Board of Governors of the Federal Reserve System

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Annual Report of Holding Companies—FR Y-6

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

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Robert A. Hulsey
Name of the Holding Company Director and Official

Managing General Partner
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.

Robert A Hulsey
Signature of Holding Company Director and Official

3-20-17
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 1895007
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

A.N.B. Holding Company, Ltd.
Legal Title of Holding Company

102 W. Moore Avenue/P O Box 40
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Terrell	TX	75160

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Kristi Self	Executive Assistant

214-863-6540
Area Code / Phone Number / Extension

214-863-5704
Area Code / FAX Number

kristiself@anbtx.com
E-mail Address

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

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

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

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

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

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

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.

The ANB Corporation
Legal Title of Subsidiary Holding Company

102 W. Moore Avenue/P O Box 40
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City	State	Zip Code
Terrell	TX	75160

Physical Location (if different from mailing address)

Lakeside Bancshares, Inc.
Legal Title of Subsidiary Holding Company

2805 Ridge Road
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City	State	Zip Code
Rockwall	TX	75087

Physical Location (if different from mailing address)

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

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

City State Zip Code

Physical Location (if different from mailing address)

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(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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

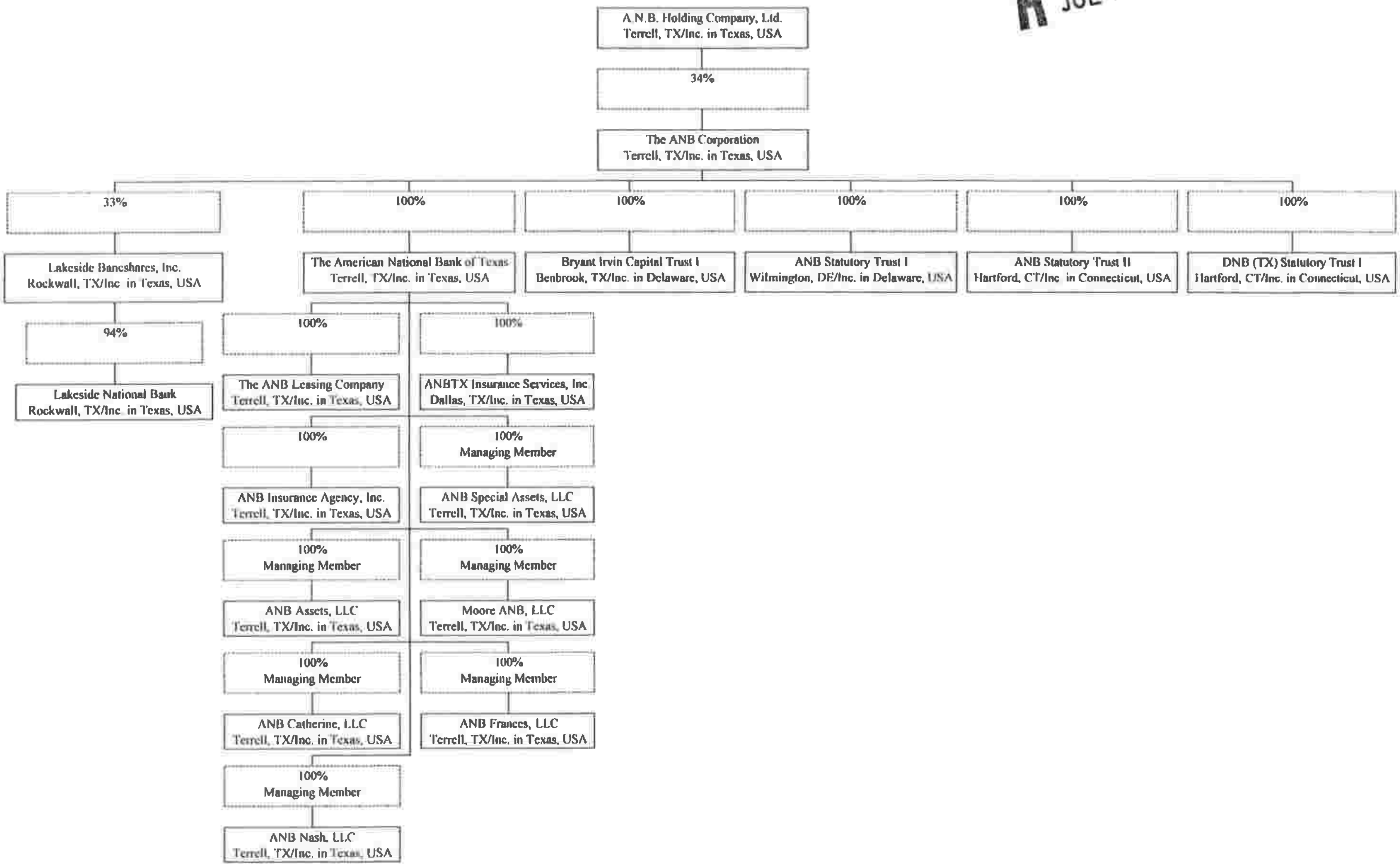
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Report Item 2: Organization Chart
A.N.B. Holding Company, Ltd.
as of December 31, 2016

AMENDED
JUL 26 2017



Note: No entity has an LEI.

Results: A list of branches for your holding company: A.N.B. HOLDING COMPANY, LTD. (1895007) of TERRELL, TX.
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
		Full Service (Head Office)	599764	AMERICAN NATIONAL BANK OF TEXAS, THE	102 W MOORE	TERRELL	TX	75160	KAUFMAN	UNITED STATES	16452	0	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	348056	ALLEN BRANCH	720 S GREENVILLE AVE	ALLEN	TX	75002	COLLIN	UNITED STATES	3774	1	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3466205	BURLESON BRANCH	308 EAST RENFRO	BURLESON	TX	76028	JOHNSON	UNITED STATES	469307	38	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	244055	CANTON BRANCH	401 E. HIGHWAY 243	CANTON	TX	75103-2409	VAN ZANDT	UNITED STATES	16750	18	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	1446025	CRANDALL BRANCH	1023 W HIGHWAY 175	CRANDALL	TX	75114	KAUFMAN	UNITED STATES	15384	5	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Limited Service	3390270	DALLAS BRANCH	2703 OAK LAWN AVENUE, SUITE 201	DALLAS	TX	75219-4810	DALLAS	UNITED STATES	Not Required	Not Required	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	2532961	DALLAS CENTRAL BRANCH	2703 OAK LAWN AVENUE	DALLAS	TX	75219	DALLAS	UNITED STATES	57081	44	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	1402263	FORNEY BRANCH	401 PINSON RD	FORNEY	TX	75126	KAUFMAN	UNITED STATES	207812	2	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	32159	7TH STREET BRANCH	2720 W 7TH ST	FORT WORTH	TX	76107	TARRANT	UNITED STATES	35230	39	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
OK		Full Service	1959945	GREENVILLE BRANCH	5809 WESLEY ST	GREENVILLE	TX	75402-6798	HUNT	UNITED STATES	284399	13	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	4856634	GREENVILLE EAST	601 EAST JOE RAMSEY BLVD	GREENVILLE	TX	75402	HUNT	UNITED STATES	Not Required	Not Required	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3383580	PRECINCT LINE ROAD BRANCH	2101 PRECINCT LINE ROAD	HURST	TX	76054	TARRANT	UNITED STATES	360406	41	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	1874169	KAUFMAN BRANCH	2700 S WASHINGTON	KAUFMAN	TX	75142	KAUFMAN	UNITED STATES	207813	7	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3009817	MANSFIELD BRANCH	2500 E. BROAD STREET, SUITE 110	MANSFIELD	TX	76063	TARRANT	UNITED STATES	259667	40	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3356883	MCKINNEY BRANCH	2851 S CENTRAL EXPY	MCKINNEY	TX	75070	COLLIN	UNITED STATES	441128	30	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3545696	PLANO PARKWAY BRANCH	1101 E PLANO PARKWAY	PLANO	TX	75074	COLLIN	UNITED STATES	365082	27	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	1432475	QUINLAN BRANCH	8908 HIGHWAY 34 SOUTH	QUINLAN	TX	75474	HUNT	UNITED STATES	247641	26	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	1432943	ROCKWALL BRANCH	2865 RIDGE ROAD	ROCKWALL	TX	75032	ROCKWALL	UNITED STATES	14625	3	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3545744	ROCKWALL NORTH BRANCH	1105 N GOLIAD	ROCKWALL	TX	75087	ROCKWALL	UNITED STATES	457510	35	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3443813	ROWLETT LIBERTY GROVE BRANCH	5320 LAKEVIEW PKWY	ROWLETT	TX	75088	DALLAS	UNITED STATES	453470	33	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3443804	ROYSE CITY I-30 BRANCH	123 E I-30	ROYSE CITY	TX	75189	ROCKWALL	UNITED STATES	467498	36	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3356089	SACHSE BRANCH	5430 HIGHWAY 78	SACHSE	TX	75048	DALLAS	UNITED STATES	443949	31	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	2271701	SEAGOVILLE BRANCH	201 HIGHWAY 175	SEAGOVILLE	TX	75159	DALLAS	UNITED STATES	256377	9	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	3004054	TERRELL WALMART BRANCH	1900 W MOORE AVE	TERRELL	TX	75160	KAUFMAN	UNITED STATES	256381	15	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	500162	WILLS POINT BRANCH	340 W NORTH COMMERCE ST	WILLS POINT	TX	75169	VAN ZANDT	UNITED STATES	3803	17	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service	309468	WYLIE BRANCH	301 S HIGHWAY 78	WYLIE	TX	75098	COLLIN	UNITED STATES	17573	4	AMERICAN NATIONAL BANK OF TEXAS, THE	599764	
		Full Service (Head Office)	32766	LAKESIDE NATIONAL BANK	2805 RIDGE ROAD	ROCKWALL	TX	75032	ROCKWALL	UNITED STATES	15014	0	LAKESIDE NATIONAL BANK	32766	

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A.N.B. Holding Company, Ltd.
Terrell, TX, USA
Fiscal Year Ending December 31, 2016

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2016			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2016		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Robert A. Hulsey (General Partner) Dallas, TX, USA	United States	*/8.94%	None		
Robert A. Hulsey (Limited Partner) Dallas, TX, USA	United States	*/28.87%			
Carol H. Yowell (Limited Partner) Longview, TX, USA	United States	*/7.78%			
Brian G. Hulsey (Limited Partner) Dallas, TX, USA	United States	*/8.70%			
Carl Stevens White, II (Limited Partner) Dallas, TX, USA	United States	*/18.01%			
Gloria Lindsey White Penny (Limited Partner) Ft. Worth, TX, USA	United States	*/18.62%			

*The A.N.B. Holding Company, Ltd. Is a partnership. The above are not individual shareholders but the percentage numbers represent each individual's interest in the partnership.

