Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Michael R Moores
Name of the Holding Company Director and Official

Director and Vice President
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.

X Michael R Moores
Signature of Holding Company Director and Official

03/29/2017
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2016
Month / Day / Year

n/a
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Henderson Citizens Bancshares, Inc.
Legal Title of Holding Company

PO Box 1009
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Henderson	TX	75653

201 W Main St
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Rosalyn Williamson	SVP & Controller

(903) 657-8521 / 5215
Area Code / Phone Number / Extension

(903) 657-9224
Area Code / FAX Number

rwilliamson@cnbtexas.com
E-mail Address

www.cnbtexas.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? (0=No, 1=Yes) 0

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

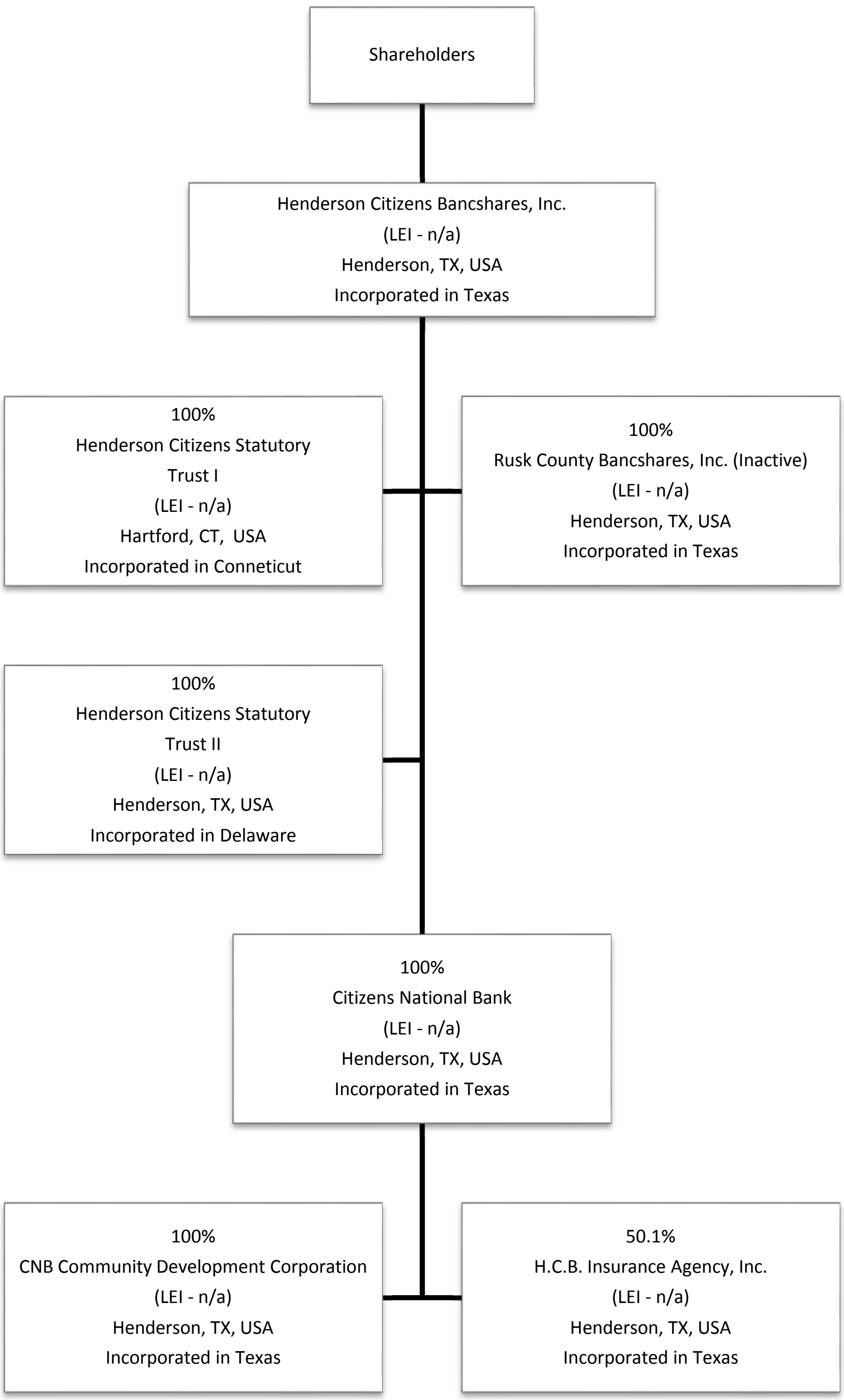
1. **a letter justifying this request is being provided along with the report** ☐
2. **a letter justifying this request has been provided separately** ☐

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

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

Form FR Y-6
Henderson Citizens Bancshares, Inc.
Fiscal Year Ending December 31, 2016

