ 60,823
Farmland	26,536	-	106	-	26,642
1-4 family residential properties	103,871	92	1,435	-	105,398
Multi-family residential	12,781	-	-	-	12,781
Nonfarm nonresidential owner occupied	74,769	1,006	-	-	75,775
Nonfarm nonresidential other	39,094	-	-	-	39,094
Total real estate	316,086	1,098	3,329	-	320,513
Commercial	70,700	21	10	-	70,731
Agricultural	12,270	-	-	-	12,270
Consumer	18,988	-	2	-	18,990
Other	34,897	-	-	-	34,897
	$ 452,941	$ 1,119	$ 3,341	$ -	$ 457,401

6. Bank Premises and Equipment

Bank premises and equipment at December 31, 2016 and 2015 consisted of the following (in thousands):

	2016	2015
Land	$ 5,306	$ 2,734
Buildings and improvements	22,101	22,567
Leasehold improvements	2,017	2,017
Furniture and equipment	7,982	7,320
	37,406	34,638
Accumulated depreciation	(13,374)	(11,838)
	$ 24,032	$ 22,800

The Company leases certain office facilities under operating leases that expire at various dates through 2025. The Company has renewal options on these leases. Rent expense totaled approximately $148,000 and $284,000 in 2016 and 2015, respectively. Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2016 pertaining to banking premises, future minimum rent commitments under various operating leases are as follows (in thousands):

Year	Amount
2017	$ 154
2018	158
2019	169
2020	169
2021	169
Thereafter	1,228
	$ 2,047

Additionally, a portion of the banking premises which the Company occupies is leased to certain tenants under month-to-month and term leases. Rental income totaled approximately $359,000 and $2,000, respectively, for the years ending December 31, 2016 and 2015. Minimum future rentals to be received on non-cancelable leases in effect at December 31, 2016 are as follows (in thousands):

Year	Amount
2017	$ 138
2018	72
2019	52
2020	-
2021	-
Thereafter	-
	$ 262

7. Intangible Assets

Intangible assets consist of core deposit intangibles acquired in various acquisitions and are being amortized using the straight-line method over a period of ten years. Assigned costs and accumulated amortization at December 31, 2016 and 2015 consisted of the following (in thousands):

	2016	2015
Gross amount	$ 2,462	$ 2,462
Accumulated amortization	(1,398)	(1,152)
	$ 1,064	$ 1,310

Changes in the carrying amount of intangibles during 2016 and 2015 are summarized as follows (in thousands):

	2016	2015
Net intangible January 1	$ 1,310	$ 1,556
Amortization expense	(246)	(246)
Net intangible December 31	$ 1,064	$ 1,310

8. Goodwill

Goodwill in the amount of $12,883,000 at both December 31, 2016 and 2015 is included in the accompanying consolidated financial statements. Goodwill is assessed at least annually for impairment. At December 31, 2016 and 2015, management has determined that there has been no impairment of goodwill.

9. Deposits

Deposits at December 31, 2016 and 2015 are summarized as follows (in thousands):

	2016		2015	
	Amount	Percent	Amount	Percent
Noninterest bearing demand accounts	$ 129,304	14.2	$ 125,866	14.2
Noninterest bearing money market accounts	175,307	19.3	163,950	18.6
Interest bearing demand accounts	60,423	6.8	57,358	6.5
Savings accounts	71,103	7.8	68,315	7.7
Limited access money market accounts	339,823	37.4	331,638	37.5
Certificates of deposit, $250,000 or less	92,886	10.2	98,911	11.2
Certificates of deposit, greater than $250,000	39,114	4.3	37,564	4.3
	$ 907,960	100.0	$ 883,602	100.0

The Company had no brokered deposits at December 31, 2016 and 2015.

Included in deposits at December 31, 2016 and 2015 are deposits related to one customer in the amount of approximately $107,873,000 and $105,215,000, respectively. These amounts represent approximately 12% of total deposits at December 31, 2016 and 2015, respectively.

At December 31, 2016, scheduled maturities of certificates of deposit are as follows (in thousands):

Year	Amount
Less than one year	$ 100,846
One to three years	28,714
Over three years	2,440
	$ 132,000

10. Other Borrowings

Subordinated Promissory Notes Payable

In November 2013, the Company entered into a confidential private placement offering for the issuance of up to $6.165 million in subordinated promissory notes (Notes). In connection with this offering, the Company issued $6,010,000 in Notes that rank senior to the capital stock of the Company, but are subordinated to any senior indebtedness. The Notes call for interest at 5.0%, payable in quarterly installments of unpaid interest beginning April 2014, with a maturity date of March 31, 2023. After the Notes have been outstanding for a period of five years, the Company at their sole discretion may redeem the Notes in full or in part. The Notes are unsecured. The outstanding principal balance of the Notes was $6,010,000 at both December 31, 2016 and 2015.

Federal Home Loan Bank

At December 31, 2016 and 2015, the Company had no outstanding advances from the Federal Home Loan Bank (FHLB). Advances from the FHLB are collateralized by a security agreement, which requires the borrowing bank to maintain a certain level of qualified first mortgage collateral in relation to the amount of outstanding debt.

At December 31, 2016 the Company has additional unused borrowing capacity with the FHLB of approximately $92,220,000.