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The ANB Corporation
Terrell, TX, USA
Fiscal Year Ending December 31, 2016

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2016			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2016		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
A.N.B. Holding Company, Ltd. Terrell, TX, USA	United States	79,797/34.80%	None		
The American National Bank of Texas Employee Stock Ownership Plan Trustee: American National Bank of Texas Trust Department Terrell, TX, USA	United States	16,025/6.99%			

AMENDED
JUL 26 2017

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Lakeside Bancshares, Inc.
Rockwall, TX, USA
Fiscal Year Ending December 31, 2016

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2016			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2016		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
The ANB Corporation Terrell, TX, USA	United States	25,349/33.5%	None		
Brett Hall Rockwall, TX USA	United States	14,151/18.7%			
Blakeley Hall Rockwall, TX, USA	United States	12,287/16.2%			
Ralph M. Hall Rockwall, TX, USA	United States	6,626/8.8%			
Mark Scott Ft. Worth, TX, USA	United States	4,609/6.09%			

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A.N.B. Holding Company, Ltd.
Terrell, TX USA
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 holding company	(3)(a) Title & Position with holding company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in 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)
Riter C. Hulsey Terrell, TX, USA	Banker	General Partner	Chairman of the Board – American National Bank of Texas; Chairman, ANB Corporation; Administrator – ANB Statutory Trust II; Chairman – ANB Leasing Company	N/A	4.14%	.21% - The ANB Corporation	N/A

Robert A. Hulsey Dallas, TX, USA	Banker	General Partner & Limited Partner	President & Chief Executive Officer – American National Bank of Texas; Vice Chairman & CEO - ANB Corporation; Director - ANBTX Insurance Services, Inc.; Administrator – Bryant Irvin Capital Trust I; Administrator – ANB Statutory Trust I; Vice President – ANB Assets, LLC; President – ANB Leasing Company; President – ANB Insurance Agency, Inc.	Trustee, Episcopal Foundation of Dallas; Trustee, Episcopal Diocese of Dallas Corporation; Vice President – A. Fern Norville Shelter Foundation; President – Terrell ISD Excellence Foundation, Inc.	8.94% (G.P.) 28.87% (L.P.)	0.05% - The ANB Corporation	N/A
Carol H. Yowell Longview, TX, USA	N/A	Limited Partner	N/A	N/A	7.78%	.01% - The ANB Corporation	N/A
Brian G. Hulsey Dallas, TX, USA	Banker	General Partner & Limited Partner	Vice President - American National Bank of Texas	N/A	.15% (GP) 8.70% (LP)	0.04% - The ANB Corporation	N/A
Carl Stevens White, II Dallas, TX, USA	Banker	General Partner & Limited Partner	Banking Center President - American National Bank of Texas	N/A	.15% (GP) 18.01% (LP)	N/A	N/A
Gloria Lindsey White Penny Ft Worth, TX, USA	Homemaker	General Partner & Limited Partner	N/A	N/A	.15% (GP) 18.62% (LP)	N/A	N/A

Riter C. Hulsey, QPRT Terrell, TX, USA	N/A	Limited Partner	N/A	N/A	2.89%	N/A	N/A
RCH Trust One for GGC, Steve White, Trustee Terrell, TX, USA	N/A	Limited Partner	N/A	N/A	0.55%	N/A	N/A
RCH Trust Two for GGC, Lindsey R. Penny, Trustee Terrell, TX, USA	N/A	Limited Partner	N/A	N/A	0.56%	N/A	N/A
RCH Trust Three for GGC, Brian Hulsey, Trustee Terrell, TX, USA	N/A	Limited Partner	N/A	N/A	0.49%	N/A	N/A

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The ANB Corporation
Terrell, TX, USA
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 holding company	(3)(a) Title & Position with holding company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in 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)
A.N.B. Holding Company, Ltd. Terrell, TX, USA	N/A	Shareholder	N/A	N/A	34.80%	N/A	N/A
J.W. Barrow, III Terrell, TX, USA	N/A	Director	Director - American National Bank of Texas	President, J.W. Barrow Tire Co., Inc. dba Barrow Auto Co.	0.44%	N/A	J.W. Barrow Tire Co., Inc. dba Barrow Auto Co. - 100%

John Davidson Terrell, TX, USA	Banker	President	Executive Vice President - The American National Bank of Texas; Administrator – Bryant Irvin Capital Trust I; Administrator – ANB Statutory Trust I; Administrator – DNB Statutory Trust I; Secretary – ANBTX Insurance Services, Inc.; Secretary – ANB Insurance Agency, Inc.; President – ANB Special Assets, LLC; President – ANB Assets, LLC; President – Moore ANB, LLC; President – ANB Catherine, LLC; President – ANB Frances, LLC; President – ANB Nash, LLC	Secretary/Treasurer - Terrell ISD Excellence Foundation, Inc.	0.14%	N/A	N/A

Riter C. Hulsey Terrell, TX, USA	Banker	Chairman	Chairman of the Board – American National Bank of Texas; General Partner, A.N.B. Holding Co. Ltd.; Administrator – ANB Statutory Trust II, Chairman – ANB Leasing Company	N/A	0.21%	N/A	N/A
Robert A. Hulsey Dallas, TX, USA	Banker	Vice Chairman & CEO	President & Chief Executive Officer – American National Bank of Texas; General Partner & Limited Partner - A.N.B. Holding Co. Ltd.; Director, ANBTX Insurance Services, Inc.; Administrator – Bryant Irvin Capital Trust I; Administrator – ANB Statutory Trust I; Vice President – ANB Assets, LLC; President – ANB Leasing Company; President – ANB Insurance Agency, Inc.	Trustee, Episcopal Foundation of Dallas; Trustee, Episcopal Diocese of Dallas Corporation; Vice President, A. Fern Norville Shelter Foundation; President, Terrell ISD Excellence Foundation, Inc.	0.05%	N/A	N/A

James B. McGinty, III Terrell, TX, USA	N/A	Director	Director - American National Bank of Texas	President - Terrell Car Washes, Inc.	1.74%	N/A	Terrell Car Washes, Inc. - 100%
Ann D. Melsheimer Scottsdale, AZ, USA	N/A	Director	Director - American National Bank of Texas	Managing Partner - Clan Drummond, LLC; Director - Arizona Community Foundation	1.56%	N/A	Clan Drummond, LLC - 33%
Deceatur B. Mitchell, Jr. Terrell, TX, USA	Auctioneer	Director	Director - American National Bank of Texas	President and General Manager, Terrell Farm Supply, Inc; President, Bob Mitchell Auctioneers, Inc.; Owner, Deceatur B.Mitchell, Individual	2.14%	N/A	Terrell Farm Supply Inc. – 100%; Bob Mitchell Auctioneers, Inc. – 100%; Deceatur B. Mitchell, Individual – 100%
Kenneth F. Moody Terrell, TX, USA	Rancher	Director	Director - American National Bank of Texas	President, Wilson Furniture Co.	0.87%	N/A	Wilson Furniture Co. - 50%
Wylie Musser Terrell, TX, USA	Car Dealership Owner	Director	Director - American National Bank of Texas	President, Musser Motors, Inc; Member, Cronin & Musser LLC; President, WGG Investments, Inc.; President, DeVille Investments, Inc.; President, Cruise Investments, LP; President, WG&G, LLC.	3.40%	N/A	Musser Motors, Inc. – 51%; Cronin & Musser, LLC – 50%; WG&G Investments, Inc. – 60%; DeVille Investments, Inc. – 100%; Cruise Investments LP – 100%; WG&G, LLC – 100%

Tom E. Norton, Jr. Rockwall, TX, USA	Real Estate Developer	Director	Director - American National Bank of Texas	President, TENCO Properties Inc; General Partner, C & N, LP	0.81%	N/A	TENCO Properties, Inc. - 100%; C & N, LP - 100%
Larry Parks Rockwall, TX, USA	Banker	Director	Director - American National Bank of Texas; Sr. Vice President - American National Bank of Texas	Partner - Haslett Development, Ltd.	0.28%	N/A	Haslett Development, Ltd. - 25%
Dr. Charlie C. Risinger Terrell, TX, USA	Physician	Director	Director - American National Bank of Texas	Director, Health Texas Provider Network; President, Family Medical Associates, PA; President, C Bar Cattle Company; President, Cloud Top Enterprises LLC; President, Mountain Top Ventures, LP; President, Mountain Top Properties, LP; Partner, C BAR Land & Livestock, LLC; President, CDKC Holdings, LP; Partner, CDR AG Holdings, LLC; President, Wheeler Cattle Growers LLC; President, Wheeler Land & Livestock LLC	1.40%	N/A	Family Medical Associates, P.A. – 100%; C Bar Cattle Company – 100%; Cloud Top Enterprises, LLC – 100%; Mountain Top Ventures LP – 100%; Mountain Top Properties, LP – 100%; C BAR Land & Livestock, LLC – 50%; CDKC Holdings, LP – 50%; CDR AG Holdings, LLC – 50%; Risinger Farm – 50%; Wheeler Cattle Growers - 63% owned by CDR AG Holdings LLC

Gary Martin Rockwall, TX, USA	N/A	Director	Director - American National Bank of Texas	Chairman & Director - Alamo Group, Inc.; Director - Hill & Wilkerson, Ltd; Director - Hatfield & Co.	0.13%	N/A	N/A
James R. Thompson Kaufman, TX, USA	Owner - Construction Company	Director	Director - American National Bank of Texas	CEO - James R. Thompson, Inc.; Managing Partner - Tick Ridge, Ltd.; Managing Partner - Thompson Ranch Properties, Ltd.; Manager - JRT Management, LLC; Manager - White Rocket, LLC	0.44%	N/A	James R. Thompson, Inc. - 50%; Tick Ridge, Ltd. - 50%; Thompson Ranch Properties, Ltd. - 50%; JRT Management, Ltd. - 50%; White Rocket, LLC - 50%
Ken Allen Fayetteville, AR, USA	N/A	Director	Director - American National Bank of Texas	Director - Empire District Electric Company	0.02%	N/A	N/A
Mark Bunting Dallas, TX, USA	Entrepreneur/ Professor	Director	Director - American National Bank of Texas	CEO - TechMedia Corporation	0.02%	N/A	TechMedia Corp. - 100%
Ross Buhrdorf Austin, TX, USA	Investor	Director	Director - American National Bank of Texas	CEO - CorpTech; Managing Director - Wombatt Capital, LLC	0.02%	N/A	Wombatt Capital, LLC - 100%; CorpTech, LLC - 25%
Robert Messer Terrell, TX, USA	Banker	CFO	EVP - American National Bank of Texas	N/A	0.17%	N/A	N/A
Eliot Jones Terrell, TX, USA	Banker	Secretary	SVP - American National Bank of Texas	N/A	0.24%	N/A	N/A

Donna Mays Rockwall, TX, USA	Banker	Human Resources Director	EVP - American National Bank of Texas	N/A	0.05%	N/A	N/A

Form FR Y-6

Lakeside Bancshares, Inc.
Rockwall, TX, USA
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 holding company	(3)(a) Title & Position with holding company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in 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)
Brett Hall Rockwall, TX, USA	District Judge	Advisory Director	Lakeside National Bank - Advisory Director	N/A	18.70%	N/A	N/A
Blakeley Hall Rockwall, TX, USA	Attorney	Director	Lakeside National Bank - Director	N/A	16.20%	N/A	N/A
Ralph M. Hall Rockwall, TX USA	Retired Congressman	President & Director	Lakeside National Bank - Chairman & Director	Chairman/President North & East Trading Co./Linrock, Inc.	8.80%	N/A	North & East Trading Co. - 50%
Mark Scott Ft. Worth, TX, USA	Dentist	Chairman & Director	Lakeside National Bank - Director	N/A	6.09%	N/A	N/A
Robin Stewart Dallas, TX, USA	Legal Assistant	Director	Lakeside National Bank - Director	N/A	3.20%	N/A	N/A

M. Lyn McCreary Rockwall, TX, USA	Banker	Director	Lakeside National Bank - President & Director	N/A	0.80%	N/A	N/A
Robert L. Rea Dallas, TX, USA	CPA	Advisory Director	Lakeside National Bank - Advisory Director	Chairman/Director - Texas Exchange Bank, Crowley, TX	0%	N/A	N/A
The ANB Corporation Terrell, TX, USA	Bank Holding Co.	Shareholder	N/A	N/A	33.50%	N/A	N/A

THE ANB CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
and
Independent Auditors Report

December 31, 2016 and 2015

whitleypenn

Dallas Office
8343 Douglas Avenue
Suite 400
Dallas, Texas 75225
214.393.9300 Main

whitleypenn.com

Independent Auditor's Report

The Board of Directors
The ANB Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of The ANB Corporation and Subsidiaries, 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 Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the overall 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 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 The ANB Corporation 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 accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

We also have audited in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control–Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 9, 2017, expressed an unmodified opinion on the Company's internal control over financial reporting.