Report Item 2a: Organization Chart



Results: A list of branches for your depository institution: CITIZENS NATIONAL BANK (ID_RSSD: 56351).
This depository institution is held by HENDERSON CITIZENS BANCSHARES, INC. (1917600) of HENDERSON, TX.
The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	56351	CITIZENS NATIONAL BANK	201 WEST MAIN STREET	HENDERSON	TX	75652	RUSK	UNITED STATES	2098	0	CITIZENS NATIONAL BANK	56351	
OK		Full Service	3494217	ATHENS BRANCH	739 E TYLER STREET	ATHENS	TX	75751	HENDERSON	UNITED STATES	361061	10	CITIZENS NATIONAL BANK	56351	
OK		Full Service	1458765	CHANDLER BRANCH	105 STATE HIGHWAY 31 E	CHANDLER	TX	75758	HENDERSON	UNITED STATES	265452	6	CITIZENS NATIONAL BANK	56351	
OK		Full Service	1432206	CORSICANA BR	100 N MAIN ST	CORSICANA	TX	75110	NAVARRO	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
CLOSE	7/8/2016	Full Service	1959356	CORSICANA BRANCH	400 W COLLIN ST	CORSICANA	TX	75110-4699	NAVARRO	UNITED STATES	280407	15	CITIZENS NATIONAL BANK	56351	
OK		Limited Service	3578407	CORSICANA MOTOR BRANCH	209 NORTH 12TH STREET	CORSICANA	TX	75110	NAVARRO	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
OK		Full Service	2612313	WEST 7TH AVENUE BRANCH	3590 W 7TH AVE	CORSICANA	TX	75110	NAVARRO	UNITED STATES	246655	16	CITIZENS NATIONAL BANK	56351	
CLOSE	2/17/2017	Full Service	4104924	TYLER BRANCH	16921 FM 2493	FLINT	TX	75762	SMITH	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
OK		Full Service	55859	HIGHWAY 79 BRANCH	2320 HIGHWAY 79 SOUTH	HENDERSON	TX	75652	RUSK	UNITED STATES	16417	11	CITIZENS NATIONAL BANK	56351	
OK		Full Service	855358	HUNTSVILLE BRANCH	1718 11TH STREET	HUNTSVILLE	TX	77340-3723	WALKER	UNITED STATES	15210	27	CITIZENS NATIONAL BANK	56351	
CLOSE	3/4/2016	Full Service	1430837	HUNTSVILLE WEST BANKING CENTER	1 FINANCIAL PLAZA	HUNTSVILLE	TX	77340	WALKER	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
OK		Full Service	600053	JEFFERSON BRANCH	109 E. BROADWAY	JEFFERSON	TX	75657	MARION	UNITED STATES	288831	4	CITIZENS NATIONAL BANK	56351	
OK		Full Service	2958048	KILGORE BRANCH	410 N KILGORE STREET	KILGORE	TX	75662	GREGG	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
OK		Full Service	3432161	4TH STREET BRANCH	3412 4TH ST	LONGVIEW	TX	75605	GREGG	UNITED STATES	441959	19	CITIZENS NATIONAL BANK	56351	
OK		Full Service	1417856	LAKEPORT BRANCH	5001 ESTES PKWY	LONGVIEW	TX	75603	GREGG	UNITED STATES	256326	12	CITIZENS NATIONAL BANK	56351	
CLOSE	5/8/2015	Full Service	3058990	LONGVIEW BRANCH	3600 GILMER RD	LONGVIEW	TX	75604	GREGG	UNITED STATES	365154	14	CITIZENS NATIONAL BANK	56351	
OK		Full Service	2345965	LONGVIEW BRANCH	800 GILMER ROAD	LONGVIEW	TX	75604	GREGG	UNITED STATES	251582	23	CITIZENS NATIONAL BANK	56351	
OK		Full Service	4500786	LONGVIEW DOWNTOWN BRANCH	200 NORTH FREDONIA STREET	LONGVIEW	TX	75601	GREGG	UNITED STATES	541025	24	CITIZENS NATIONAL BANK	56351	
OK		Full Service	2494685	GASLIGHT BRANCH	805 S JOHN REDDITT DR	LUFKIN	TX	75904	ANGELINA	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
OK		Limited Service	3725265	LUFKIN BC MTR BRANCH	504 S 2ND ST	LUFKIN	TX	75901	ANGELINA	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
OK		Full Service	1433511	LUFKIN BR	415 S FIRST ST	LUFKIN	TX	75901	ANGELINA	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
OK		Full Service	1430480	MALAKOFF BR	115 W ROYALL BLVD	MALAKOFF	TX	75148	HENDERSON	UNITED STATES	9922	5	CITIZENS NATIONAL BANK	56351	
OK		Full Service	2873806	MARSHALL BRANCH	1708 E END BLVD	MARSHALL	TX	75670	HARRISON	UNITED STATES	357153	9	CITIZENS NATIONAL BANK	56351	
OK		Full Service	1883581	MEXIA BRANCH	101 NORTH MCKINNEY STREET	MEXIA	TX	76667	LIMESTONE	UNITED STATES	9703	26	CITIZENS NATIONAL BANK	56351	
OK		Full Service	109864	MOUNT ENTERPRISE BRANCH	110 WEST RUSK STREET	MOUNT ENTERPRISE	TX	75681	RUSK	UNITED STATES	8546	3	CITIZENS NATIONAL BANK	56351	
OK		Full Service	1431964	MOUNT PLEASANT BR	302 N JEFFERSON AVENUE	MOUNT PLEASANT	TX	75455	TITUS	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
OK		Full Service	1917628	OVERTON BRANCH	307 S COMMERCE ST	OVERTON	TX	75684	RUSK	UNITED STATES	285944	2	CITIZENS NATIONAL BANK	56351	
OK		Full Service	904667	PALESTINE BRANCH	207 WEST SPRING STREET	PALESTINE	TX	75801	ANDERSON	UNITED STATES	2196	25	CITIZENS NATIONAL BANK	56351	
OK		Full Service	2452564	TATUM BRANCH	165 NORTH HILL STREET	TATUM	TX	75691	RUSK	UNITED STATES	256327	13	CITIZENS NATIONAL BANK	56351	
OK		Full Service	3432170	TYLER BRANCH	107 MARKET SQUARE BLVD	TYLER	TX	75703	SMITH	UNITED STATES	449815	20	CITIZENS NATIONAL BANK	56351	
OK		Full Service	4588261	TYLER FRONT STREET BRANCH	620 WEST FRONT STREET	TYLER	TX	75702	SMITH	UNITED STATES	Not Required	Not Required	CITIZENS NATIONAL BANK	56351	
OK		Full Service	3943591	TYLER GRANDE BRANCH	2217 WEST GRANDE BOULEVARD	TYLER	TX	75703	SMITH	UNITED STATES	492718	21	CITIZENS NATIONAL BANK	56351	
OK		Full Service	204965	WASKOM BRANCH	745 SPUR 156	WASKOM	TX	75692	HARRISON	UNITED STATES	12496	7	CITIZENS NATIONAL BANK	56351	
OK		Full Service	558462	WHITE OAK BRANCH	1101 S. WHITE OAK ROAD	WHITE OAK	TX	75693-3509	GREGG	UNITED STATES	14299	22	CITIZENS NATIONAL BANK	56351	

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Henderson Citizens Bancshares, Inc.
Fiscal Year Ending December 31, 2016

Report Item 3: Securities holders

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2016

(1)(a) Name & Address	(1)(b) Country of Citizenship	(1)(c) Number and Percentage of Each Class of Voting Securities
Phyllis P. Alford Henderson, TX	USA	189,041 shares of common stock – 8.80%[1]
David Alford Henderson, TX	USA	188,228 shares of common stock – 8.76%[2]
Alford Holdings Management LLC Henderson, TX	USA	181,162 shares of common stock – 8.43%[3]
CNB Alford, LP Henderson, TX	USA	165,024 shares of common stock – 7.68%[4]
James M. Kangerga Henderson, TX	USA	159,989 shares of common stock – 7.45%[5]
Stayton M. Bonner, Jr. Henderson, TX	USA	155,981 shares of common stock – 7.26%[6]
Spikes Kangerga Henderson, TX	USA	142,800 shares of common stock – 6.65%[7]

(continued next page)

[1] Includes 165,024 shares owned by CNB Alford, LP for which Phyllis P. Alford has voting authority. Includes 16,138 shares owned by Alford Holdings, LP for which Phyllis P. Alford has voting authority. Includes 2,100 shares held in trust for Mrs. Alford as trustee of the E. Landon Alford Family Trust.
[2] Includes 165,024 shares owned by CNB Alford, LP for which David Alford has voting authority. Includes 16,138 shares owned by Alford Holdings, LP for which David Alford has voting authority. Includes 2,813 shares held in trust for Mr. Alford as trustee and co-beneficiary of the David R Alford Family Trust. Includes 2,100 shares held in the E. Landon Alford Family Trust for which Mr. Alford has voting authority. Includes 2,153 shares held in trust for Mr. Alford's wife, Mary Frances Alford as trustee of the Mary Frances Alford GST Exempt Trust.
[3] Includes 165,024 shares owned by CNB Alford, LP for which David Alford and Phyllis P Alford each have the individual authority to vote these shares. Includes 16,138 shares owned by Alford Holdings, LP for which David Alford and Phyllis p Alford each have voting authority.
[4] David Alford and Phyllis P Alford each have the individual authority to vote these shares.
[5] Includes 132,978 shares owned by NRK Investments LLP for which Mr. Kangerga has voting authority. Includes 14,033 shares held in trust for Mr. Kangerga as trustee of the James Michael Kangerga Family Trust.
[6] Includes 19,722 shares owned by Odyssey Partners LTD for which Mr. Bonner has voting authority. Also included are 44,615 shares held in three trusts (John Bonner Trust, Stayton Bonner Trust and Walter Bonner Trust) for which Mr. Bonner is a co-beneficiary and co-trustee. Mr. Bonner is also co-trustee with Citizens National Bank on three other trusts (Rebecca Dismukes Trust, Robert Dismukes Trust and Regan Dismukes Trust), which own an aggregate of 88,560 shares, of which he is not a beneficiary. The combined 133,175 shares held in the six trusts are voted solely by Mr. Bonner and, therefore, are included in the total shares beneficially owned by Mr. Bonner.
[7] Includes 132,978 shares owned by NRK Investments LLP for which Spikes Kangerga has voting authority. Includes 4,032 shares held in trust for Mr. Kangerga as trustee of the Spikes Kangerga Family Trust.