Line of Credit

The Company has a line of credit with an unaffiliated bank with a maximum advanceable amount of $25,000,000 at December 31, 2016 and 2015. The line of credit matures on October 1, 2019. Advances in the amount of $14,100,000 and $17,000,000 were outstanding at December 31, 2016 and 2015, respectively. The interest rate on the line of credit is the Wall Street Journal U.S. Prime Rate (3.75% at December 31, 2016).

At December 31, 2016, the scheduled repayment of the line of credit is as follows (in thousands):

Year	Amount
2017	$ 1,763
2018	1,763
2019	1,763
2020	1,763
2021	7,048
	$ 14,100

Other

The Company has unused federal funds lines available from commercial banks of approximately $25,000,000 at December 31, 2016.

11. **Employee Benefits**

Pension Plan

The Company has a qualified defined benefit pension plan (Plan). Benefits are based on years of service and the employee's highest average compensation during any consecutive five years of employment. The contributions to the Plan are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Effective January 1, 2006, the Plan's administrative committee froze the Plan whereby all newly hired employees would be excluded from participating in the Plan. The administrative committee believes this action will not significantly affect the Plan's qualified status or the Plan's current participants.

The following table presents disclosure information required under ASC 715-20 for the retirement plan (in thousands):

	2016	2015
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 19,275	$ 17,853
Service cost	574	536
Interest cost	854	694
Actuarial loss	2,431	578
Benefits paid	(618)	(386)
Benefit obligation at end of year	22,516	19,275
Change in Plan Assets		
Fair value of plan assets at beginning of year	13,563	12,711
Actual return (loss) on plan assets	730	(262)
Employer contributions	1,600	1,500
Benefits paid	(618)	(386)
Fair value of plan assets at end of year	15,275	13,563
Funded status at end of year	$ (7,241)	$ (5,712)
Amounts recognized in the Balance Sheet		
Other liabilities	$ 7,241	$ 5,712
Amounts recognized in Accumulated Other Comprehensive Income		
Net loss	$ 10,002	$ 8,114
Accumulated Benefit Obligation	$ 17,417	$ 15,170
Net Periodic Pension Cost		
Service cost	$ 574	$ 537
Interest cost	854	694
Expected return on plan assets	(812)	(557)
Recognized net loss	625	574
Net periodic pension cost	1,241	1,248
Other changes in Plan Assets and Benefit Obligations recognized in Other Comprehensive Income (OCI)		
Net loss	2,513	1,396
Amortization of net gain	(625)	(574)
Total recognized in OCI	1,888	822
Total recognized in expense and OCI	$ 3,129	$ 2,070
Amounts expected to be recognized in OCI in the next year		
Net loss	$ (831)	$ (812)

The total expected long-term rate of return on assets is determined by assessing the rates of return on each targeted asset class, return premiums generated by portfolio management, and a comparison of rates used by other companies. For the years ended December 31, 2016 and 2015, the weighted average assumptions are as follows:

	2016	2015
Discount rate		
Net periodic pension cost	4.50%	3.95%
Benefit obligations	4.15%	4.50%
Expected return on Plan Assets at the beginning of the fiscal year	6.25%	4.50%
Rate of compensation increase		
Beginning of fiscal year	4.50%	4.00%
End of fiscal year	5.50%	4.50%

The overall investment goal of the Plan is to achieve a real long-term rate of return over inflation resulting from income, capital gains, or both which will assist the Plan in meeting its long-term objectives. Investment management of the assets is in accordance with the Plan's Investment Policy that includes target asset allocation of 60% fixed income and 40% equities. Within each asset class, assets are allocated to various investment styles. Professional managers manage all assets of the Plan and professional advisors assist the Plan in the attainment of its objectives. The Company's pension plan asset allocations at December 31, 2016 and 2015 are as follows:

	Percentage of Plan Assets December 31,	
	2016	2015
Asset Category		
Equity securities	31.79	29.62
Fixed income	57.21	56.68
Other	11.00	13.70
	100.00	100.00

The Company expects to contribute approximately $1,500,000 to its pension plan in 2017.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows at December 31, 2016 (in thousands):

Year	Amount
2017	$ 710
2018	760
2019	850
2020	900
2021	910
Years 6-10	6,240
	$ 10,370

Profit Sharing Plan

The Company has a profit sharing plan and an employee stock ownership plan that provide benefits for substantially all employees. Contributions to these plans are discretionary and determined annually by the Board of Directors. Contributions totaled approximately $680,000 and $609,000 in 2016 and 2015, respectively, and were charged to operating expense.

Supplemental Retirement Plan

The Company has a supplemental life insurance/split dollar plan with certain key officers. The Company owns each policy's cash surrender value and their related accumulated earnings. The excess of death benefits over cash value upon death will be paid to the beneficiaries. The payment of these benefits is made by the insurer.

12. Commitments and Contingencies

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

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

13. Financial Instruments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At December 31, 2016 and 2015, the approximate amounts of these financial instruments were as follows (in thousands):

	2016	2015
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 132,453	$ 104,120
Standby letters of credit	4,892	5,370
	$ 137,345	$ 109,490

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral and the nature of such collateral is essentially the same as that involved in making commitments to extend credit.

Although the maximum exposure to loss is the amount of such commitments, management currently anticipates no material losses from such activities.