Whitley Penn LLP

Dallas, Texas
March 9, 2017

THE ANB CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2016 and 2015
(Dollars in thousands, except per share amounts)

ASSETS	**2016**	2015
Cash and cash equivalents:		
Cash and due from banks	$ **87,941**	$ 126,985
Interest bearing deposits in other banks	**131,741**	89,529
Federal funds sold	-	3,530
Total cash and cash equivalents	**219,682**	220,044
Investment securities available-for-sale	**609,755**	643,913
Loans held for sale	**675**	805
Loans held for investment, net	**1,830,856**	1,734,703
Accrued interest receivable	**10,353**	9,848
Prepaid expenses	**1,475**	1,249
Premises and equipment	**44,961**	46,081
Nonmarketable equity securities	**4,291**	3,813
Other real estate owned	**63**	-
Bank-owned life insurance	**36,483**	35,580
Intangible assets	**2,049**	3,660
Goodwill	**27,876**	27,876
Other assets	**26,734**	20,921
Total assets	$ **2,815,253**	$ 2,748,493

LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ **1,080,487**	$ 963,045
Interest bearing	**1,448,030**	1,487,211
Total deposits	**2,528,517**	2,450,256
Repurchase agreements	**5,049**	4,776
Federal Home Loan Bank advances	-	422
Debentures payable	**31,960**	31,960
Notes payable	**10,000**	-
Other liabilities	**26,211**	24,637
Total liabilities	**2,601,737**	2,512,051
Commitments and contingencies (see Note 13)	-	-
Stockholders' equity:		
Preferred stock, $1,000 liquidation value; 37,000 shares Series C issued and outstanding at December 31, 2015	-	37,000
Common stock, $10 par value; 300,000 shares authorized, 250,000 shares issued; 229,276 and 230,691 outstanding at December 31, 2016 and 2015, respectively	**2,500**	2,500
Additional paid-in capital	**27,131**	27,046
Retained earnings	**201,731**	181,217
Accumulated other comprehensive (loss) income	**(3,569)**	1,243
Treasury stock: at cost; 20,724 and 19,309 shares at December 31, 2016 and 2015, respectively	**(14,277)**	(12,564)
Total stockholders' equity	**213,516**	236,442
Total liabilities and stockholders' equity	$ **2,815,253**	$ 2,748,493

See accompanying notes to consolidated financial statements.

THE ANB CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands, except per share amounts)

	2016	2015
Interest income:		
Interest and fees on loans	$ 76,790	$ 70,838
Interest and dividends on:		
Taxable investments	4,891	5,254
Nontaxable investments	7,289	5,131
Other interest income	475	373
Total interest income	89,445	81,596
Interest expense:		
Deposit accounts	3,280	3,762
Repurchase agreements	7	9
Federal Home Loan Bank advances	8	21
Debentures	1,019	890
Notes payable	401	-
Total interest expense	4,715	4,682
Net interest income	84,730	76,914
Provision for loan losses	2,913	1,160
Net interest income after provision	81,817	75,754
Noninterest income:		
Service charges on deposit accounts	13,966	13,875
Insurance commissions	7,995	7,543
Trust and brokerage income	4,349	3,859
Bank-owned life insurance income	1,003	1,145
Gain on sales of loans held for sale	1,566	1,545
Gain on sales of other real estate owned	-	123
Net gain on sales of investment securities available-for-sale	641	-
Other noninterest income	2,955	2,542
Total noninterest income	32,475	30,632
Noninterest expense:		
Salary and employee benefits	47,315	45,461
Telephone, office, and data processing supplies	5,774	5,524
Furniture and equipment expense	6,257	6,069
Net occupancy expense	5,819	5,603
Outside service fees and assessments	4,559	7,745
Intangible amortization expense	1,611	2,541
Regulatory assessments	1,916	1,776
Advertising and public relations expense	1,175	1,303
Professional fee expense	2,694	1,744
Collection and other real estate owned expense	367	362
Loss on sales of other real estate owned	1	-
Net loss on sales of investment securities available-for-sale	-	4
Other noninterest expense	2,953	1,388
Total noninterest expense	80,441	79,520
Income before income taxes	33,851	26,866
Income tax expense	7,855	6,116
Net income	25,996	20,750
Preferred stock dividends	31	370
Net income available to common stockholders	$ 25,965	$ 20,380

See accompanying notes to consolidated financial statements.

THE ANB CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands, except per share amounts)

	2016	2015
Net income	**$ 25,996**	$ 20,750
Other comprehensive (loss) income:		
Unrealized (loss) gain on investment securities available-for-sale, before income taxes	**(6,761)**	698
Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	**(643)**	-
Reclassification adjustment for realized losses on investment securities included in net income, before income taxes	**2**	4
Total other comprehensive (loss) income	**(7,402)**	702
Income tax benefit (expense) related to items of other comprehensive (loss) income	**2,590**	(246)
Other comprehensive (loss) income, net of tax	**(4,812)**	456
Total comprehensive income	**$ 21,184**	$ 21,206

See accompanying notes to consolidated financial statements.

THE ANB CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands except per share amounts)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balances at January 1, 2015	$ 37,000	$ 2,500	$ 27,001	165,646	$ 787	$ (12,648)	$ 220,286
Net income	-	-	-	20,750	-	-	20,750
Other comprehensive income, net of reclassification and tax	-	-	-	-	456	-	456
Rabbi trust distributions, 158 shares	-	-	45	-	-	84	129
Treasury stock purchases, 3,972 shares	-	-	-	-	-	(3,972)	(3,972)
Treasury stock sales, 3,972 shares	-	-	-	-	-	3,972	3,972
Dividends paid:							
Preferred stock	-	-	-	(370)	-	-	(370)
Common stock	-	-	-	(4,809)	-	-	(4,809)
Balances at December 31, 2015	**37,000**	**2,500**	**27,046**	**181,217**	**1,243**	**(12,564)**	**236,442**
Net income	-	-	-	**25,996**	-	-	**25,996**
Other comprehensive loss, net of reclassification and tax	-	-	-	-	**(4,812)**	-	**(4,812)**
Preferred Stock redeemed - 37,000 shares Series C	**(37,000)**	-	-	-	-	-	**(37,000)**
Rabbi trust contributions, 374 shares	-	-	**(48)**	-	-	**(283)**	**(331)**
Treasury stock purchases, 3,141 shares	-	-	-	-	-	**(3,278)**	**(3,278)**
Treasury stock sales, 1,248 shares	-	-	-	-	-	**1,274**	**1,274**
Treasury stock reissuance, 852 shares	-	-	**133**	-	-	**574**	**707**
Dividends paid:							
Preferred stock	-	-	-	**(31)**	-	-	**(31)**
Common stock	-	-	-	**(5,451)**	-	-	**(5,451)**
Balances at December 31, 2016	**$ -**	**$ 2,500**	**$ 27,131**	**201,731**	**$ (3,569)**	**$ (14,277)**	**$ 213,516**

See accompanying notes to consolidated financial statements.

THE ANB CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands, except per share amounts)

	2016	2015
Cash flows from operating activities:		
Net income	$ 25,996	$ 20,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	11,522	11,524
Changes in deferred taxes	(2,940)	(1,017)
Bank owned life insurance (BOLI) Income	(1,003)	(1,145)
Provision for loan losses	2,913	1,160
Gain on sales of loans held for sale	(1,566)	(1,545)
Loss (gain) on sales of bank premises and equipment	14	(8)
Net gain on sales of other real estate owned	(1)	(123)
Proceeds from sales of loans held for sale	54,484	57,717
Loans held for sale originated	(52,788)	(56,023)
Increase in accrued interest receivable and other assets	(941)	(1,784)
Net (gain) loss on sale of securities available for sale	(641)	4
Increase in accrued interest payable and other liabilities	1,574	3,163
Net cash provided by operating activities	36,623	32,673
Cash flows from investing activities:		
Net decrease in interest-bearing time deposits in other banks	-	1,000
Purchases of securities available-for-sale	(1,451,794)	(1,452,480)
Sales of securities avalailable-for-sale	1,400,425	1,299,997
Proceeds from maturities, paydowns, and calls of securities available-for-sale	73,262	89,943
Purchase of identifiable intangible assets	-	(491)
Net loans held for investment originated	(99,185)	(117,883)
Benefits received on life insurance policies	28	190
Net additions to bank premises and equipment	(3,289)	(7,389)
Net additions to nonmarketable equity securities	(478)	(49)
Proceeds from sales of other real estate owned	45	1,036
Net cash used in investing activities	(80,986)	(186,126)
Cash flows from financing activities:		
Net increase in deposits	78,261	130,344
Cash dividends paid	(5,482)	(5,179)
Purchase of treasury stock	(2,704)	(3,985)
Proceeds from distribution of treasury stock	1,075	4,114
Redemption of preferred stock	(37,000)	-
Net proceeds (repayments) of other borrowings	9,578	(112)
Net increase (decrease) repurchase agreements	273	(826)
Net cash provided by financing activities	44,001	124,356
Net decrease in cash and cash equivalents	(362)	(29,097)
Cash and cash equivalents at beginning of year	220,044	249,141
Cash and cash equivalents at end of year	$ 219,682	$ 220,044
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 4,745	$ 4,713
Income taxes paid	$ 10,391	$ 7,409
Supplemental Disclosure of Noncash Investing Activities:		
Net acquisition of other repossessed assets and real estate through foreclosure	$ 119	$ 67

See accompanying notes to consolidated financial statements.

1. Nature of Operations and Significant Accounting Policies

The ANB Corporation and Subsidiaries (the "Company") provides a full range of financial services, including banking, trust, investment and insurance services to individual and corporate customers through its subsidiaries and numerous branch offices located in the North Texas market area. The Company is subject to competition from other financial institutions, is subject to the regulations of certain government agencies and undergoes periodic examinations by those regulatory authorities.