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Henderson Citizens Bancshares, Inc.
Fiscal Year Ending December 31, 2016

Report Item 3: Securities holders (continued)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2016

(1)(a) Name & Address	(1)(b) Country of Citizenship	(1)(c) Number and Percentage of Each Class of Voting Securities
Citizens National Bank and Stayton M. Bonner, Jr., Trustees Henderson, TX	USA	133,175 shares of common stock – 6.20%[8]
NRK Investments LLP Henderson, TX	USA	132,978 shares of common stock – 6.19%[9]
Kangerga Management LLC Henderson, TX	USA	132,978 shares of common stock – 6.19%[10]

[8] These shares are held in six trusts for the benefit of various individuals. Stayton M Bonner, Jr, a director of the Bank, and Henderson Citizens Bancshares, Inc., is a co-beneficiary and co-trustee of three of the trusts, which owns 44,615 shares of the stock. In addition, Mr. Bonner is also a co-trustee (but not a beneficiary) of three such trusts, which trusts own an aggregate of 88,560 shares of Henderson Citizens Bancshares, Inc. stock. The shares held in all six trusts are voted solely by Mr. Bonner.

[9]James M Kangerga and Spikes Kangerga each have the individual authority to vote these shares.

[10]James M Kangerga and Spikes Kangerga each have the individual authority to vote these shares.

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Report Item 3: Securities holders (continued)

Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2016

(2)(a) Name & Address	(2)(b) Country of Citizenship	(2)(c) Number and Percentage of Each Class of Voting Securities

None

AMENDED

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Henderson Citizens Bancshares, Inc.
Fiscal Year Ending December 31, 2016

Report Item 4: Insiders

(1) Names & Address (City, State,Country)	(2) Principal Occupation, if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with Other Businesses	(4)(a) Percentage of Voting Shares in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(b) List names of other companies if 25% or more of voting securities are held
David Alford Henderson, TX USA	Business manager	Director and Chairman of the Board	Director & Chairman of the Board (Citizens National Bank)	Director & Chairman of the Board (H.C.B., Inc.)	8.76%	n/a	n/a
Phyllis P. Alford Henderson, TX USA	Investor	n/a	n/a	n/a	8.80%	n/a	n/a
Stayton M. Bonner, Jr. Henderson, TX USA	Attorney	Director	Director (Citizens National Bank)	Director (H.C.B., Inc.)	7.26%	n/a	n/a
Kathryn Wylie Deason Henderson, TX USA	Accountant	Director	Director (Citizens National Bank)	Director (H.C.B., Inc.)	0.47%	n/a	n/a
Jason Flanagan Henderson, TX USA	Corporate executive	Director	Director (Citizens National Bank)	Director (H.C.B., Inc.)	0.40%	n/a	n/a
Sheila Smith Gresham Henderson, TX USA	Investor	Director	Director (Citizens National Bank)	Director (H.C.B., Inc.)	0.63%	n/a	n/a
Andrew J. Kangerga Fort Worth TX USA	Investor	Director	Director (Citizens National Bank)	Director (H.C.B., Inc.)	0.05%	n/a	n/a
James M. Kangerga Henderson, TX USA	Investor	Director	Director (Citizens National Bank)	Director (H.C.B., Inc.)	7.45%	n/a	n/a
Spikes Kangerga Henderson, TX USA	Investor	n/a	n/a	n/a	6.65%	n/a	n/a
J. Mark Mann Henderson, TX USA	Attorney	Director	Director (Citizens National Bank)	Director (H.C.B., Inc.)	0.45%	n/a	n/a
Andrew D. Mills Henderson, TX USA	Corporate executive	Director	Director (Citizens National Bank)	Director (H.C.B., Inc.)	0.42%	n/a	n/a
Michael R. Moores Henderson, TX USA	n/a	Director and Vice President	Director and Exec Vice President & CLO (Citizens National Bank)	Director and Vice President (H.C.B., Inc.)	0.42%	n/a	n/a

AMENDED

Henderson Citizens Bancshares, Inc.
Fiscal Year Ending December 31, 2016

Report Item 4: Insiders

(1) Names & Address (City, State,Country)	(2) Principal Occupation, if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with Other Businesses	(4)(a) Percentage of Voting Shares in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(b) List names of other companies if 25% or more of voting securities are held
Bradley H. Tidwell Longview, TX USA	n/a	Director and President	Director and President & CEO (Citizens National Bank)	Director & President (H.C.B., Inc.)	0.15%	n/a	n/a
Tony Wooster Henderson, TX USA	Investor	Director	Director (Citizens National Bank)	Director (H.C.B., Inc.)	0.16%	n/a	n/a
Danette Heffner Liberty City, TX USA	n/a	Vice President & Secretary	Exec Vice President (Citizens National Bank)	Vice President & Secretary (H.C.B., Inc.)	0.03%	n/a	n/a
Todd Engemoen Tyler, TX USA	n/a	Senior Vice President & CFO	Exec Vice President & CFO (Citizens National Bank)	Vice President & CFO (H.C.B., Inc.)	0.02%	n/a	n/a
Rita Smith Henderson, TX USA	n/a	Vice President	Senior Vice President & Cashier (Citizens National Bank)	Vice President (H.C.B., Inc.)	n/a	n/a	n/a
Rhonda Calhoun Henderson, TX USA	n/a	Asst. Secretary & Asst. Treasurer	Vice President (Citizens National Bank)	Vice President (H.C.B., Inc.)	n/a	n/a	n/a
Gay Davis Henderson, TX USA	n/a	Asst. Secretary	Banking Officer (Citizens National Bank)	Asst. Secretary (H.C.B., Inc.)	n/a	n/a	n/a
Lark Korando Henderson, TX USA	n/a	Registered Agent	Vice President (Citizens National Bank)	Vice President (H.C.B., Inc.)	0.02%	n/a	n/a

Beyond Banking

HENDERSON CITIZENS
BANCSHARES, INC.

2016 Annual Report

2016
Letter to Shareholders

This is a very special Annual Shareholder Letter for me, because I will soon celebrate my 10-year anniversary with Citizens National Bank. I have told many people that joining this outstanding institution and group of people was the best professional decision I ever made. I remain very appreciative of the opportunity our Board, Shareholders and Employees have provided me to help lead this company.

Fiscal Year 2016 was a good year for our company and bank. We saw earnings grow from $10.3 Million (or $4.89 per share) in 2015 to $11.6 Million (or $5.40 per share) in 2016.

... we experienced a very healthy organic loan growth rate of 9.4%.