14. Significant Group Concentrations of Credit Risk

Most of the Company's business activity is with customers located within Texas. Investments in state and municipal securities primarily involve governmental entities within the Company's market area.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The contractual amounts of credit related financial instruments such as commitments to extend credit and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

At December 31, 2016 and 2015, the Company had a concentration of funds on deposit in excess of federally insured limits at certain independent correspondent banks. The nature of the Company's business requires that it maintain amounts at due from banks which, at times, may exceed federally insured limits. The Company has not experienced any losses and does not anticipate any losses from such accounts.

15. Related Party Transactions

In the ordinary course of business, the Company has and expects to continue to have transactions, including borrowings, with its officers, directors and their affiliates. In the opinion of management, such transactions are on the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons. At December 31, 2016 and 2015, the aggregate amounts of such loans were approximately $585,000 and $578,000, respectively. During the year ended December 31, 2016, new loans made to related parties totaled approximately $162,000 and repayments totaled approximately $155,000. Additionally, the Company had unfunded commitments to these related parties of approximately $30,000 at December 31, 2016.

16. Fair Value Disclosures

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015 are as follows (in thousands):

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
December 31, 2016:			
Available for sale securities (1)	$ -	$ 376,454	$ -
December 31, 2015:			
Available for sale securities (1)	$ -	$ 431,587	$ -

(1) Securities are measured at fair value on a recurring basis, generally monthly.

Certain financial and nonfinancial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table summarizes financial assets and non-financial assets, measured at fair value on a non-recurring basis as of December 31, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2016:				
Financial assets - impaired loans	$ -	$ -	$ 282	$ 282
Other real estate owned	-	160	-	160
December 31, 2015:				
Financial assets - impaired loans	$ -	$ -	$ 8	$ 8
Other real estate owned	-	709	-	709

During the years ended December 31, 2016 and 2015, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. For the year ended December 31, 2016, impaired loans with a carrying value of $282,000 with no specific valuation allowance allocations, was based on collateral valuations utilizing Level 3 valuation inputs. For the year ended December 31, 2015, impaired loans with a carrying value of $9,000 were reduced by specific valuation allowance allocations totaling $1,000 to a total reported fair value of $8,000, based on collateral valuations utilizing Level 3 valuation inputs at December 31, 2015.

Foreclosed assets are valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third-party appraisals, less estimated costs to sell. Appraisals based upon comparable sales result in a Level 2 classification while appraisals based upon expected cash flows of the property result in a Level 3 classification. The appraisals are generally 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 customer and customer's business. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above. During the years ended December 31, 2016 and 2015, there were no write-downs of other real estate owned.

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

		Total Estimated Fair Value		
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2016:				
Financial assets:				
Cash and cash equivalents	$ 47,951	$ 47,951	$ -	$ -
Interest bearing deposits in other banks	250	-	250	-
Securities available for sale	376,454	-	376,454	-
Loans held for sale	3,664	-	3,788	-
Loans held for investment	520,817	-	-	530,004
Accrued interest receivable	3,890	3,890	-	-
Financial liabilities:				
Deposits	907,960	-	-	908,716
Other borrowings	20,110	-	21,196	-
Accrued interest payable	236	236	-	-
Off-balance sheet instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit and financial guarantees	-	-	-	-
December 31, 2015:				
Financial assets:				
Cash and cash equivalents	$ 40,435	$ 40,435	$ -	$ -
Interest bearing deposits in other banks	250	-	250	-
Securities available for sale	431,587	-	431,587	-
Loans held for sale	5,261	-	5,441	-
Loans held for investment	451,967	-	-	463,368
Accrued interest receivable	3,803	3,803	-	-
Financial liabilities:				
Deposits	883,602	-	-	885,098
Other borrowings	23,010	-	24,625	-
Accrued interest payable	258	258	-	-
Off-balance sheet instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit and financial guarantees	-	-	-	-

The following methods and assumptions were used by the Company in estimating the fair values of financial instruments:

Cash and cash equivalents

The carrying amounts of cash and short-term instruments approximate their fair value.

Interest bearing deposits in other banks

Fair values of interest bearing deposits with a maturity greater than ninety days are estimated using discounted cash flow analyses based on the Company's current incremental investing rates for similar types of investment arrangements.

Securities available for sale

Fair values for securities, excluding restricted equity securities, are based on quoted market prices. The carrying values of restricted equity securities approximate fair values.

Loans held for sale

Fair values are based on quoted prices of similar loans sold on the secondary market.

Loans held for investment

For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for fixed-rate commercial real estate, mortgage, consumer and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits

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

Other borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest

The carrying amounts of accrued interest approximate their fair values.

Off-balance sheet instruments

Fair values for off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties' credit standings.

17. Stockholders' Equity and Regulatory Matters

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2016 and 2015, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations for banking institutions provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2016, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Additionally, Basel III added a 2.5% "capital conservation buffer" which was designed for banking institutions to absorb losses during periods of economic stress. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). Banking institutions with capital ratios below the minimum for capital adequacy purposes plus the capital conservation buffer will face constraints on dividends, equity repurchases and executive compensation relative to the amount of the shortfall.