The accounting and reporting policies of the Company and the methods of applying those policies that materially affect the accompanying consolidated financial statements conform with accounting principles generally accepted in the United States (U.S. GAAP) and prevailing banking industry practices. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet dates and revenues and expenses for the periods shown. Actual results could differ from the estimates and assumptions used in the consolidated financial statements including, but not limited to, the estimates and assumptions related to the allowance for loan losses, valuation of investment securities, valuation of other real estate owned, the fair value of financial instruments, commitments and contingencies, mortgage servicing rights and deferred income taxes.

The Company has evaluated all subsequent events for potential recognition and disclosure through March 9, 2017, the date of which the consolidated financial statements were available to be issued.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of The ANB Corporation ("ANB"), The ANB Corp Rabbi Trust ("Rabbi Trust"), and ANB's wholly-owned subsidiary, The American National Bank of Texas (the "Bank"), and its wholly-owned subsidiaries, ANB Leasing Company; ANB Insurance Agency, Inc.; ANBTX Insurance Services, Inc.; ANB Special Assets, LLC; ANB Assets, LLC; Moore ANB, LLC; ANB Frances, LLC; ANB Catherine, LLC; and ANB Nash, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

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

The Company maintains deposits with other financial institutions in amounts that exceed federal deposit insurance coverage. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Bank is not exposed to any significant credit risks on cash and cash equivalents.

Securities Available-for-Sale

Investment securities available-for-sale consist of bonds, equity securities, notes and debentures that are not classified as trading securities or held to maturity securities. Investment securities available-for-sale are held for indefinite periods of time and carried at fair value, with the unrealized holding gains and losses reported as a component of other comprehensive income (loss), net of tax. Management determines the appropriate classification of investment securities at the time of purchase.

1. Nature of Operations and Significant Accounting Policies – continued

Securities Available-for-Sale – continued

Interest income includes amortization of purchase premiums and discounts over their expected lives. Realized gains and losses are derived from the amortized cost of the security sold. Management evaluates securities for other-than-temporary impairment ("OTTI") at least quarterly, more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans

Loans are stated at the amount of unpaid principal, reduced by unearned income, net deferred fees, and an allowance for loan losses. Interest on loans is recognized using the simple-interest method on the daily balances of the principal amounts outstanding. Certain loan origination fees, net of direct loan origination costs and commitment fees, are deferred and amortized as an adjustment of yield over the life of the loan, or over the commitment period, as applicable. At December 31, 2016 and 2015, net unamortized loan fees of approximately $1,013 and $562, respectively, are included in their respective loan balances.

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. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the fair value of collateral if repayment is expected solely from the collateral or estimated future cash flows using the loan's existing rate. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The accrual of interest on loans is generally discontinued when it is probable that the borrower's cash flow may not be sufficient to meet payments as they become due, or when a loan is 90 days past due. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Company will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

From time to time, the Company modifies its loan agreement with a borrower. Borrowers unable to meet the current terms of the loan may request a lower interest rate, a reduction of principal, a payment deferral or a longer term to maturity. If an agreement is made to restructure the debt, the modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics.

1. Nature of Operations and Significant Accounting Policies – continued

Loans – continued

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives weekly reports related to loan originations, quality, concentrations, delinquencies, nonperforming, and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

Real Estate Loans

Real estate loans represent the greatest concentration of loans. The majority of the Company's real estate loans were collateralized by properties located in the Company's market areas. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. Generally, the repayment of real estate loans is largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are generally diverse in terms of type and geographic location. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally real estate loans are owner occupied which further reduces the Company's risk.

Real estate loans are divided into residential, commercial, and construction loans. Residential loan originations are generated by our loan officers, in-house origination staff, marketing efforts, present customers, walk-in customers, and referrals from real estate agents and builders. Residential loans primarily include origination of loans secured by first mortgages on owner-occupied, 1-4 family residences. The Company also originates home equity loans, which are included in the residential loan portfolio.

Commercial real estate loans primarily include commercial office buildings, retail, medical facilities and offices, warehouse facilities, hotels and churches. In determining whether to originate commercial real estate loans, the Company generally considers factors such as the financial condition of the borrower and the debt service coverage of the property. Commercial real estate loans are made at both fixed and adjustable interest rates for terms generally up to 20 years.

Commercial construction loans and construction loans to individuals are collateralized by property located primarily in the market areas the Company serves. Construction loans for projects built on speculation are financed, but these typically have secondary sources of repayment and collateral. The Company's construction loans have both fixed and adjustable interest rates during the construction period. Construction loans to individuals are typically priced and made with the intention of granting the permanent loan on the property.

Commercial Loans

Commercial loans include loans to meet most business needs, loans to municipalities and school districts, and agricultural loans. Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial and agricultural loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial and agricultural loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

1. Nature of Operations and Significant Accounting Policies – continued

Loans – continued

The majority of loans to municipalities and school districts have tax or revenue pledges and in some cases are additionally supported by collateral. Municipal loans made without a direct pledge of taxes or revenues are usually made based on some type of collateral that represents an essential service.

The Company, through its commercial lending division, purchases sub-participations in mortgage warehouse loans. These loans are purchased from an unrelated financial institution who have participation agreements with multiple companies in the business of originating residential mortgage loans. The loans purchased through this agreement are purchased without mortgage servicing rights and are included in commercial loans as loans to other financial institutions.

Consumer Loans

Substantially all consumer loan originations are made to consumers in the Company's market areas. The Company utilizes methodical credit standards and analysis to supplement its policies and procedures in underwriting consumer loans. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize the Company's risk.

Loans Held for Sale

The Company designates loans as held for sale based on its intent to sell. At December 31, 2016 and 2015, the Company held loans that were to be sold that totaled approximately $675 and $805, respectively, and are included in loans held for sale in the accompanying consolidated balance sheets. Loans held for sale are reported at the lower of cost or fair value, computed using outstanding commitments to sell loans.

The Company services mortgage loans that it originates and sells to the Federal National Mortgage Association ("Fannie Mae"). The Company's servicing obligations include receiving payments, maintaining escrow accounts and paying hazard insurance, mortgage insurance, and taxes from such accounts, collecting past due fees, resolving payment problems and disputes, generating coupon payment books, and reporting loan balances to Fannie Mae. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first sixty to ninety days. The Company has no material losses as a result of these indemnities. The Company normally receives servicing fees of one quarter of one percent (0.25%) of the outstanding loan balance of the loan servicing portfolio from Fannie Mae.

The Company also services loans that it originates and sells the guaranteed portions in the Small Business Administration ("SBA") Secondary Market. Salability requirements of the guaranteed portion include, but are not limited to, full disbursement of the loan commitment amount. Loans originated and intended for sale are carried at the lower of cost or estimated fair value. The cost basis of loans held for sale includes the deferral of loan origination fees and costs. Deferred fees and costs are accreted and amortized for loans classified held for sale until the sale occurs. At loan settlement, the pro-rata portion, based on the percent of the total loan sold, of the remaining deferred fees and costs are recognized as an adjustment to the gain on sale. The Company normally receives servicing fees of 1% for SBA guaranteed loans.

1. Nature of Operations and Significant Accounting Policies – continued

Loans – continued

At December 31, 2016 and 2015, this servicing portfolio had an approximate outstanding balance of $304,842 and $309,392, respectively. At December 31, 2016 and 2015, the Company reported allowance of approximately $193 and $162, respectively, for potential repurchase of loans sold which is included in other liabilities in the accompanying consolidated balance sheets. The Company accounts for loan servicing revenues by booking such revenues as they are received. The Company amortizes mortgage servicing rights over the estimated life of the loans. At December 31, 2016 and 2015, the carrying amounts of mortgage servicing rights were approximately $2,076 and $2,015, respectively, and are included in other assets in the accompanying consolidated balance sheets. At December 31, 2016 and 2015, loan fees related to loans serviced for others were approximately $790 and $850, respectively, which are included in other income.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses incurred in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, concentrations, and current economic conditions that may affect the borrower's ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general, and qualitative components. The specific component relates to impaired loans. 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 component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. A qualitative component is maintained to cover uncertainties that could affect management's estimate of probable losses. The qualitative component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

1. Nature of Operations and Significant Accounting Policies – continued

Premises and Equipment

Land is carried at cost. Building and improvements and furniture and equipment are carried at cost, less accumulated depreciation. Accumulated depreciation is computed principally using the straight-line method over the estimated useful lives noted below:

Building and improvements	5 – 30 years
Furniture and equipment	3 – 7 years

Other Real Estate Owned

Other real estate owned represents properties acquired through or in lieu of loan foreclosure and are initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan losses. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent adjustments to the value are expensed. Revenues from operations are included in current earnings and collection and operating expenses are included in collection and other real estate owned expense in the accompanying consolidated statements of income.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain employees. These Bank-Owned Life Insurance ("BOLI") policies are recorded in the accompanying consolidated balance sheets at their cash surrender values. Income from these policies and changes in the cash surrender values are recorded in bank-owned life insurance income in the accompanying consolidated statements of income.

Goodwill and Intangibles

Goodwill represents the excess purchase price over the fair value of net identifiable assets acquired in business combinations. Goodwill is not amortized but is reviewed for potential impairment annually on December 31 or when triggering events occur. Intangible assets consist of core deposit intangibles and other intangible assets acquired in business combinations. Intangible assets are initially recognized based on a valuation performed as of the consummation date. Intangible assets are amortized over the average remaining life of the acquired customer deposits, normally 3 to 10 years, using the straight-line method. All intangible assets are tested annually for potential impairment or when triggering events occur. No impairment charges were recorded during the years ended December 31, 2016 and 2015.

Repurchase Agreements

Securities sold under agreements to repurchase are generally treated as collateralized financing transactions and are recorded at the amounts at which the securities were acquired or sold plus accrued interest. The fair value of collateral either received from or provided to a third party is continually monitored and additional collateral is obtained or is requested to be returned to the Company as in accordance with the agreement.

Advertising

Advertising expenses consist of the Company's advertising in its local market area. Advertising costs are expensed as incurred.

1. Nature of Operations and Significant Accounting Policies – continued

Income Taxes

The Company files a consolidated income tax return with its subsidiaries. Federal income tax expense or benefit is allocated on a separate return basis.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Treasury Stock

Acquisitions of treasury stock are recorded at cost.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period, except those resulting from transactions with stockholders. In addition to net income, comprehensive income includes the net effect of changes in the fair value of securities available-for-sale, net of tax. Comprehensive income is reported in the accompanying consolidated statements of comprehensive income.

Trust and Brokerage Income

Assets held in fiduciary or agency capacity for customers are not included in the accompanying consolidated balance sheets, since such assets are not assets of the Company. Fee income is recognized when earned.

Insurance Income

Insurance income includes commissions on the sale of life, property and casualty insurance policies and other employee benefit products earned as an agent for unaffiliated insurance underwriters. Life insurance and property and casualty income are primarily recognized upon policy origination and renewal dates. Benefits brokerage income is recognized on a monthly basis as the customer pays their insurance premiums.