Our loan portfolio has grown from $799 Million in 2015, to $924 Million in 2016. Of our $125 Million in growth, $50 Million was due to our acquisition of Kilgore National Bank (KNB), which I will discuss later. That means we experienced a very healthy organic loan growth rate of 9.4%. Deposit growth on the other hand was quite anemic and when you exclude the $70 Million in deposits we obtained from KNB, our deposits were basically flat for the year. While this is not an acceptable long-term result, I am less concerned about this in 2016 given our very low Cost of Funds compared to our competitors and the benefit that brings us from a Net Interest Margin perspective. We do need to be sure we price and market our deposit products such that we do achieve an acceptable level of growth. Over the next few years, we hope to achieve 3-5% annual deposit growth, which would be more in keeping with past years.

The quality of our loan portfolio from a risk management perspective remained strong. We experienced Loan Losses in 2016 of .11% of Totals Loans. That is a very respectable level and we simultaneously grew our Reserve for Loan Losses from $8.8 Million to $9.7 Million over the 12-month period. While we have not seen any meaningful increase in loan losses as a result of the now two-year-old downturn in the Oil & Gas industry, we have seen some general weakening of both consumer and business credit that is tied to this industry. This is certainly to be expected, and to date it appears that our credit underwriting practices have helped us avoid any meaningful issues. Even though we have seen a return to near $50.00 oil and some pickup in drilling activity, we still believe there will be general weakness in the sector for some time to come, and we must continue to be diligent in our underwriting and credit management practices.

As we look forward to 2017 and beyond, one meaningful and positive change to our operating environment is increasing market interest rates. The Federal Reserve has increased their base rate .50% since December 2016, and there is general agreement that we will likely see at least another .50% in increases in 2017. Given the last eight years of historically low and stagnant rates, this should be a positive for our bank over the next two to three years. We have positioned our balance sheet and interest-sensitive assets to benefit from an increase in rates.

We have positioned our balance sheet and interest-sensitive assets to benefit from an increase in rates.

We believe consistency in our focus and efforts is important. In 2015, I wrote about our efforts to focus on Service Quality, Efficiency and Growth. These three areas are just as critical today as they were then, and we are not wavering from them. We receive really high marks for Service Quality and for our prudent and profitable Growth. We are still working diligently to improve Operating Efficiency. We are making steady improvements in this area, but we still have a long way to go to reach a level of Operating Efficiency that we can brag about. We are working hard on all three and will continue to do so.

In 2016, we made our fourth acquisition in five years by buying the previously referenced Kilgore National Bank. We were very pleased with this opportunity, and we are excited about expanding into Kilgore with a good group of Officers and staff. KNB was merged into CNB in early November, and we believe you will see positive benefits of this acquisition in 2017. With KNB's existing earnings run rate and some efficiencies we have been able to attain post-acquisition, we believe this acquisition will add between 40-45 cents per share to earnings in 2017.

KNB had three branches; Kilgore, Troup and Gresham. Simultaneous to merging KNB into CNB in November, we sold the Troup Branch to FNB Hughes Springs. Troup was a very small branch and one that we did not believe was needed to achieve our long-term growth and efficiency goals.

In 2015, we began planning for what we call Branch Transformation. Simply stated, this is an initiative undertaken to provide better and more diverse forms of service to our customers via both employees and technology at the branch level. This initiative is also an acknowledgment of the dramatic shift from in-branch transactions to mobile, digital and online transactions. Today at CNB, we process almost two million transactions per month for our customers and on average, 80-85% of these are done electronically.

... we process almost two million transactions per month for our customers ...

This effort kicked off in earnest in 2016 with three pilot branches being "transformed". We installed various forms of technology to serve customers in these branches, but most importantly, we adopted what we call a Relationship Banker model. Many in the industry call this a Universal Banker model, but we felt that vernacular was too sterile and not indicative of the customer experience we are trying to create via our branches. Instead of the traditional branch roles of Teller, New Accounts, and Customer Service, we have effectively combined three jobs into one and call that person a Relationship Banker. Our employees have been given the opportunity to learn new skills and perform more diverse roles. The customer benefits as we have better trained staff to take care of their needs more quickly. By necessity, my description here over simplifies this initiative, so please drop by either our Longview 4th Street, Longview Pine Tree or the White Oak branch and see what Branch Transformation is all about first hand. We are very pleased with the success of this initiative and plan on ultimately transforming all 28 of our branches over the next few years.

... our customers expect the best of both personal service and technology from us.

At CNB, we are continuously working to upgrade and enhance our technology offerings for our customers. I have repeatedly said that our customers expect the best of both personal service and technology from us. Some folks believe that because we do not operate in the large urban markets, our customers might not demand the same technology as customers in Dallas or Houston for example. Nothing could be further from the truth. We are very proud of the technology we offer our customers, and believe it aids us greatly in competing for both consumer and commercial customers.

I need to thank and recognize two of our long-time CNB family members who retired in 2016 and one in early 2017. Evelyn Craig had served as a Director for 15 years when she retired last June. Evelyn has been a great friend of CNB for many years and a stalwart of the Henderson community. Tony Wooster retired in January of this year after almost 25 years on the Board. Tony is a former Mayor of Henderson and local businessman, well known for his grace and humility. These two will be greatly missed from our Board of Directors. In 2016 our Controller, Becky Tanner, also retired. Becky had been with the bank for over 25 years and was a true professional in every sense of the word. Becky helped guide us financially through a dramatic growth in both number of branches and asset size in her tenure and she had a tremendous positive impact on our success.

As our bank continues to grow and expand, we remain mindful of our four priority constituencies: Our Customers, Our Employees, Our Shareholders, and Our Communities. We try to look at each decision we make as a bank and ask, does this decision positively impact these groups? That filter is very important to ensure we continue down the right path. Whether or not it was publicly stated, this is the way the leadership of CNB has been making decisions for 87 years and it is the way we will continue in our decision making. We believe 2017 is going to be an outstanding year and as always, we thank all of you for your continued investment in, and support of this company. We commit to continue to manage it in the most effective way possible.

Bradley H. Tidwell
President and CEO
Henderson Citizens Bancshares, Inc.

2016 Financial Summary

Key Performance **Indicators**

Dollar amounts in thousands except per share data

	2016	2015	Percent Change
Total Assets	$1,739,091	$1,667,536	4.29%
Total Deposits	$1,558,876	$1,495,452	4.24%
Loans, net	$ 913,813	$ 788,192	15.94%
Net Income	$ 11,608	$ 10,294	12.76%
Per Share Data:			
Basic Earnings	$5.40	$4.89	10.43%
Book Value	$67.93	$65.95	3.00%

Key **Trends**

A Historical Perspective

Years Ending	2016	2015	2014	2013	2012
Net Income	$11,608	$10,294	$10,872	$8,968	$9,218
Return on Average Shareholders' Equity	7.92%	7.65%	8.59%	8.42%	9.62%
Return on Average Assets	0.68%	0.64%	0.84%	0.78%	0.96%

Henderson Citizens Bancshares, Inc. and Subsidiaries

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2016 and 2015

Henderson Citizens Bancshares, Inc. and Subsidiaries
December 31, 2016 and 2015

Contents

BKD LLP
CPAs & Advisors

2800 Post Oak Boulevard, Suite 3200 // Houston, TX 77056-6167
713.499.4600 // fax 713.499.4699 // bkd.com

Independent Auditor's Report

Board of Directors and Stockholders
Henderson Citizens Bancshares, Inc.
and Subsidiaries
Henderson, Texas

We have audited the accompanying consolidated financial statements of Henderson Citizens Bancshares, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in the *Internal Control – Integrated Framework* (2013)*,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control Over Financial Reporting.