Actual and required capital amounts and ratios of the Bank at December 31, 2016 and 2015 are presented below (in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum for Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum to be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016:								
Total capital to risk weighted assets	$ 97,805	16.27%	$ 48,086	8.00%	$ 51,843	8.625%	$ 60,108	10.00%
Tier 1 (core) capital to risk weighted assets	91,612	15.24%	36,065	6.00%	39,821	6.625%	48,086	8.00%
Common Tier 1 (CET1)	91,612	15.24%	27,048	4.50%	30,805	5.125%	39,070	6.50%
Tier 1 (core) capital to average assets	91,612	9.14%	40,079	4.00%	40,079	4.000%	50,099	5.00%
December 31, 2015:								
Total capital to risk weighted assets	$ 94,615	17.53%	$ 43,177	8.00%	NA	NA	$ 53,972	10.00%
Tier 1 (core) capital to risk weighted assets	89,181	16.52%	32,383	6.00%	NA	NA	43,177	8.00%
Common Tier 1 (CET1)	89,181	16.52%	24,287	4.50%	NA	NA	35,081	6.50%
Tier 1 (core) capital to average assets	89,181	9.18%	38,860	4.00%	NA	NA	48,575	5.00%

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

On Additional Information

The Board of Directors
Red River Bancorp, Inc. and Subsidiaries

We have audited the consolidated financial statements of Red River Bancorp, Inc. and Subsidiaries as of and for the year ended December 31, 2016, and have issued our report thereon dated February 14, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 37 and 38 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Payne & Smith, LLC

February 14, 2017

5952 Royal Lane • Suite 158 • Dallas, TX 75230 • 214 / 363-9927 • Fax 214 / 363-9980

RED RIVER BANCORP, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

December 31, 2016

(In Thousands)

	Red River Bancorp, Inc.	First State Bank	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	$ 5,115	$ 47,951	$ (5,115) (a)	$ 47,951
Interest bearing deposits in other banks	-	250	-	250
Securities available for sale	-	376,454	-	376,454
Investment in subsidiary	89,035	-	(89,035) (b)	-
Loans held for sale	-	3,664	-	3,664
Loans held for investment	-	520,817	-	520,817
Bank premises and equipment	-	24,032	-	24,032
Intangible assets	-	1,064	-	1,064
Goodwill	-	12,883	-	12,883
Cash surrender value of life insurance	-	14,230	-	14,230
Other real estate owned	160	-	-	160
Other assets	45	12,222	-	12,267
	$ 94,355	$ 1,013,567	$ (94,150)	$ 1,013,772
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest bearing	$ -	$ 309,726	$ (5,115) (a)	$ 304,611
Interest bearing	-	603,349	-	603,349
Total deposits	-	913,075	(5,115)	907,960
Other borrowings	20,110	-	-	20,110
Other liabilities	1,914	11,457	-	13,371
Commitments and contingencies	-	-	-	-
Stockholders' equity:				
Common stock	2,000	2,000	(2,000) (b)	2,000
Paid-in capital	18,987	59,488	(59,488) (b)	18,987
Retained earnings	70,233	43,644	(43,644) (b)	70,233
Accumulated other comprehensive loss	(16,097)	(16,097)	16,097 (b)	(16,097)
Treasury stock, at cost	(2,792)	-	-	(2,792)
Total stockholders' equity	72,331	89,035	(89,035)	72,331
	$ 94,355	$ 1,013,567	$ (94,150)	$ 1,013,772

See description of consolidating entries on page 39 and accompanying independent auditor's report on additional information

RED RIVER BANCORP, INC. AND SUBSIDIARIES

Consolidating Statement of Income and Comprehensive Income

For the Year ended December 31, 2016

(In Thousands)

	Red River Bancorp, Inc.	First State Bank	Eliminations	Consolidated
Interest income:				
Interest and fees on loans	$ -	$ 26,252	$ -	$ 26,252
Interest on securities:				
Taxable	-	4,893	-	4,893
Nontaxable	-	2,972	-	2,972
Other	-	244	-	244
Total interest income	-	34,361	-	34,361
Interest expense:				
Interest on deposit accounts	-	1,633	-	1,633
Other	854	17	-	871
Total interest expense	854	1,650	-	2,504
Net interest (expense) income	(854)	32,711	-	31,857
Provision for loan losses	-	900	-	900
Net interest (expense) income after provision	(854)	31,811	-	30,957
Noninterest income:				
Dividend income	10,100	-	(10,100) (e)	-
Equity in undistributed earnings of subsidiary	2,545	-	(2,545) (d)	-
Service charges and fees	-	2,882	-	2,882
Trust fees	-	508	-	508
Net gain on sales of securities available for sale	-	438	-	438
Gain on sales of loans	-	3,197	-	3,197
Other	-	3,254	-	3,254
Total noninterest income	12,645	10,279	(12,645)	10,279
Noninterest expense:				
Salaries and employee benefits	-	17,245	-	17,245
Occupancy of bank premises	-	3,118	-	3,118
Legal and professional fees	-	451	-	451
Public relations	-	557	-	557
FDIC insurance assessment	-	447	-	447
Other	23	7,627	-	7,650
Total noninterest expense	23	29,445	-	29,468
Net income	11,768	12,645	(12,645)	11,768
Other comprehensive loss:				
Change in net unrealized gain during the period on securities available for sale	(5,831)	(5,831)	5,831 (c)	(5,831)
Reclassification adjustment for net gains on sales of securities available for sale included in net income	(438)	(438)	438 (c)	(438)
Change in minimum pension liability	(1,888)	(1,888)	1,888 (c)	(1,888)
Other comprehensive loss	(8,157)	(8,157)	8,157	(8,157)
Total comprehensive income	$ 3,611	$ 4,488	$ (4,488)	$ 3,611

See description of consolidating entries on page 39 and accompanying independent auditor's report on additional information

Description of Consolidating Entries

For the Year Ended December 31, 2016

(a) To eliminate intercompany cash and deposits.