Reclassification

Certain amounts in prior period financial statements may have been reclassified to conform to current period presentation. These reclassifications are immaterial and have no effect on net income, total assets, or stockholders' equity.

2. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020. The Company has not yet evaluated the potential effects of adopting ASU 2016-13 on the Company's consolidated results of operations, financial position, or cash flows.

2. Recent Accounting Pronouncements – continued

In May, 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients." ASU 2016-12 is intended to address certain specific issues identified by the FASB-IASB Joint Transition Resource Group for Revenue Recognition with respect to ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2016-12 is effective on a retrospective basis for the annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is not permitted. The Company expects the adoption of ASU 2016-12 will have no material effect on the Company's consolidated results of operations, financial position, or cash flows.

In February, 2016, the FASB issued ASU 2016-02 - "Leases" (Topic 842). ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the annual periods beginning after December 15, 2019. Early adoption is permitted. The Company has not yet evaluated the impact of the adoption of ASU 2016-02 on the Company's results of operations, financial position, or cash flows.

In January, 2016, the FASB issued ASU 2016-01 - "Recognition and Measurement of Financial Assets and Financial Liabilities" (Subtopic 825-10). ASU 2016-01 is intended to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for the annual periods beginning after December 15, 2018. Early adoption is not permitted, except for certain provisions of ASU 2016-01, which are not applicable to the Company. The Company expects the adoption of ASU 2016-01 to have no material effect on the Company's results of operations, financial position, or cash flows.

(Dollars in thousands, except per share amounts)

3. Investment Securities Available-for-Sale

Investment securities have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities and their estimated fair values are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2016:				
U.S. Treasuries	**$ 78,630**	**$ -**	**$ 2,742**	**$ 75,888**
Mortgage-backed securities guaranteed by FNMA, GNMA and FHLMC	**58,391**	**1,257**	**-**	**59,648**
State and municipal securities	**399,380**	**1,317**	**4,314**	**396,383**
Collateralized mortgage obligations guaranteed by FNMA, GNMA and FHLMC	**58,596**	**99**	**1,120**	**57,575**
Corporate bonds	**15,315**	**26**	**13**	**15,328**
Equity securities	**4,933**	**-**	**-**	**4,933**
	$ 615,245	**$ 2,699**	**$ 8,189**	**$ 609,755**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2015:				
U.S. Treasuries	$ 25,128	$ -	$ -	$ 25,128
Mortgage-backed securities guaranteed by FNMA, GNMA and FHLMC	87,115	1,483	148	88,450
State and municipal securities	412,837	3,339	1,362	414,814
Collateralized mortgage obligations guaranteed by FNMA, GNMA and FHLMC	97,003	265	1,539	95,729
Corporate bonds	15,394	-	126	15,268
Equity securities	4,524	-	-	4,524
	$ 642,001	$ 5,087	$ 3,175	$ 643,913

(Dollars in thousands, except per share amounts)

3. Investment Securities Available-for-Sale – continued

The amortized cost and estimated fair value of debt securities at December 31, 2016, by contractual maturity, are shown below. Maturities of mortgage-backed securities and collateralized mortgage obligations will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories below. Equity securities are shown separately since they are not due at a single maturity date.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 27,696	$ 27,710
Due in one year to five years	167,339	166,929
Due from five years to ten years	259,794	255,231
Due after ten years	38,496	37,729
	493,325	487,599
Mortgage-backed securities	58,391	59,648
Collateralized mortgage obligations	58,596	57,575
Equity securities	4,933	4,933
	$ 615,245	$ 609,755

The following tables disclose investment securities available-for-sale that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

	Less than 12 Months		12 Months or More		Totals	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
December 31, 2016:						
U. S. Treasuries	$ 56,631	$ 2,742	$ -	$ -	$ 56,631	$ 2,742
Mortgage-backed securities guaranteed by FNMA, GNMA and FHIMC	-	-	-	-	-	-
State and municipal securities	253,441	4,161	28,213	153	281,654	4,314
Collateralized mortgage obligations guaranteed by FNMA, GNMA and FHLMC	26,156	202	21,158	918	47,314	1,120
Corporate bonds	5,002	13	-	-	5,002	13
	$ 341,230	$ 7,118	$ 49,371	$ 1,071	$ 390,601	$ 8,189

	Less than 12 Months		12 Months or More		Totals	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
December 31, 2015:						
U. S. Treasuries	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securities guaranteed by FNMA, GNMA and FHIMC	17,840	148	-	-	17,840	148
State and municipal securities	139,466	1,064	34,461	298	173,927	1,362
Collateralized mortgage obligations guaranteed by FNMA, GNMA and FHLMC	28,819	350	36,705	1,189	65,524	1,539
Corporate bonds	15,268	126	-	-	15,268	126
	$ 201,393	$ 1,688	$ 71,166	$ 1,487	$ 272,559	$ 3,175

(Dollars in thousands, except per share amounts)

3. Investment Securities Available-for-Sale – continued

The number of investment positions in an unrealized loss position at December 31, 2016, totaled 642. The Company does not believe these unrealized losses are "other than temporary" as (i) the Company does not have the intent to sell the securities prior to recovery and/or maturity and, (ii) it is more likely than not that the Company will not have to sell these securities prior to recovery and/or maturity. The unrealized losses noted are interest rate related due to the level of interest rates at December 31, 2016. The Company has reviewed the ratings of the issuers and has not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

Sales of investment securities available-for-sale are as follows:

	2016	2015
Proceeds from sales	$ 1,400,425	$ 1,299,997
Gross realized gains	643	-
Gross realized losses	(2)	(4)

Investment securities with a fair value of approximately $598,185 and $610,271 at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

4. Loans Held for Investment and Allowance for Loan Losses

Loans in the accompanying consolidated balance sheets consisted of the following:

	December 31, 2016	December 31, 2015
Real estate:		
Residential	$ 414,680	$ 379,614
Commercial	738,030	648,386
Construction	244,412	287,471
Commercial	423,614	405,927
Consumer	37,501	39,164
	1,858,237	1,760,562
Allowance for loan losses	(27,381)	(25,859)
	$ 1,830,856	$ 1,734,703

<u>Nonaccrual and Past Due Loans</u>

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. As mentioned in Note 1, the accrual of interest on loans is discontinued when it is probable that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due.

Nonaccrual loans and accruing loans past due more than 90 days include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

(Dollars in thousands, except per share amounts)

4. Loans Held for Investment and Allowance for Loan Losses – continued

Nonaccrual and Past Due Loans – continued

Nonaccrual loans and accruing loans past due more than 90 days segregated by class of loans are as follows:

	December 31, 2016		December 31, 2015	
	Nonaccrual	**Accruing loans past due more than 90 days**	Nonaccrual	Accruing loans past due more than 90 days
Real estate:				
Residential	**$ 966**	**$ 201**	$ 1,287	$ -
Commercial	**3,792**	**-**	2,204	-
Construction	**4,620**	**417**	260	-
Commercial	**141**	**-**	376	112
Consumer	**112**	**-**	227	5
	$ 9,631	**$ 618**	$ 4,354	$ 117

Had nonaccrual loans performed in accordance with their original contract terms, the Company would have recognized additional interest income of approximately $220 and $182, respectively in 2016 and 2015.

An age analysis of past due loans segregated by class of loans are as follows:

	31-60 days	**61-90 days**	**Over 90 days**	**Total past due**	**Total Current**	**Total loans**
December 31, 2016:						
Real estate:						
Residential	**$ 974**	**$ -**	**$ 201**	**$ 1,175**	**$ 413,505**	**$ 414,680**
Commercial	**836**	**318**	**-**	**1,154**	**736,876**	**738,030**
Construction	**883**	**-**	**417**	**1,300**	**243,112**	**244,412**
Commercial	**885**	**-**	**-**	**885**	**422,729**	**423,614**
Consumer	**262**	**-**	**-**	**262**	**37,239**	**37,501**
	$ 3,840	**$ 318**	**$ 618**	**$ 4,776**	**$ 1,853,461**	**$ 1,858,237**

	31-60 days	61-90 days	Over 90 days	Total past due	Total Current	Total loans
December 31, 2015:						
Real estate:						
Residential	$ 1,205	$ 10	$ -	$ 1,215	$ 378,399	$ 379,614
Commercial	411	1,687	-	2,098	646,288	648,386
Construction	396	920	-	1,316	286,155	287,471
Commercial	471	89	112	672	405,255	405,927
Consumer	267	2	5	274	38,890	39,164
	$ 2,750	$ 2,708	$ 117	$ 5,575	$ 1,754,987	$ 1,760,562

(Dollars in thousands, except per share amounts)

4. Loans Held for Investment and Allowance for Loan Losses – continued

Impaired loans

The following tables present impaired loans by class of loans:

	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
December 31, 2016:						
Real estate:						
Residential	$ -	$ -	$ -	$ -	$ -	$ -
Commercial	4,135	1,928	2,033	3,961	278	5,154
Construction	2,253	117	2,095	2,212	114	1,175
Commercial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
	$ 6,388	$ 2,045	$ 4,128	$ 6,173	$ 392	$ 6,329

	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
December 31, 2015:						
Real estate:						
Residential	$ -	$ -	$ -	$ -	$ -	$ -
Commercial	6,516	4,148	2,199	6,347	444	5,552
Construction	168	137	-	137	-	147
Commercial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
	$ 6,684	$ 4,285	$ 2,199	$ 6,484	$ 444	$ 5,699

During the years ended December 31, 2016 and 2015, the amount of interest income recognized on impaired loans was approximately $168 and $208, respectively.

(Dollars in thousands, except per share amounts)

4. Loans Held for Investment and Allowance for Loan Losses – continued

Troubled Debt Restructuring

The Company did not restructure any loans during 2016 that were modified as troubled debt restructurings. During the year ended December 31, 2015, the terms of certain loans were modified as troubled debt restructurings. The following table presents modifications of loans that the Company considers to be troubled debt restructured loans:

		Loan modifications		
	Number of loans	Adjusted interest rate	Payment deferral	Combined rate and payment deferral
December 31, 2015:				
Real estate:				
Residential	-	$ -	$ -	$ -
Commercial	2	929	624	-
Construction	-	-	-	-
Commercial	-	-	-	-
Consumer	1	-	162	-
	3	$ 929	$ 786	$ -

During the twelve months ended December 31, 2016, defaults on loans restructured during 2015 were not significant and such defaults did not significantly impact the Company's determination of the allowance for loan losses. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral. These loans have no unfunded commitments.

Credit Quality Indicators

The majority of the loan portfolio is comprised of loans to businesses and individuals in North Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. The risks created by this concentration have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at December 31, 2016 and 2015.

Credit Quality Indicators. From a credit risk standpoint, the Company classifies its loans in one of four categories: (i) pass, (ii) special mention, (iii) substandard, or (iv) doubtful.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the credit ratings monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The Company's methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

(i) The Company has several pass credit grades that are assigned to loans based on varying levels of credits, ranging from credits that are secured by cash or marketable securities, to watch credits which have all the characteristics of an acceptable credit risk but warrant more than the normal level of supervision.