Auditor's Responsibility

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

An audit of financial statements 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 judgement, 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 Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgement, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9-C). A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Henderson Citizens Bancshares, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by COSO.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole and an opinion on the effectiveness of internal control over financial reporting. The selected financial data as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
March 24, 2017

Management's Assessment of Internal Control Over Financial Reporting

Henderson Citizens Bancshares, Inc.'s (the "Company") internal control over financial reporting is a process designed and effected by those charged with governance, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, *i.e.*, FR Y-9C, Consolidated Financial Statements for Holding Companies.

The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9C, Consolidated Financial Statements for Holding Companies, as of December 31, 2016, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control--Integrated Framework.*

Based on that assessment, management concluded that, as of December 31, 2016, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9C, Consolidated Financial Statements for Holding Companies is effective based on the criteria established in *Internal Control--Integrated Framework.* The following subsidiary institution of the Company that are subject to Part 363 are included in this assessment of the effectiveness of internal control over financial reporting: Citizens National Bank.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9C, Consolidated Financial Statements for Holding Companies as of December 31, 2016, has been audited by BKD, LLP, an independent public accounting firm, as stated in their report dated March 24, 2017.

Henderson Citizens Bancshares, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2016 and 2015

(Dollars in Thousands, Except Share and Per Share Amounts)

	2016	2015
Assets		
Cash and due from banks	$ 35,521	$ 37,599
Interest-bearing demand deposits in banks	24,998	49,828
Cash and cash equivalents	60,519	87,427
Interest-bearing time deposits in banks	8,207	250
Available-for-sale securities	637,547	683,324
Loans held for sale	864	2,257
Loans, net of allowance for loan losses of 2016 - $9,700; 2015 - $8,787	913,813	788,192
Premises and equipment, net	34,711	30,241
Accrued interest receivable	7,568	7,227
Goodwill	27,950	26,283
Intangible assets	3,741	4,012
Cash surrender value life insurance	23,241	22,570
Federal Reserve Bank stock	3,198	3,198
Deferred income taxes	4,452	1,969
Other assets	13,280	10,586
Total assets	$ 1,739,091	$ 1,667,536
Liabilities		
Deposits:		
Demand	$ 353,963	$ 350,523
Savings and money market	969,321	904,121
Time	235,592	240,808
Total deposits	1,558,876	1,495,452
Other borrowings	10,710	10,960
Subordinated debentures	12,887	12,887
Accrued interest payable	371	414
Other liabilities	10,277	8,894
Total liabilities	1,593,121	1,528,607
Stockholders' Equity		
Preferred stock, $5 par value; 2,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $5 par value; 10,000,000 shares authorized, 2,653,816 issued (2016) and 2,529,537 issued (2015)	13,269	12,648
Additional paid-in capital	37,606	28,012
Retained earnings	120,173	110,734
Accumulated other comprehensive income (loss)	(4,051)	2,509
Treasury stock, at cost, 504,963 shares, 2015 - 422,964 shares	(21,027)	(14,974)
Total stockholders' equity	145,970	138,929
Total liabilities and stockholders' equity	$ 1,739,091	$ 1,667,536

Henderson Citizens Bancshares, Inc. and Subsidiaries
Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Interest Income		
Loans, including fees	$ 42,599	$ 37,828
Debt securities:		
Taxable	8,553	7,487
Tax-exempt	4,416	4,283
Deposits with financial institutions	301	228
Other income	467	274
Total interest income	56,336	50,100
Interest Expense		
Deposits:		
Interest bearing transaction accounts	588	431
Money market and savings	983	875
Certificates of deposit and other time deposits	1,460	1,728
Other borrowed funds	1,035	1,208
Total interest expense	4,066	4,242
Net Interest Income	52,270	45,858
Provision for Loan Losses	1,860	2,220
Net Interest Income After Provision for Loan Losses	50,410	43,638
Non-interest Income		
Service charges, commissions and fees	14,986	14,579
Income from fiduciary activities	3,290	3,491
Gains on securities transactions	73	2,265
Other non-interest income	3,096	2,488
Total non-interest income	21,445	22,823

Henderson Citizens Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income (Continued)

Years Ended December 31, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Non-interest Expense		
Salaries and employee benefits	$ 30,735	$ 29,541
Occupancy and equipment expense	7,967	7,396
Other	18,151	16,670
Total non-interest expense	56,853	53,607
Income Before Income Taxes	15,002	12,854
Provision for Income Taxes	3,394	2,560
Net Income	11,608	10,294
Other Comprehensive Income (Loss)		
Change in fair value of derivative financial instruments, net of taxes of $129 for 2015	-	251
Unrealized depreciation on available-for-sale securities, net of taxes (credit) of $(3,380) and $(267), for 2016 and 2015, respectively	(6,560)	(519)
Comprehensive Income	$ 5,048	$ 10,026

Henderson Citizens Bancshares, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2016 and 2015
(Dollars in Thousands, Except Share and Per Share Amounts)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2014	2,529,537	$ 12,648	$ 27,709	$ 102,630	$ 2,777	$ (15,030)	$ 130,734
Net income	-	-	-	10,294	-	-	10,294
Other comprehensive loss	-	-	-	-	(268)	-	(268)
Dividends on common stock, $1.04 per share	-	-	-	(2,190)	-	-	(2,190)
Sales of 4,987 shares of treasury stock	-	-	303	-	-	56	359
Balance, December 31, 2015	2,529,537	12,648	28,012	110,734	2,509	(14,974)	138,929
Net income	-	-	-	11,608	-	-	11,608
Other comprehensive loss	-	-	-	-	(6,560)	-	(6,560)
Step up value in investment in Kilgore National Financial Corporation	-	-	314	-	-	-	314
Common stock issued in connection with acquisition of Kilgore National Financial Corporation	124,279	621	8,949	-	-	-	9,570
Dividends on common stock, $1.04 per share	-	-	-	(2,169)	-	-	(2,169)
Purchase of 87,331 shares of treasury stock	-	-	-	-	-	(6,113)	(6,113)
Sales of 5,332 shares of treasury stock	-	-	331	-	-	60	391
Balance, December 31, 2016	2,653,816	$ 13,269	$ 37,606	$ 120,173	$ (4,051)	$ (21,027)	$ 145,970

Henderson Citizens Bancshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 2016 and 2015
(Dollars in Thousands)