(b) To eliminate investment accounts against the stockholder's equity of the consolidated subsidiaries.

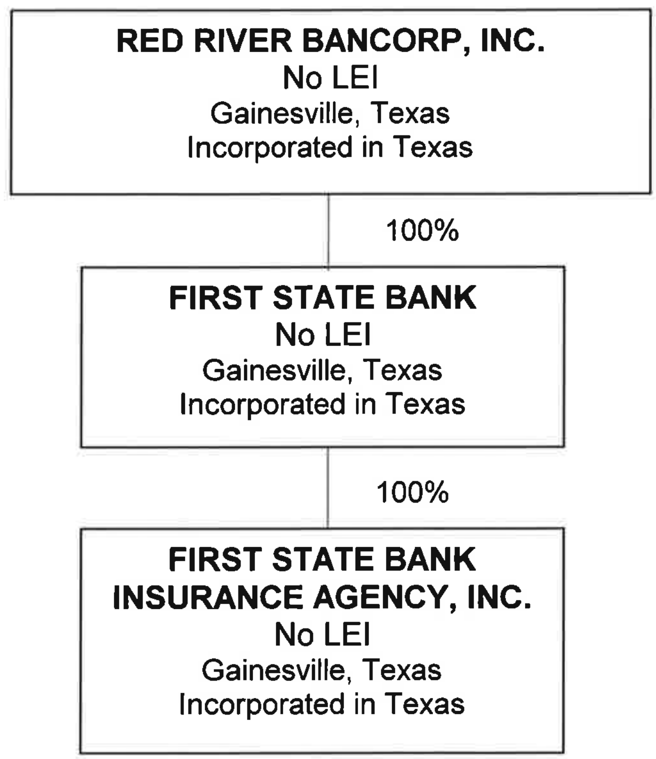
(c) To eliminate the change in net unrealized (gain) loss on securities available for sale and the change in minimum pension liability during the period included in other comprehensive income.

(d) To eliminate equity in undistributed earnings of subsidiaries.

(e) To eliminate dividends from subsidiaries.

REPORT ITEM 2: ORGANIZATION CHART

The organization chart for Red River Bancorp, Inc. and subsidiaries is presented below. No entity has a LEI.



Results: A list of branches for your holding company: RED RIVER BANCORP, INC. (1132243) of GAINESVILLE, TX.
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

Reconciliation and Verification Steps

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

Actions

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

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

Submission Procedure

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	435750	FIRST STATE BANK	801 EAST CALIFORNIA STREET	GAINESVILLE	TX	76240	COOKE	UNITED STATES	9810	0	FIRST STATE BANK	435750	
OK		Full Service	3280335	DECATUR BRANCH	661 WEST THOMPSON STREET	DECATUR	TX	76234	WISE	UNITED STATES	Not Required	14	FIRST STATE BANK	435750	
OK		Full Service	3180275	DENTON BRANCH	400 W OAK ST	DENTON	TX	76201	DENTON	UNITED STATES	418501	6	FIRST STATE BANK	435750	
OK		Full Service	4763769	DENTON LOOP 288 BRANCH	1696 SOUTH LOOP 288	DENTON	TX	76205	DENTON	UNITED STATES	Not Required	12	FIRST STATE BANK	435750	
OK		Full Service	4196639	RAYZOR RANCH BRANCH	2430 WEST UNIVERSITY DRIVE	DENTON	TX	76201	DENTON	UNITED STATES	512929	10	FIRST STATE BANK	435750	
OK		Full Service	4351559	TEASLEY BRANCH	3190 TEASLEY LANE	DENTON	TX	76205	DENTON	UNITED STATES	527546	11	FIRST STATE BANK	435750	
OK		Limited Service	3536199	DENTON MOBILE BRANCH	801 EAST CALIFORNIA STREET	GAINESVILLE	TX	76240	COOKE	UNITED STATES	365329	4	FIRST STATE BANK	435750	
OK		Full Service	2802347	LAKE KIOWA BRANCH	6586 F M 902	GAINESVILLE	TX	76240	COOKE	UNITED STATES	234449	2	FIRST STATE BANK	435750	
OK		Full Service	251259	NORTH TEXAS BRANCH	808 E HIGHWAY 82	GAINESVILLE	TX	76240	COOKE	UNITED STATES	16987	1	FIRST STATE BANK	435750	
OK		Electronic Banking	4472481	WWW.F-S-B.COM BRANCH	801 EAST CALIFORNIA STREET	GAINESVILLE	TX	76240	COOKE	UNITED STATES	492755	9	FIRST STATE BANK	435750	
OK		Full Service	3518654	MUENSTER BRANCH	519 EAST DIVISION STREET	MUENSTER	TX	76252	COOKE	UNITED STATES	207768	7	FIRST STATE BANK	435750	
OK		Full Service	4037255	ROANOKE BRANCH	211 SOUTH OAK STREET	ROANOKE	TX	76262	DENTON	UNITED STATES	Not Required	15	FIRST STATE BANK	435750	
OK		Full Service	870968	SAINT JO BRANCH	108 EAST HOWELL STREET	SAINT JO	TX	76265	MONTAGUE	UNITED STATES	474326	8	FIRST STATE BANK	435750	
OK		Limited Service	3536180	VALLEY VIEW BRANCH	101 S FRONTAGE RD	VALLEY VIEW	TX	76272	COOKE	UNITED STATES	361737	3	FIRST STATE BANK	435750	