(Dollars in thousands, except per share amounts)

4. Loans Held for Investment and Allowance for Loan Losses – continued

Credit Quality Indicators – continued

(ii) Special mention credits are loans that still show sufficient cash flow to service their debt, but show a declining financial trend with potential cash flow shortages if trends continue. This category should be treated as a temporary grade. If cash flow deteriorates further to become negative, then a substandard grade should be given. If cash flow trends begin to improve, then an upgrade back to pass would be justified. Non-financial reasons for rating a credit special mention include management problems, pending litigation, an ineffective loan agreement or other material structure weakness.

(iii) A substandard loan has material weakness in the primary repayment source such as insufficient cash flow from operations to service the debt. However, other weaknesses such as limited paying capacity of the obligor or the collateral pledged could justify a substandard grade. Substandard loans must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt.

(iv) A loan classified as doubtful has all the weaknesses of a substandard loan 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. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, recognition of a loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Because of high probability of loss, nonaccrual status is required on doubtful loans.

The following tables summarize the Company's internal ratings of its loans:

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2016:					
Real estate:					
Residential	**$ 411,334**	**$ 900**	**$ 2,446**	**$ -**	**$ 414,680**
Commercial	**694,886**	**6,890**	**36,254**	**-**	**738,030**
Construction	**231,702**	**74**	**12,636**	**-**	**244,412**
Commercial	**417,730**	**72**	**5,812**	**-**	**423,614**
Consumer	**36,313**	**598**	**590**	**-**	**37,501**
	$ 1,791,965	**$ 8,534**	**$ 57,738**	**$ -**	**$ 1,858,237**

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2015:					
Real estate:					
Residential	$ 373,481	$ 1,515	$ 4,618	$ -	$ 379,614
Commercial	610,688	9,025	28,673	-	648,386
Construction	274,325	10,088	3,058	-	287,471
Commercial	403,081	870	1,976	-	405,927
Consumer	37,306	860	998	-	39,164
	$ 1,698,881	$ 22,358	$ 39,323	$ -	$ 1,760,562

(Dollars in thousands, except per share amounts)

4. Loans Held for Investment and Allowance for Loan Losses – continued

Allowance for loan losses

The following tables detail the activity in the allowance for loan losses by portfolio segment:

	Beginning Balance	Provision for Loan Loss	Charge-offs	Recoveries	Ending Balance	Period end amounts allocated to loans evaluated for impairment: Individually	Collectively
December 31, 2016:							
Real estate:							
Residential	$ 5,514	$ 331	$ 78	$ 5	$ 5,772	$ -	$ 5,772
Commercial	11,318	2,576	607	19	13,306	278	13,028
Construction	4,038	(460)	2	76	3,652	114	3,538
Commercial	4,177	(354)	135	90	3,778	-	3,778
Consumer	812	820	1,086	327	873	-	873
	$ 25,859	$ 2,913	$ 1,908	$ 517	$ 27,381	$ 392	$ 26,989

	Beginning Balance	Provision for Loan Loss	Charge-offs	Recoveries	Ending Balance	Period end amounts allocated to loans evaluated for impairment: Individually	Collectively
December 31, 2015:							
Real estate:							
Residential	$ 5,611	$ (53)	$ 51	$ 7	$ 5,514	$ -	$ 5,514
Commercial	10,610	494	-	214	11,318	444	10,874
Construction	3,591	372	-	75	4,038	-	4,038
Commercial	4,421	(35)	251	42	4,177	-	4,177
Consumer	892	382	768	306	812	-	812
	$ 25,125	$ 1,160	$ 1,070	$ 644	$ 25,859	$ 444	$ 25,415

The Company's recorded investment in loans related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology is as follows:

	December 31, 2016 Loans evaluated for impairment: Individually	Collectively	2015 Loans evaluated for impairment: Individually	Collectively
Real estate:				
Residential	$ -	$ 414,680	$ -	$ 379,614
Commercial	3,961	734,069	6,347	642,039
Construction	2,212	242,200	137	287,334
Commercial	-	423,614	-	405,927
Consumer	-	37,501	-	39,164
	$ 6,173	$ 1,852,064	$ 6,484	$ 1,754,078

(Dollars in thousands, except per share amounts)

5. Premises and Equipment

Premises and equipment in the accompanying consolidated balance sheets consisted of the following:

	December 31, 2016	December 31, 2015
Land, buildings and improvements	$ 60,451	$ 55,257
Construction in progress	676	4,870
Furniture and equipment	28,158	26,941
	89,285	87,068
Accumulated depreciation	(44,324)	(40,987)
	$ 44,961	$ 46,081

Depreciation expense for the years ended December 31, 2016 and 2015 was approximately $4,395 and $4,409, respectively.

6. Nonmarketable Equity Securities

The Bank, as a member of both the Federal Reserve Bank of Dallas and the Federal Home Loan Bank of Dallas, is required to maintain an investment in capital stock of each. No ready market exists for such stock, and they have no quoted market values. For reporting purposes, this stock is assumed to have a market value equal to cost. Other nonmarketable equity securities are carried at cost, which approximates fair value. Nonmarketable equity securities are assessed quarterly for impairment.

The Company's investments in nonmarketable equity securities are as follows:

	December 31, 2016	December 31, 2015
Federal Reserve Bank of Dallas	$ 2,451	$ 2,451
Federal Home Loan Bank of Dallas	1,526	1,059
Other nonmarketable equity securities	314	303
	$ 4,291	$ 3,813

(Dollars in thousands, except per share amounts)

7. Intangible Assets

Certain intangible assets have been acquired in various acquisitions and are being amortized under the straight-line method over periods from 3 to 10 years. Assigned costs and accumulated amortization are as follows:

	Gross Amounts	Accumulated Amortization	Total
December 31, 2016:			
Core deposit intangibles	**$ 19,106**	**$ (18,335)**	**$ 771**
Book of customer business	**10,615**	**(9,337)**	**1,278**
	$ 29,721	**$ (27,672)**	**$ 2,049**

	Gross Amounts	Accumulated Amortization	Total
December 31, 2015:			
Core deposit intangibles	$ 19,106	$ (17,409)	$ 1,697
Book of customer business	10,615	(8,652)	1,963
	$ 29,721	$ (26,061)	$ 3,660

Amortization expense for the years ended December 31, 2016 and 2015 amounted to approximately $1,611 and $2,541, respectively. Intangible assets did not change during the year ended December 31, 2016.

The estimated aggregate future amortization expense for intangible assets remaining as of December 31, 2016 is as follows:

Year Ended December 31,	Amount
2017	1,147
2018	902
2019	-
	$ 2,049

(Dollars in thousands, except per share amounts)

8. Deposits

Deposits in the accompanying consolidated balance sheets consisted of the following:

	December 31,			
	2016		2015	
	Amount	**Percent**	Amount	Percent
Noninterest bearing demand accounts	**$ 1,080,487**	**42.7%**	$ 963,045	39.3%
Interest bearing demand accounts	**648,796**	**25.7%**	708,324	28.9%
Limited access money market accounts	**411,020**	**16.3%**	389,597	15.9%
Savings accounts	**143,436**	**5.7%**	122,786	5.0%
Time deposits, greater than $250	**149,861**	**5.9%**	173,352	7.1%
Time deposits, less than $250	**94,917**	**3.7%**	93,152	3.8%
	$ 2,528,517	**100.0%**	$ 2,450,256	100.0%

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

Year Ended December 31,	Amount
2017	$ 114,709
2018	43,363
2019	32,073
2020	21,888
2021	31,718
Thereafter	1,027
	$ 244,778

The aggregate amount of demand deposit overdrafts that have been reclassified as loans was approximately $687 and $516 at December 31, 2016 and 2015, respectively.

(Dollars in thousands, except per share amounts)

9. Borrowed Funds

The Company's borrowed funds as classified in the accompanying consolidated balance sheets are as follows:

	December 31,	
	2016	2015
Federal Home Loan Bank advances	**$ -**	$ 422
Debentures payable:		
Adjustable rate debentures payable to ANB Trust I with a stated maturity of 2037, Interest adjusted quarterly based on LIBOR plus 2.3% (3.26% as of December 31, 2016)	**15,464**	15,464
Adjustable rate debentures payable to ANB Trust II with a stated maturity of 2037, Interest adjusted quarterly based on LIBOR plus 2.65% (3.61% as of December 31, 2016)	**10,310**	10,310
Adjustable rate debentures payable to BIB Trust I with a stated maturity of 2035, Interest adjusted quarterly based on LIBOR plus 1.75% (2.63% as of December 31, 2016)	**3,093**	3,093
Adjustable rate debentures payable to DNB Trust I with a stated maturity of 2033, Interest adjusted quarterly based on LIBOR plus 3.25% (4.25% as of December 31, 2016)	**3,093**	3,093
Total debentures payable	**31,960**	31,960
Notes payable:		
Revolving note of $20,000 payable to an unrelated institution; interest adjusted monthly based on LIBOR plus 2.75% Matures March 31, 2017 (3.51% as of December 31, 2016)	**10,000**	-
Total notes payable	**10,000**	-
Total borrowed funds	**$ 41,960**	$ 32,382

Federal Home Loan Bank ("FHLB") advances represent borrowings with interest rates ranging from 4.29% to 5.87% which were paid in full. FHLB advances are collateralized by FHLB stock, real estate loans and investment securities. The approximate amount of loans and investment securities which collateralize borrowings at December 31, 2016 is $739,129. At December 31, 2016, letters of credit in the amount of $170,000 were outstanding with expiration dates of January 3, 2017.

In September 2007, the Company issued $15,464 and $10,310 in fixed/floating rate Preferred Capital Securities ("Capital Securities") through ANB Statutory Trust I and II ("Trusts"), statutory business trusts which are wholly-owned subsidiaries of the Company. As guarantor, the Company unconditionally guarantees payment of accrued and unpaid distributions required to be paid on the capital securities, the redemption price when a capital security is called for redemption and amounts due if a trust is liquidated or terminated.

9. Borrowed Funds – continued

The Company owns all of the outstanding common stock of the Trusts. The Trusts used the proceeds from the issuance of its Capital Securities to buy debentures issued by the Company. These debentures are the Trusts' only assets and the interest payments from the debentures finance the distributions paid on the Capital Securities. The Company's underlying debentures are classified as debentures payable.

The Capital Securities issued through ANB Statutory Trust I pay cumulative cash distributions quarterly at a rate per annum, reset quarterly, equal to the 3-month LIBOR plus 2.30% percent. The effective rate at December 31, 2016, was 3.26%. The Capital Securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures at the stated maturity in the year 2037 or their earlier redemption, in each case at a redemption price equal to the aggregate liquidation preference of the Capital Securities plus any accumulated and unpaid distributions thereon to the date of redemption. Prior redemption is permitted under certain circumstances.

The Capital Securities issued through ANB Statutory Trust II pay cumulative cash distributions quarterly at a rate per annum, reset quarterly, equal to the 3-month LIBOR plus 2.65% percent. The effective rate at December 31, 2016, was 3.61%. The Capital Securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures at the stated maturity in the year 2037 or their earlier redemption, in each case at a redemption price equal to the aggregate liquidation preference of the Capital Securities plus any accumulated and unpaid distributions thereon to the date of redemption. Prior redemption is permitted under certain circumstances.