	2016	2015
Operating Activities		
Net income	$ 11,608	$ 10,294
Items not requiring (providing) cash:		
Amortization of premium relating to investment securities, net	7,244	6,059
Net realized gains on sales of investment securities	(73)	(2,265)
Gain on divestiture of branch in Troup, Texas	(247)	-
Net loss (gain) on sales of premises and equipment and foreclosed assets held for sale	100	(14)
Provision for loan losses	1,860	2,220
Depreciation and amortization	3,191	3,425
Deferred income taxes	881	(121)
Increase in cash surrender value of life insurance	-	(665)
Changes in:		
Loans held for sale	1,393	(186)
Accrued interest receivable	(120)	(2,382)
Other assets	(2,295)	(973)
Accrued interest payable	(52)	76
Other liabilities	2,412	1,229
Net cash provided by operating activities	25,902	16,697
Investing Activities		
Net cash received in acquisition of Bank of America branches	-	241,498
Net cash received in acquisition of Kilgore National Financial Corporation	2,069	-
Net cash paid in divestiture of branch in Troup, Texas	(4,241)	-
Net change in interest-bearing time deposits in banks	7,807	-
Purchases of available-for-sale securities	(859,359)	(1,081,067)
Proceeds from maturities or calls of available-for-sale securities	757,115	486,408
Proceeds from sales of available-for-sale securities	83,860	325,068
Principal paydowns on available-for-sale securities	49,155	38,937
Net change in loans	(76,106)	(68,796)
Purchases of premises and equipment	(5,841)	(6,304)
Proceeds from sales of premises and equipment and foreclosed assets held for sale	1,003	498
Net cash used in investing activities	(44,538)	(63,758)

Henderson Citizens Bancshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Financing Activities		
Net change in deposits	$ (131)	$ 44,204
Net change in other borrowings	-	10,000
Repayment of Federal Home Loan Bank advances	(250)	(1,024)
Dividends paid	(2,169)	(2,190)
Purchase of Federal Reserve Bank stock	-	(300)
Net sales (purchases) of treasury stock	(5,722)	359
Net cash (used by) provided by financing activities	(8,272)	51,049
Increase (Decrease) in Cash and Cash Equivalents	(26,908)	3,988
Cash and Cash Equivalents, Beginning of Year	87,427	83,439
Cash and Cash Equivalents, End of Year	$ 60,519	$ 87,427
Supplemental Cash Flow Information		
Interest paid	$ 4,109	$ 4,166
Income taxes paid	1,950	3,100
Real estate acquired in settlement of loans	844	553

See Note 19 regarding the non-cash transactions included in the acquisitions of Kilgore National Financial Corporation, BOA branches and divestiture of branch in Troup, Texas.

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

Nature of Operations

Henderson Citizens Bancshares, Inc. (the Company), is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Citizens National Bank ("the Bank"), and Citizens National Bank's wholly owned subsidiary, Community Development Corporation (CDC). The Bank is engaged in traditional community banking activities provided through its network of full service branches primarily located in East Texas. Community banking activities include the Company's commercial and retail lending, deposit gathering, investment and liquidity management activities. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. CDC was established in 1994 to offer affordable financing for lower income persons and minority-owned small businesses in the Bank's service area and contiguous counties.

Principles of Consolidation

At December 31, 2016 and 2015, the consolidated financial statements included the accounts of the Company, Citizens National Bank and CDC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Henderson Citizens Statutory Trust I (Trust I) and Henderson Citizens Statutory Trust II (Trust II) (collectively, "the Trusts") are variable interest entities. A determination has been made that the Company, since its equity interest is not at risk, is not the primary beneficiary and, therefore, the Trusts are not consolidated with the Company's consolidated financial statements. See Note 13 for further discussion of the Trusts.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, loan servicing rights, valuation of deferred tax assets, other-than-temporary impairments (OTTI) and fair values of financial instruments.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of certificates of deposit. At December 31, 2016, the Company's cash accounts exceeded federally insured limits by approximately $5,481,000.

Interest-bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

Securities

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

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

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gains and losses on loan sales are recorded in non-interest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in non-interest income upon sale of the loan.

Loans

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

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

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

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

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

Allowance for Loan Losses

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

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

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

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

Troubled debt restructurings (TDRs) are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired. The Company incorporates recent historical experience related to TDRs including the performance of TDRs that subsequently default into the calculation of the allowance by loan portfolio segment.

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

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. The useful lives utilized are 40 years for buildings and range from three to ten years for furniture, fixtures and equipment. Leasehold improvements are depreciated over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

Federal Reserve Bank and Federal Home Loan Bank (FHLB) Stock

Federal Reserve Bank and FHLB stock are required investments for institutions that are members of the Federal Reserve Bank and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

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

Goodwill

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

Intangible Assets

Intangible assets are being amortized on the straight-line basis or accelerated basis over periods ranging from seven to ten years. Such assets are periodically evaluated as to the recoverability of their carrying value.

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For non-exchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Transfers of Financial Assets

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

Income Taxes

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

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

The Company files consolidated income tax returns with its subsidiaries.

Comprehensive Income

Comprehensive income consists of net income and OCI, net of applicable income taxes. OCI includes unrealized appreciation (depreciation) on available-for-sale securities and unrealized and realized gains and losses on derivative financial instruments.

Transfers Between Fair Value Hierarchy Levels

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

Recent Accounting Pronouncements

In September 2015 the FASB issued new accounting guidance *ASU 2015-16, "Business Combinations (Topic 805) – Simplifying the Accounting for Measurement-Period Adjustments."* ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer must record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Additionally, the entity is required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 was effective for the Company beginning January 1, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

ASU 2016-01 "Financial Instruments – Overall (Subtopic 825-10): Recognition of Financial Assets and Financial Liabilities" makes targeted amendments to fair value measurement and disclosure guidance. ASU 2016-01 requires equity investments (other than equity method investments) to be measured at fair value with changes in fair value recognized in net income. This change is only applied if a readily determinable fair value can be obtained. The update also requires the use of exit prices to measure fair value for disclosure purposes as well as other enhanced disclosure requirements. ASU 2016-01 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements and related disclosures.

ASU 2016-09 "Compensation – Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting" was issued as part of the FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. ASU 2016-09 will be effective for the Company for annual periods after December 15, 2017. The Company is currently evaluating the impact of ASU 2016-09 on its consolidated statements but it not expected to have a significant impact on its financial statements.

ASU No. 2016-02 "Leases (Topic 842)." In February 2016, the Financial Accounting Standards Board issued ASU 2016-02 to supersede nearly all existing lease guidance under GAAP. The guidance would require a lessee to record a right-to-use asset and liability representing the obligation to make lease payments for long-term leases. ASU 2016-02 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 and must be adopted using a modified retrospective approach. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 on its consolidated financial statements but it not expected to have a significant impact on its financial statements.

Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 consolidated financial statement presentation. These reclassifications had no effect on net income.

Note 2: Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2016, was $785,000.

Note 3: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as shown in the following tables (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-sale Securities				
December 31, 2016:				
U.S. Government agencies	$ 120,908	$ 156	$ (1,318)	$ 119,746
State and political subdivisions	273,205	1,797	(3,731)	271,271
Mortgage-backed securities and collateralized mortgage obligations - U.S. Government-sponsored enterprises (GSEs) residential	240,377	663	(3,366)	237,674
Corporate bonds	9,194	13	(351)	8,856
	$ 643,684	$ 2,629	$ (8,766)	$ 637,547

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
December 31, 2015:				
U.S. Government agencies	$ 139,338	$ 122	$ (874)	$ 138,586
State and political subdivisions	260,850	6,078	(407)	266,521
Mortgage-backed securities and collateralized mortgage obligations - U.S. Government-sponsored enterprises (GSEs) residential	269,985	1,163	(2,094)	269,054
Corporate bonds	9,211	8	(56)	9,163
	$ 679,384	$ 7,371	$ (3,431)	$ 683,324

The amortized cost and fair value of available-for-sale securities at December 31, 2016, by contractual maturity, are shown in the following table (in thousands). Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 756	$ 760
One to five years	91,604	91,630
Five to ten years	154,935	153,641
After ten years	156,012	153,842
Mortgage-backed securities and collateralized mortgage obligations	240,377	237,674
Totals	$ 643,684	$ 637,547

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $238,105,000 at December 31, 2016, and $256,117,000 at December 31, 2015.