Form FR Y-6

Red River Bancorp, Inc.
Gainesville, Texas
Fiscal Year Ending December 31, 2016

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year end

(1)(a) Name & Address (City, State, Country)		(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities *Note 1*	172106
Jacob Bezner	Dallas, TX	United States	4,000	2.32%
Johnann Bezner Trust A				
Jacob Bezner, Trustee	Dallas, TX	United States	7,000	4.07%
Lambert Bezner Trust				
Jacob Bezner, Trustee	Dallas, TX	United States	7,000	4.07%
			18,000	10.46%
Johnann S Bezner	Gainesville, TX	United States	100	0.06%
Ben Turbeville Exemption Trust				
Ben Turbeville, Trustee	Gainesville, TX	United States	4,641	2.70%
The Ben Turbeville Family Trust				
Ben Turbeville, Trustee	Gainesville, TX	United States	4,386	2.55%
See Note 6			9,027	5.25%
Tim and Mary Turbeville Family Trust				
Tim Turbeville, Trustee	Gainesville, TX	United States	2,155	1.25%
Tim Turbeville ESOP shares - Non Voting	Excluded from total	United States	1,116.31	
See Note 6				
Brenda Louise Spaeth Clark	Lindsay, TX	United States	515	0.30%
See Note 5				
David H Spaeth	Lindsay, TX	United States	5,426	3.15%
David H Spaeth	Lindsay, TX			
Separate Property		United States	500	0.29%
See Note 5			5,926	3.44%
George W Spaeth	Gainesville, TX	United States	500	0.29%
See Note 5				
Patricia A Henry	Era, TX	United States	4,968	2.89%
See Note 5				
John David Spaeth	Muenster, TX	United States	500	0.29%
See Note 5				
Marie Felderhoff Spaeth	Gainesville, TX	United States	540	0.31%
See Note 5				
Lisa A Slingerland	Yukon, OK	United States	505	0.29%
See Note 5				
Amie Felderhoff-Schoendorf	Ponder, TX	United States	4,176	2.43%
See Note 5				
Tim Felderhoff and Ramona Felderhoff	Muenster, TX	United States	925	0.54%
See Note 5				
Alice Ruth Guffee	Frisco, TX	United States	20,501	11.91%
J Lynn Guffee and Alice Ruth Guffee	Frisco, TX	United States	760	0.44%
J Lynn Guffee	Frisco, TX	United States	324	0.19%

			21,585	12.54%
Georganna Guffee Saunders	Allen, TX	United States	364	0.21%
Georganna Saunders heritage Trust Georganna Guffee Saunders, Trustee	Allen, TX	United States	2,750	1.60%
			3,114	1.81%
Regina Ruth Bowling Heritage Trust FSB Trust Department, Trustee	Gainesville, TX	United States	2,750	1.60%
The Morris Family Trust Co-Trustees Frank E Morris and Janet Morris	Gainesville, TX	United States	20,584	11.96%
			20,584	11.96%
Frank E Morris ESOP shares - Non Voting	Excluded from total		2,361.21	
Merideth Lindsey Morris	Gainesville, TX	United States	74	0.04%
Merideth L Mcleod Heritage Trust Merideth L Mcleod, Trustee	Gainesville, TX	United States	3,250	1.89%
Ava Mae Mcleod	Gainesville, TX	United States	25	0.01%
See Note 3			3,349	1.95%
Ryan C Morris	Gainesville, TX	United States	644	0.37%
Ryan C Morris Heritage Trust Ryan C Morris, Trustee	Gainesville, TX	United States	3,250	1.89%
Meg Elizabeth Morris	Gainesville, TX	United States	25	0.01%
Bay Elizabeth Morris	Gainesville, TX	United States	25	0.01%
Cole Penn Morris	Gainesville, TX	United States	25	0.01%
See Note 4			3,969	2.31%
Ryan C Morris ESOP shares - Non Voting	Excluded from total		214.43	
Employee Stock Ownership Plan			17,083	9.93%
Trustees				
Lloyd Reiter	Gainesville, TX	United States		
Michael Ware	Gainesville, TX	United States		
Susan Howe	Gainesville, TX	United States		
See Note 2				

Notes

1. Common Stock is the only class issued for RRBI.
2. Voting rights with respect to Qualifying Employer Securities will be passed through to Participants for Significant Corporate Events. Participants will be allowed to direct the voting rights of Qualifying Employer Securities for Significant Corporate Events only. The Trustee will have the voting rights for all other matters.
3. Includes 25 shares held by minor child
4. Includes 75 shares held by minor children
5. The listed shareholders make up the "Felderhoff" family totaling 10.78% ownership when combined
6. Ben Turbeville is trustee and owner of the The Ben Turbeville Exemption Trust and Ben Turbeville Family Trust for a combined total ownership of 5.25%. Tim Turbeville is the owner and trustee of the Tim and Mary Turbeville Family Trust with an ownership percentage of 1.25%. The combined ownership of the Turbeville family is 6.50%

Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2016		
(2)(a)	**(2)(b)**	**(2)(c)**
Name & Address (City, State, Country)	**Country of Citizenship or Incorporation**	**Number and Percentage of Each Class of Voting Securities**

N/A

AMENDED

Form FR Y-6

Red River Bancorp, Inc.
Gainesville, Texas
Fiscal Year Ending December 31, 2016

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

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	*Note*	(4)(a) Percentage of Voting Securities in Bank Holding Company	(4)(b) Percentage of Voting Securities 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)
Jacob Bezner, CPA Gainesville, Texas, USA	Accountant	Director	Director First State Bank	President & Sole Director J Bezner Inc., P.C. Owner Harriman Equipment, Inc. Owner Estate Brokerage, LP	*1*	10.46%	None	J Bezner Inc., P.C. 100.00% Harriman Equipment, Inc. 100.00% Estate Brokerage, LP 98.00%
Johnann S. Bezner Gainesville, Texas, USA	Investor	Shareholder	N/A	N/A	*1*	0.06%	None	N/A
Luke Grizzaffi Gainesville, Texas, USA	Health Insurance Agent	Director	Director First State Bank	Owner Grizzaffi Benefit Management, LLC Partner Bentley Yates Cobra CSI		0.17%	None	Grizzaffi Benefit Management, LLC 100.00%
Alice & Lynn Guffee Frisco, Texas, USA	Investor	Shareholder	N/A	N/A	*5*	12.54%	None	N/A
Ben Hatcher Gainesville, Texas, USA	Retired Banker	Director & Vice Chairman	Director & Vice Chairman First State Bank	N/A		1.45%	None	N/A
Frank Morris Gainesville, Texas, USA	Retired Banker	Director, Chairman & CEO	Director & Chairman First State Bank	N/A	*5,8*	0%	None	N/A
The Morris Family Trust Trustee Frank Morris Trustee Janet Morris Gainesville, Texas, USA	N/A	Shareholder	N/A	N/A	*2,5*	11.96%	None	N/A
Ryan C. Morris Gainesville, Texas, USA	Banker	Director	Director & CEO First State Bank	N/A	*5*	0.37%	None	N/A
Ronny Ortowski Gainesville, Texas, USA	Investor	Director	Director First State Bank	President, Limited Partner Ortowski Construction Sub: Escalade Enterprises LLC President Aggressive Capital Management, Inc. Sub: Aggressive Investments LP President RECC Consulting, LLC President Cody Oil Inc.		0.66%	None	Ortowski Construction Sub: Escalade Enterprises LLC 100.00% Aggressive Capital Management, Inc. Sub: Aggressive Investments LP 100.00% RECC Consulting, LLC 56.00%

AMENDED

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	*Note*	(4)(a) Percentage of Voting Securities in Bank Holding Company	(4)(b) Percentage of Voting Securities 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)
				Secretary Ridge Addition, Inc.				
Lloyd Reiter Gainesville, Texas, USA	Banker	Director	Director & President & Chief Credit Officer First State Bank President First State Bank Insurance Agency	N/A	*3*	0.23%	None	N/A
Marty Rivers Denton, Texas, USA	Banker	Director	Director & Executive Vice President & Chief Loan Officer First State Bank	N/A		0.12%	None	N/A
Don Robinson Trophy Club, Texas, USA	Retired Banker	Director	Director First State Bank	N/A		0.12%	None	N/A
Andrew Rottner Decatur, Texas, USA	Banker	Director	Director & Executive Vice President First State Bank	N/A		0.12%	None	N/A
John Schmitz Gainesville, Texas, USA	Investor	Director	Director First State Bank	President HEP Oil Company, Ltd President, Treasurer Grayco Midstream, LLC President, Treasurer Trendstaff, LLC President, Treasurer Tierra Real Estate, LLC President Mages Group, LLC President B-29 Ups & Downs, LLC President Main Street Pub, LLC President B-29 Properties, LLC Treasurer Alta Naural Resources, LLC President Glen Crest Ranch, LLC President Shelcon Rentals, LLC President B-29 Investments, L.P. President Stark Enterprises Partner Merit Advisors GP, LP Partner Sunray Capital, LP Partner Catbird Properties No. 1, Ltd. President Schmitz & Schmitz Properties, Inc. Partner Desoto Holdings, LP		1.39%	None	HEP Oil Company, Ltd 100.00% Grayco Midstream, LLC 100.00% Trendstaff, LLC 100.00% Tierra Real Estate, LLC 100.00% Mages Group, LLC 100.00% B-29 Ups & Downs, LLC 100.00% Main Street Pub, LLC 100.00% B-29 Properties, LLC 100.00% Alta Naural Resources, LLC 100.00% Glen Crest Ranch, LLC 100.00% Shelcon Rentals, LLC 100.00% B-29 Investments, L.P. 90.50% Stark Enterprises 90.50% Merit Advisors GP, LP 90.50% Sunray Capital, LP 75.00% Catbird Properties No. 1, Ltd. 51.00% Schmitz & Schmitz Properties, Inc. 50.00% Desoto Holdings, LP 50.00%