In October 2007, the Company assumed $3,093 in floating rate Preferred Capital Securities ("Capital Securities") through Bryant Irvin Capital Trust I (BIB Trust), statutory business trust which is a wholly-owned subsidiary of the Company. The Capital Securities pay cumulative cash distributions quarterly at a rate per annum, reset quarterly, equal to the 3-month LIBOR plus 1.75% percent. The effective rate at December 31, 2016, was 2.63%. As guarantor, the Company unconditionally guarantees payment of accrued and unpaid distributions required to be paid on the capital securities, the redemption price when a capital security is called for redemption and amounts due if a trust is liquidated or terminated. Prior redemption is permitted under certain circumstances; otherwise, the debentures mature in 2035.

In January 2008, the Company assumed $3,093 in floating rate Preferred Capital Securities ("Capital Securities") through DNB Statutory Trust I (DNB Trust), statutory business trust which is a wholly-owned subsidiary of the Company. The Capital Securities pay cumulative cash distributions quarterly at a rate per annum, reset quarterly, equal to the 3-month LIBOR plus 3.25% percent. The effective rate at December 31, 2016, was 4.25%. As guarantor, the Company unconditionally guarantees payment of accrued and unpaid distributions required to be paid on the capital securities, the redemption price when a capital security is called for redemption and amounts due if a trust is liquidated or terminated. Prior redemption is permitted under certain circumstances; otherwise, the debentures mature in 2033.

The Capital Securities qualify as Tier 1 Capital, subject to regulatory limitations, under guidelines established by the Board of Governors of the Federal Reserve System ("Federal Reserve").

At December 31, 2016, the Company had a $20,000 revolving note with an outstanding principal balance of $10,000 with an unrelated bank which is collateralized by the stock of the Bank. The interest resets monthly at a rate equal to LIBOR plus 2.75%. The effective rate at December 31, 2016 was 3.51%. Any unpaid principal and interest is due upon maturity at March 31, 2017.

(Dollars in thousands, except per share amounts)

9. Borrowed Funds – continued

The Company has four credit facilities with unrelated banks which provide federal funds ("fed funds") credit lines with an availability to borrow an amount up to $85,000 at December 31, 2016. The Company has two credit facilities with lines of $20,000 and one credit facility with a line of $25,000, that require the principal and accrued interest to be paid in full on the subsequent business day and may require security prior to selling fed funds to the Bank, in the event the credit is drawn upon. Additionally, the Company has one credit facility with a line of $20,000 that requires principal and accrued interest to be paid in full within 30 days of funding, and requires pledged U.S. government or agency securities in the amount of 110% of any draw to be held at the credit facility prior to funding, in the event the credit is drawn upon. As of December 31, 2016 and 2015, there were no outstanding balances on these credit facilities.

Maturities of financing obligations based on scheduled repayments at December 31, 2016 are as follows:

Year Ended December 31,	Amount
2017	$ 10,000
2018	-
2019	-
2020	-
2021	-
Thereafter	31,960
	$ 41,960

10. Income Taxes

The provision for income taxes consisted of the following:

	December 31,	
	2016	2015
Current income tax expense	**$ 9,390**	$ 8,315
Deferred income tax benefit	**(1,535)**	(2,199)
Income tax expense	**$ 7,855**	$ 6,116

Reported income tax expense differed from the amounts computed by the U.S. federal statutory income tax rate of 35% to income before income taxes as follows:

	December 31,	
	2016	2015
Income tax expense computed at the statutory rate	**$ 11,848**	$ 9,403
Effect of tax-exempt interest on municipal securities and loans	**(3,712)**	(2,972)
Bank-owned life insurance and other	**(281)**	(315)
Income tax expense, as reported	**$ 7,855**	$ 6,116

(Dollars in thousands, except per share amounts)

10. Income Taxes – continued

Deferred taxes are as follows:

	December 31,	
	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ **10,320**	$ 10,038
Deferred compensation and other liabilities	**5,459**	4,831
Net unrealized loss on securities available-for-sale	**1,922**	-
Nonaccrual loan interest income	**40**	42
Premises and equipment	**1,285**	1,002
Other	**358**	199
Total deferred tax assets	**19,384**	16,112
Deferred tax liabilities:		
Net unrealized gain on securities available-for-sale	**-**	669
Goodwill and intangible assets	**711**	861
Investments in unconsolidated subsidiary	**249**	295
Other	**13**	2
Total deferred tax liabilities	**973**	1,827
Net deferred tax assets	$ **18,411**	$ 14,285

The Company's approximate net deferred tax assets of $18,411 and $14,285 at December 31, 2016 and 2015, respectively, are recorded in other assets in the accompanying consolidated balance sheets. Included in other assets in the accompanying consolidated balance sheets are approximately $716 of current income tax receivable at December 31, 2016, and $235 of current income tax payable at December 31, 2015.

U.S. GAAP prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of cumulative benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Current authoritative accounting guidance also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Management has evaluated the tax positions and has concluded that there are no uncertain tax positions that require disclosure. The Company files income tax returns in the U.S. federal jurisdiction. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2013.

11. Employee Benefits

Effective January 1, 1986, the Company adopted a profit sharing plan ("Plan") which covers employees over the age of twenty-one who have completed one year of credited services, as defined. Contributions to the Plan are made at the discretion of the Board of Directors and may be discontinued at any time. Contributions by the Company are fully vested after six years and contributions by participants are fully vested immediately.

Effective January 1, 1989, the Plan was amended and restated to provide for "before-tax" employee contributions through salary reduction contributions under Section 401(k) of the Internal Revenue Code. A participant may choose a salary reduction of 1% to 50% of compensation, not to exceed the annual deferral limit of section 401 of the Internal Revenue Code. The participant may increase or decrease the percentage of compensation to be contributed, subject to a 1% minimum and a 50% maximum, effective as of any pay date of any Plan year. The Plan allows the Company to make 401(k) matching contributions of up to 100% of the participant's salary reduction contribution not to exceed 3% of such participant's annual compensation.

Effective January 1, 2006, the Company amended the Plan to allow for immediate eligibility, to remove the automatic enrollment provisions, and to adopt Safe Harbor plan provisions. The employer matches deferrals equal to 100% of a participant's salary deferral up to 3% of the participant's compensation and matches an additional 50% of the participant's salary deferral to the extent such deferrals exceed 3% but do not exceed 5% of such participant's compensation. Matching contributions are immediately 100% vested.

Effective January 1, 1987, the Company adopted an Employee Stock Ownership Plan ("ESOP") covering all employees that meet certain age and service requirements. The Company contributes a discretionary amount determined annually by the Board of Directors. Plan assets are held and managed by the Company's trust department. Funds received from the Company's contributions are used to purchase shares of the Company's common stock.

Effective January 1, 2016, the Company elected to split the ESOP plan into two separate plans, The American National Bank of Texas 401(k) Profit Sharing Plan and The American National Bank of Texas Employee Stock Ownership Plan. The plan features remain the same.

Total Company contributions related to the above plans amounted to approximately $2,061 and $1,931 for the years ended December 31, 2016 and 2015, respectively.

The Company guarantees a line of credit with an unrelated bank in the amount of $800 for the ESOP. At December 31, 2016, the line of credit outstanding balance was $200. Upon funding, all principal and unpaid interest is due upon maturity at March 31, 2017.

(Dollars in thousands, except per share amounts)

12. Deferred Compensation

The Company has adopted a deferred compensation plan agreement for key employees of the Company. The plan is fully funded with life insurance policies owned by the Bank. Payments are to begin upon the participant's designated election for in-service distribution, termination, retirement, death, or upon a change in control of the Company. Participant accounts vest after four years and eleven months or upon a participant's retirement, disability, or death while still employed. Assets, liabilities, and expenses related to the plan are summarized as follows:

	December 31, 2016	December 31, 2015
Approximate cash surrender value of life insurance policies:		
Policies not associated with plans	$ **29,423**	$ 28,622
Policies associated with the plans	**7,060**	6,958
Total cash surrender value of life insurance policies	$ **36,483**	$ 35,580
Accrued benefits in connection with the plans (included as a component of other liabilities)	$ **5,694**	$ 5,384
Benefit expense:		
Deferred compensation plans (included as a component of salary and employee benefits)	$ **236**	$ 62

In December 2006, the Company entered into certain agreements with key executives in which deferred compensation awards were granted. The liabilities under these agreements are included in the accompanying consolidated balance sheets in other liabilities in the amount of approximately $2,854 and $2,598 as of December 31, 2016 and 2015, respectively. These deferred compensation awards were fully funded with the Company stock through a Rabbi Trust. Payments are to begin upon the participants designated election for in-service distribution, termination, retirement, death, or upon a change in control of the Company. Participant amounts became fully vested as of December 31, 2011.

The deferred compensation plan was amended and restated effective January 1, 2014 to allow for a five year vesting period for future company cash contributions, to provide for a separate change in control benefit for amounts deferred on or after January 1, 2013 and to include restricted stock unit awards as an eligible form of deferred compensation. Future Company contributions will have varied vesting schedules subject to documents in place at time of employee execution. Voluntary contributions are fully vested upon contribution.

Share-based Incentive Plan

In February 2013, the Company adopted a share-based incentive plan known as The American National Bank of Texas Restricted Stock Unit Plan ("RSU Plan") with an effective date of January 1, 2013. The RSU Plan provides for the grant of awards of share settled restricted stock units ("RSU") of ANB Corporation ("Corporation"). The awards are subject to special forfeiture conditions, rights of repurchase or redemption, rights of first refusal, and other transfer restrictions. All employees of the organization are eligible to be selected to participate.

The awards vest after three years or upon a participant's disability or death while still employed. The award settlement may be deferred in accordance with the Company's Deferred Compensation Plan. The value of each RSU is determined based on the estimated fair market value at their effective grant date.

(Dollars in thousands, except per share amounts)

12. Deferred Compensation – continued

Share-based Incentive Plan – continued

For the years ended December 31, 2016 and 2015, share-based compensation expense related to the RSU Plan was $692 and $654, respectively, and is included in salary and employee benefits expense on the accompanying consolidated statements of income. Other liabilities of $1,399 and $1,414 is included in the consolidated balance sheets as of December 31, 2016 and 2015, respectively. As of December 31, 2016, there was $694 of unrecognized compensation cost related to the RSU Plan that is expected to be recognized over the following two years.

A summary of the RSU activity is presented below:

	December 31,			
	2016		2015	
	Shares	**Weighted Average Grant Date Fair Value**	Shares	Weighted Average Grant Date Fair Value
Nonvested and outstanding at January 1,	**2,373**	**$ 871**	1,841	$ 835
Granted during the year	**631**	**1,173**	616	975
Vested during the year	**(852)**	**830**	-	-
Forfeited during the year	**(10)**	**(840)**	(84)	(835)
Nonvested and outstanding at December 31,	**2,142**	**$ 977**	2,373	$ 871

13. Commitments and Contingencies

Litigation

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.