Gross gains of $241,000 and $2,910,000 and gross losses of $168,000 and $645,000 resulting from sales of available-for-sale securities were realized for 2016 and 2015, respectively.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2016 and 2015, was $483,272,000 and $368,865,000, respectively, which is approximately 76 percent and 54 percent, respectively, of the Company's available-for-sale portfolio. These declines primarily resulted from recent increases in market interest rates.

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

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

	December 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
U.S. Government agencies	$ 32,766	$ (637)	$ 59,371	$ (681)	$ 92,137	$ (1,318)
State and political subdivisions	181,300	(3,705)	991	(26)	182,291	(3,731)
Mortgage-backed securities and collateralized mortgage obligations - GSEs residential	186,938	(2,929)	14,564	(437)	201,502	(3,366)
Corporate bonds	2,609	(53)	4,733	(298)	7,342	(351)
Total temporarily-impaired securities	$ 403,613	$ (7,324)	$ 79,659	$ (1,442)	$ 483,272	$ (8,766)

	December 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
U.S. Government agencies	$ 112,067	$ (874)	$ -	$ -	$ 112,067	$ (874)
State and political subdivisions	55,780	(395)	1,126	(12)	56,906	(407)
Mortgage-backed securities and collateralized mortgage obligations - GSEs residential	170,062	(1,437)	23,674	(657)	193,736	(2,094)
Corporate bonds	6,156	(56)	-	-	6,156	(56)
Total temporarily-impaired securities	$ 344,065	$ (2,762)	$ 24,800	$ (669)	$ 368,865	$ (3,431)

U.S. Government Agencies and Treasuries and State and Political Subdivisions

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

Residential Mortgage-backed Securities and Collateralized Mortgage Obligations

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

Note 4: Loans and Allowance for Loan Losses

Classes of loans at December 31, include (in thousands):

	2016	2015
Real estate:		
Residential	$ 317,666	$ 296,758
Non-residential	273,669	209,010
Construction	76,547	60,432
Commercial and industrial	178,731	166,420
Installment and other	77,764	66,616
Total loans	924,377	799,236
Less:		
Loans held for sale	864	2,257
Allowance for loan losses	9,700	8,787
Net loans	$ 913,813	$ 788,192

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

2016

	Commercial and Industrial	Non-residential Real Estate	Installment and Other	Residential Real Estate	Construction	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of year	$ 2,971	$ 2,302	$ 750	$ 1,646	$ 596	$ 522	$ 8,787
Provision charged to expense	(94)	170	674	222	169	719	1,860
Losses charged off	(261)	(56)	(709)	(89)	(55)	-	(1,170)
Recoveries	29	1	186	-	7	-	223
Balance, end of year	$ 2,645	$ 2,417	$ 901	$ 1,779	$ 717	$ 1,241	$ 9,700
Ending balance: Individually evaluated for impairment	$ 613	$ 190	$ 25	$ 27	$ 69	$ -	$ 924
Ending balance: Collectively evaluated for impairment	$ 2,032	$ 2,227	$ 876	$ 1,752	$ 648	$ 1,241	$ 8,776
Loans:							
Ending balance	$ 178,731	$ 273,669	$ 77,764	$ 317,666	$ 76,547		$ 924,377
Ending balance: Individually evaluated for impairment	$ 4,354	$ 1,459	$ 33	$ 212	$ 388		$ 6,446
Ending balance: Collectively evaluated for impairment	$ 169,374	$ 260,198	$ 76,114	$ 292,952	$ 73,357		$ 871,995
Ending balance: Acquired loans recorded at fair value	$ 5,003	$ 12,012	$ 1,617	$ 24,502	$ 2,802		$ 45,936

2015

	Commercial and Industrial	Non-residential Real Estate	Installment and Other	Residential Real Estate	Construction	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of year	$ 2,292	$ 1,978	$ 558	$ 2,279	$ 467	$ 36	$ 7,610
Provision charged to expense	760	352	975	(590)	237	486	2,220
Losses charged off	(93)	(35)	(996)	(47)	(109)	-	(1,280)
Recoveries	12	7	213	4	1	-	237
Balance, end of year	$ 2,971	$ 2,302	$ 750	$ 1,646	$ 596	$ 522	$ 8,787
Ending balance: Individually evaluated for impairment	$ 1,086	$ 318	$ -	$ 31	$ 65	$ -	$ 1,500
Ending balance: Collectively evaluated for impairment	$ 1,885	$ 1,984	$ 750	$ 1,615	$ 531	$ 522	$ 7,287
Loans:							
Ending balance	$ 166,420	$ 209,010	$ 66,616	$ 296,758	$ 60,432		$ 799,236
Ending balance: Individually evaluated for impairment	$ 4,377	$ 1,367	$ 9	$ 379	$ 421		$ 6,553
Ending balance: Collectively evaluated for impairment	$ 162,043	$ 207,643	$ 66,607	$ 296,379	$ 60,011		$ 792,683

Internal Risk Categories

Loan grades are numbered 1 through 9. Grades 1 through 5 are considered satisfactory grades. The grade of 6, or Special Mention, represents loans of lower quality and is considered criticized. The grades of 7, or Substandard, and 8, or Doubtful, refer to assets that are classified. The grade of 9 refers to loans that are considered uncollectible. The use and application of these grades by the Company will be uniform and shall conform to the Company's policy.

Excellent (1): Highest quality customers exhibit strong net worth (over $10 million), strong cash flow and excellent liquidity.

Good (2): High quality customers exhibit strong net worth (over $5 million) and have very good liquidity and strong cash flow.

High Pass (3): Upper medium quality customers have good net worth and possessing strong cash flow and good liquidity.

Pass (4): Medium quality customers have a somewhat inferior financial condition than a High Pass customer in either net worth, liquidity or cash flow.

Low Pass (5): Lower medium quality customers exhibit potential weakness due to a combination of net worth, liquidity or cash flow problems or a significant problem in one of those areas.

Special Mention (6): Customers possessing increased risk due to increased leverage, low liquidity and/or insufficient cash flow.

Substandard (7): Customers possessing disproportionate debt, cash flow and interest coverage.

Doubtful (8): Possibility of loss is extremely high.

Loss (9): Credit obligations are considered uncollectible.

Internal Risk Categories

Risk characteristics applicable to each segment of the loan portfolio are described as follows:

Real Estate – The real estate portfolio consists of residential, agricultural, and commercial properties, as well as construction loans of the same types discussed below. Residential loans in this category are repaid primarily from the borrower's income sources that are typically independent of the loan purpose, while non-consumer purpose loans are typically repaid from the cash flow of the borrower's principal business operation. Commercial real estate considerations are discussed in more detail below. Credit risk in these loans is driven by the creditworthiness of the borrower, property value, and economic conditions.