AMENDED

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	Note	(4)(a) Percentage of Voting Securities in Bank Holding Company	(4)(b) Percentage of Voting Securities 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)
				President Elite Wellsite Service, LLC Partner Fenco Environmnetal Solutions, LLC Partner Falco-Texoma, LLC Partner WTR Transfer Services, Ltd. Treasurer S&S Directional Drilling, LLC Partner Cleburne Real Estate Holdings, LP				Elite Wellsite Service, LLC 48.75% Fenco Environmnetal Solutions, LLC 32.00% Falco-Texoma, LLC 30.00% WTR Transfer Services, Ltd. 25.00% S&S Directional Drilling, LLC 25.00% Cleburne Real Estate Holdings, LP 25.00%
Tim Turbeville Gainesville, Texas, USA	Banker	Director	Executive Vice President & Chief Operations Officer First State Bank Director & Secretary First State Bank Insurance Agency	N/A		1.25%	None	N/A
Brian McCain Gainesville, Texas, USA	Banker	Director	Executive Vice President & Chief Finanical Officer First State Bank	N/A		N/A	None	N/A
Susan Howe Gainesville, Texas, USA	Banker	N/A	Vice President First State Bank	N/A	3	N/A	None	N/A
Michael Ware Gainesville, Texas, USA	Banker	N/A	Vice President First State Bank	N/A	3	N/A	None	N/A
Employee Stock Ownership Plan Trustees Lloyd Reiter Michael Ware Susan Howe	N/A	Shareholder	N/A	N/A		9.93%	None	N/A
Brenda Louise Spaeth Clark Gainesville, Texas USA	Investor	Shareholder	N/A	N/A	4	0.30%	None	N/A
David H Spaeth Lindsay, Texas USA	Investor	Shareholder	N/A	N/A	4	3.44%	None	N/A
George W Spaeth Gainesville, Texas USA	Investor	Shareholder	N/A	N/A	4	0.29%	None	N/A
Patricia A Henry Era, Texas USA	Investor	Shareholder	N/A	N/A	4	2.89%	None	N/A
John David Spaeth Muenster, Texas USA	Investor	Shareholder	N/A	N/A	4	0.29%	None	N/A
Marie Felderhoff Spaeth Gainesville, Texas USA	Investor	Shareholder	N/A	N/A	4	0.31%	None	N/A
Lisa A Slingerland Yukon, Oklahoma USA	Investor	Shareholder	N/A	N/A	4	0.29%	None	N/A
Amie Felderhoff-Schoendorf Ponder, Texas USA	Investor	Shareholder	N/A	N/A	4	2.43%	None	N/A
Tim Felderhoff and Ramona Felderhoff Muenster, Texas USA	Investor	Shareholder	N/A	N/A	4	0.54%	None	N/A
Georganna Guffee Saunders Allen, Texas USA	Investor	Shareholder	N/A	N/A	5,9	1.81%	None	N/A
Regina Ruth Bowling Heritage Trust	N/A	Shareholder	N/A	N/A	5	1.60%	None	N/A

AMENDED

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	Note	(4)(a) Percentage of Voting Securities in Bank Holding Company	(4)(b) Percentage of Voting Securities 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)
Trustee, FSB Trust Department Gainesville, Texas USA								
Merideth Lindsey Morris Gainesville, Texas USA	Homemaker	Shareholder	N/A	N/A	*5*	0.04%	None	N/A
Merideth L Mcleod Heritage Trust Trustee Merideth Mcleod Gainesville, Texas USA	N/A	Shareholder	N/A	N/A	*5*	1.89%	None	N/A
Ava Mae Mcleod Gainesville, Texas USA	N/A	Shareholder	N/A	N/A	*5,7*	0.01%	None	N/A
Ryan C Morris Heritage Trust Trustee Ryan Morris Gainesville, Texas USA	N/A	Shareholder	N/A	N/A	*5*	1.89%	None	N/A
Meg Elizabeth Morris Gainesville, Texas USA	N/A	Shareholder	N/A	N/A	*5,6*	0.01%	None	N/A
Bay Elizabeth Morris Gainesville, Texas USA	N/A	Shareholder	N/A	N/A	*5,6*	0.01%	None	N/A
Cole Penn Morris Gainesville, Texas USA	N/A	Shareholder	N/A	N/A	*5,6*	0.01%	None	N/A

Notes

1. Jacob Bezner has direct ownership of 2.32%. As trustee Jacob controls an additional 8.14%. For a total of 10.46%. Johnann S. Bezner owns 0.06%. When combined the Bezner family holds 10.52% ownership.
2. Frank and Janet Morris shares combined in 2015 to create The Morris Family Trust. Ownership amount remained the same
3. Trustee of the Employee Stock Ownership Plaln
4. The listed shareholders make up the "Felderhoff" family totaling 10.78% ownership when combined
5. The listed shareholders form the Morris family. The combined ownership total is 32.16%.
6. Minor child of Ryan C Morris.
7. Minor child of Meredith Mcleod.
8. Frank Morris is Co-trustee for the Morris Family Trust which has ownership of 11.96%.
9. Georganna Guffee Saunders holds 0.21% and also 1.61% as trustee of the Georganna Guffee Saunders Heritage Trust. For a total of 1.81%.