Leases

The Company leases certain of its facilities under non-cancellable operating leases. Minimum future rental payments under non-cancellable operating leases with initial or remaining terms in excess of one year as of December 31, 2016 are as follows:

Year Ended December 31,	Amount
2017	$ 734
2018	434
2019	404
2020	397
2021	311
Thereafter	365
	$ 2,645

(Dollars in thousands, except per share amounts)

13. Commitments and Contingencies – continued

Leases – continued

Rent expense for the years ended December 31, 2016 and 2015 was approximately $861 and $1,088, respectively, and is included in net occupancy expense in the consolidated statements of income.

As of December 31, 2016, the Company does not anticipate any material losses as a result of commitments and contingent liabilities.

14. Financial Instruments with Off-Balance Sheet Risk

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 consolidated balance sheets.

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. The approximate amounts of these financial instruments are as follows:

	December 31,	
	2016	2015
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$ 463,080**	$ 449,206
Standby letters of credit	**2,441**	3,910
	$ 465,521	$ 453,116

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.

The risks created by these commitments have been considered by management in the determination of the adequacy of the allowance credit losses off-balance sheet. At December 31, 2016 and 2015, the amount of this allowance was $339 and is included in other liabilities in the accompanying consolidated balance sheets.

15. Fair Value Disclosures

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

U.S. GAAP valuation techniques include the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance 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 and liability, either directly or indirectly. These 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 (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 investments consist primarily of obligations of U.S. government sponsored enterprises and agencies, obligations of state and municipal subdivisions, corporate bonds and mortgage backed securities.
>
> Level 3 Inputs – Significant unobservable inputs that reflect an entity's own 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. 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. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

(Dollars in thousands, except per share amounts)

15. Fair Value Disclosures – continued

Financial Assets and Financial Liabilities

Financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis include the following:

Investment Securities Available-for-sale. Investment securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans. Impaired loans are reported at the estimated fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based on observable market data or independent appraisals using Level 3 inputs.

There were no transfers between Level 2 and Level 3 during the year ended December 31, 2016.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair value measurements using			
	Level 1 Inputs	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
At December 31, 2016:				
Investment securities available-for-sale (1)	**$ -**	**$ 609,755**	**$ -**	**$ 609,755**
Impaired loans (2)	**-**	**-**	**5,781**	**5,781**
At December 31, 2015:				
Investment securities available-for-sale (1)	$ -	$ 643,913	$ -	$ 643,913
Impaired loans (2)	-	-	6,040	6,040

(1) Securities are measured at fair value on a recurring basis, generally monthly.
(2) Impaired loans are measured on a nonrecurring basis and have been measured for impairment at the fair value of the loan's collateral.

(Dollars in thousands, except per share amounts)

15. Fair Value Disclosures – continued

Nonfinancial Assets and Nonfinancial Liabilities

Nonfinancial assets measured at fair value on a nonrecurring basis during the years ended December 31, 2016 and 2015, include certain foreclosed assets which, upon initial recognition, were re-measured and reported at fair value through a charge-off to the allowance for loan losses and certain foreclosed assets which, subsequent to their initial recognition, were re-measured at fair value through a write-down included in current earnings. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. The following table presents foreclosed assets that were re-measured and recorded at fair value:

	December 31,	
	2016	2015
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	**$ 181**	$ -
Charge-offs recognized in the allowance for loan losses	**(63)**	-
Fair value of foreclosed assets remeasured at initial recognition	**$ 118**	$ -
Foreclosed assets remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	**$ -**	$ -
Write-downs included in collection and other real estate owned expense	**-**	-
Fair value of foreclosed assets remeasured subsequent to initial recognition	**$ -**	$ -

For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments, as defined. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

(Dollars in thousands, except per share amounts)

15. Fair Value Disclosures – continued

Nonfinancial Assets and Nonfinancial Liabilities

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities. Financial instrument assets with variable rates and financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value.

The carrying value and the estimated fair value of the Company's contractual off-balance sheet commitments to extend credit and standby letters of credit, which are generally priced at market at the time of funding, were not material to the Company's consolidated financial statements.

The book and fair values of financial instruments at December 31, 2016 and 2015 are presented in the table below:

	2016		2015	
	Book Value	**Fair Value**	Book Value	Fair Value
Financial assets:				
Level 1 inputs:				
Non interest bearing cash	**$ 87,941**	**$ 87,941**	$ 126,985	$ 126,985
Level 2 inputs:				
Interest bearing cash	**131,741**	**131,741**	89,529	89,529
Federal funds sold	**-**	**-**	3,530	3,530
Investment securities available-for-sale	**609,755**	**609,755**	643,913	643,913
Bank-owned life insurance	**36,483**	**36,483**	35,580	35,580
Accrued interest receivable	**10,353**	**10,353**	9,848	9,848
Nonmarketable securities	**4,291**	**4,291**	3,813	3,813
Mortgage servicing rights	**2,076**	**2,443**	2,015	2,530
Level 3 inputs:				
Loans held for sale	**675**	**675**	805	805
Loans held for investment, net	**1,830,856**	**1,904,090**	1,734,703	1,804,091
Financial liabilities:				
Level 2 inputs:				
Deposits	**$ 2,528,517**	**$ 2,376,806**	$ 2,450,256	$ 2,327,743
Repurchase agreements	**5,049**	**5,049**	4,776	4,776
Notes payable and other borrowings	**41,960**	**41,960**	32,382	32,403

16. Related Party Transactions

At December 31, 2016 and 2015, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) totaling approximately $7,022 and $9,721, respectively. In management's opinion, such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. During the year ended December 31, 2016, the Company had approximately $129 principal additions and approximately $2,828 principal reductions.

At December 31, 2016 and 2015, the Company had approximately $6,815 and $6,843, respectively, in deposits from related parties, including executive officers, directors, significant shareholders and their affiliates on terms similar to those from third parties.

17. Stockholders' Equity and Regulatory Matters

Small Business Lending Fund "SBLF"

On August 25, 2011, the Company entered into a Securities Purchase Agreement with the Secretary of the Treasury. The Company issued 37,000 shares of its Fixed Rate Noncumulative Perpetual Preferred Stock, Series C, having a liquidation preference of $1,000 per share (the "Series C preferred stock"), for a purchase price of $37,000. The issuance was pursuant to the Treasury's Small Business Lending Fund program, a $30 billion fund established under the Small Business Jobs Act of 2010, which encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. As a requirement of the SBLF, simultaneously, the Company redeemed the 20,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A and 1,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series B issued as part of the Troubled Asset Relief Program at an aggregate price of $21,000.

The Series C preferred stock qualifies as Tier 1 capital and pays noncumulative dividends.

If capital ratios and payment terms are not met, Series C preferred stock impose limits on the Company's ability to pay dividends on and repurchase shares of its common stock and other securities. The Company may only declare and pay dividends on its common stock if it has declared and paid dividends for the current dividend period on the Series C preferred stock, and may be subject to other restrictions on its ability to repurchase or redeem other securities. In addition, if (i) the Company has not timely declared and paid dividends on the Series C preferred stock for six dividend periods or more, whether or not consecutive, and (ii) shares of Series C preferred stock with an aggregate liquidation preference of at least $25,000 are still outstanding, the Treasury (or any successor holder of Series C preferred stock) may designate two additional directors to be elected to the Company's Board of Directors.

On February 1, 2016, SBLF funds were paid in full with proceeds received primarily from cash on hand and a $16,000 advance on the line of credit disclosed in Note 9.

17. Stockholders' Equity and Regulatory Matters – continued

Regulatory Matters

Under banking law, there are legal restrictions limiting the amount of dividends a bank can declare. For national banks, as with The ANB Corporation and its Subsidiary Bank (Bank), approval of the OCC is normally required if dividends exceed the amounts as computed under a certain formula as determined by regulatory authorities. As of January 1, 2017, subject to regulatory capital requirements and certain other potentially limiting factors, the Bank may declare dividends of approximately $13,391 to the parent company without receiving OCC approval.

Further, the regulatory authorities may prohibit the payment of any dividends if it determines that certain circumstances exist in the Bank, including those relating to the financial condition of the Bank, such that the payment of dividends would be considered an unsafe and unsound practice.

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators with regards to components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules became effective January 1, 2015 with certain transition provisions fully phased in on January 1, 2019.

To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier 1 risk-based, CET1 and Tier 1 leverage ratios as set forth in the table. As of December 31, 2016 and 2015, the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2016 that management believes have changed the Bank's category.

(Dollars in thousands, except per share amounts)

17. Stockholders' Equity and Regulatory Matters – continued

Regulatory Matters – continued

A comparison of the Company's and Bank's actual capital amounts and ratios to normally required capital amounts and ratios are presented in the following table:

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount		Ratio	Amount		Ratio
As of December 31, 2016									
Common equity tier 1 to risk-weighted assets									
Consolidated	**$ 188,367**	**9.4%**	≥	**$ 90,611**	≥	**4.5%**	**N/A**	≥	**N/A**
ANBT	**$ 223,572**	**11.1%**	≥	**$ 90,361**	≥	**4.5%**	**$ 130,521**	≥	**6.5%**
Total capital (to risk weighted assets)									
Consolidated	**$ 244,569**	**12.1%**	≥	**$ 161,086**	≥	**8.0%**	**N/A**	≥	**N/A**
ANBT	**$ 248,705**	**12.4%**	≥	**$ 160,641**	≥	**8.0%**	**$ 200,801**	≥	**10.0%**
Tier 1 capital (to risk weighted assets)									
Consolidated	**$ 219,367**	**10.9%**	≥	**$ 120,814**	≥	**6.0%**	**N/A**	≥	**N/A**
ANBT	**$ 223,572**	**11.1%**	≥	**$ 120,481**	≥	**6.0%**	**$ 160,641**	≥	**8.0%**
Tier 1 capital (to average assets)									
Consolidated	**$ 219,367**	**8.0%**	≥	**$ 109,259**	≥	**4.0%**	**N/A**	≥	**N/A**
ANBT	**$ 223,572**	**8.2%**	≥	**$ 109,004**	≥	**4.0%**	**$ 136,255**	≥	**5.0%**
As of December 31, 2015									
Common equity tier 1 to risk-weighted assets									
Consolidated	$ 169,329	8.6%	≥	$ 88,525	≥	4.5%	N/A	≥	N/A
ANBT	$ 214,560	11.0%	≥	$ 88,147	≥	4.5%	$ 127,323	≥	6.5%
Total capital (to risk weighted assets)									
Consolidated	$ 261,938	13.3%	≥	$ 157,378	≥	8.0%	N/A	≥	N/A
ANBT	$ 239,066	12.2%	≥	$ 156,706	≥	8.0%	$ 195,882	≥	10.0%
Tier 1 capital (to risk weighted assets)									
Consolidated	$ 237,329	12.1%	≥	$ 118,033	≥	6.0%	N/A	≥	N/A
ANBT	$ 214,560	11.0%	≥	$ 117,529	≥	6.0%	$ 156,706	≥	8.0%
Tier 1 capital (to average assets)									
Consolidated	$ 237,329	9.1%	≥	$ 104,494	≥	4.0%	N/A	≥	N/A
ANBT	$ 214,560	8.2%	≥	$ 104,124	≥	4.0%	$ 130,155	≥	5.0%