Construction – Construction loans for both commercial and residential purposes are secured by property located primarily in the bank's defined trade area. Commercial construction loans are for properties both owner-occupied and income-producing, in addition to properties for agricultural use.

While some construction loans may be speculative in nature, these have a strong secondary repayment source or additional collateral to mitigate such risks. Construction loans have both adjustable and fixed interest rates during the construction period, whether commercial or consumer in nature. Property values, feasibility of the project, market conditions, and economic factors are all considered in construction credit decisions.

Commercial and Industrial – The commercial and industrial portfolio represents loans to commercial customers for use in financing working capital needs and capital expenditures. The loans in this category are repaid primarily from the cash flow of the borrower's principal business operation. Credit risk in these loans is driven by the overall financial condition and creditworthiness of borrowers, as well as the economic conditions that impact cash flow from business operations.

Commercial Real Estate -- Commercial real estate may include retail, medical facilities, offices, warehouse facilities, hotels, or churches. Credit is originated based on the debt service coverage of the collateral property, as well as the borrower's ability to service all debts from all sources of income. For this reason, overall financial condition of the primary borrower and any additional borrowers or guarantors is considered. Commercial real estate loans are made at both fixed and adjustable interest rates for amortizations of 15 to 20 years.

Installment and Other – The installment and other loan portfolio consists of various term loans and lines of credit, such as home equity, automobile and other consumer-purpose loans. Repayment for these types of loans will come from the borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors, such as employment trends and creditworthiness of the borrower.

The following tables present the credit risk profile of the Company's loan portfolio based on internal rating category and payment activity as of December 31, 2016 and 2015 (in thousands):

	2016					
	Commercial and Industrial	Non-residential Real Estate	Installment and Other	Residential Real Estate	Construction	Total
Grade:						
Pass (1-5)	$ 167,005	$ 269,618	$ 77,659	$ 314,731	$ 76,039	$ 905,052
Special Mention (6)	2,076	696	2	394	120	3,288
Substandard (7)	9,650	3,355	103	2,541	388	16,037
	$ 178,731	$ 273,669	$ 77,764	$ 317,666	$ 76,547	$ 924,377

	2015					
	Commercial and Industrial	Non-residential Real Estate	Installment and Other	Residential Real Estate	Construction	Total
Grade:						
Pass (1-5)	$ 156,465	$ 204,785	$ 66,497	$ 293,628	$ 60,011	$ 781,386
Special Mention (6)	1,239	553	-	139	-	1,931
Substandard (7)	8,716	3,672	119	2,991	421	15,919
	$ 166,420	$ 209,010	$ 66,616	$ 296,758	$ 60,432	$ 799,236

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during 2016 or 2015.

The tables below present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2016 and 2015 (in thousands):

	2016						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Total Loans 90 Days and Greater and Accruing
Commercial and industrial	$ 1,013	$ 866	$ -	$ 1,879	$ 176,852	$ 178,731	$ -
Non-residential real estate	1,686	255	49	1,990	271,679	273,669	-
Construction	1,332	1,006	40	2,378	74,169	76,547	40
Residential real estate	3,668	911	796	5,375	312,291	317,666	783
Installment and other	738	369	81	1,188	76,576	77,764	41
Total	$ 8,437	$ 3,407	$ 966	$ 12,810	$ 911,567	$ 924,377	$ 864

	2015						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Total Loans 90 Days and Greater and Accruing
Commercial and industrial	$ 524	$ -	$ 4,230	$ 4,754	$ 161,666	$ 166,420	$ 41
Non-residential real estate	1,718	186	1,191	3,095	205,915	209,010	-
Construction	375	64	-	439	59,993	60,432	-
Residential real estate	1,897	721	649	3,267	293,491	296,758	635
Installment and other	951	214	99	1,264	65,352	66,616	36
Total	$ 5,465	$ 1,185	$ 6,169	$ 12,819	$ 786,417	$ 799,236	$ 712

A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loans, including scheduled principal and interest payments. This includes loans that are delinquent 90 days or more, nonaccrual loans and certain other loans identified by management. Certain other loans identified by management consist of performing loans with specific allocations of the allowance for loan losses. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of the collateral if the loan is collateral dependent.

Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual basis for other loans. Impaired loans, or portions thereof, are charged-off when deemed uncollectible.

The following tables present information related to impaired loans by class of loans as of and for the years ended December 31, 2016 and 2015 (in thousands):

	2016			
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired
Loans without a specific valuation allowance				
Residential real estate	$ 118	$ 118	$ -	$ 59
Loans with a specific valuation allowance				
Commercial and industrial	4,354	4,693	613	1,089
Non-residential real estate	1,459	1,468	190	365
Construction	388	388	69	129
Residential real estate	94	94	27	47
Installment and other	33	33	25	33
Total:				
Commercial	$ 5,813	$ 6,161	$ 803	$ 1,454
Construction	388	388	69	129
Consumer	33	33	25	33
Residential	212	212	27	106
Total impaired loans	$ 6,446	$ 6,794	$ 924	$ 1,722

	2015			
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired
Loans without a specific valuation allowance				
Residential real estate	$ 124	$ 124	$ -	$ 62
Loans with a specific valuation allowance				
Commercial and industrial	4,377	4,377	1,086	875
Non-residential real estate	1,788	1,788	383	596
Residential real estate	255	255	31	128
Consumer	9	9	-	9
Total:				
Commercial	$ 6,165	$ 6,165	$ 1,469	$ 1,471
Consumer	9	9	-	9
Residential	379	379	31	190
Total impaired loans	$ 6,553	$ 6,553	$ 1,500	$ 1,670

Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonable assured.

The following table represents nonaccrual loans at December 31, 2016 and 2015, segregated by class of loans (in thousands):

	2016	2015
Commercial and Industrial	$ 4,582	$ 4,322
Non-residential real estate:		
Non-residential - other	1,784	1,747
Residential real estate	171	154
Installment and Other	48	85
Total	$ 6,585	$ 6,308

Restructured loans represent loans that have been renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrowers. The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. The Company had no new troubled debt restructurings during 2016 and 2015.

Note 5: Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The Company sold approximately $43,812,000 and $34,608,000 in mortgage loans during 2016 and 2015, respectively. The loans were sold in the secondary mortgage loan market. The Company retains servicing on certain of the loans sold. Loans serviced for others were approximately $5,398,000 and $7,099,000 at December 31, 2016 and 2015, respectively.

Note 6: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows (in thousands):

	2016	2015
Land	$ 7,705	$ 7,002
Buildings and leasehold improvements	32,731	29,321
Furniture, fixtures and equipment	20,522	20,459
Construction in progress	2,212	1,049
	63,170	57,831
Less accumulated depreciation	28,459	27,590
Net premises and equipment	$ 34,711	$ 30,241

Note 7: Derivative Financial Instruments

In the normal course of business, the Company uses various derivative financial instruments to manage its interest rate risk and market risks in accommodating the needs of its customers. These instruments carry varying degrees of credit, interest rate and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the accompanying consolidated financial statements and are measured at fair value.

Cash Flow Hedge

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into two seven-year interest rate swaps with JPMorgan Chase related to its outstanding trust preferred subordinated debentures.

The first swap is at a variable rate of LIBOR, plus 2.80 percent for the first year, then a fixed rate of 6.3375 percent for years two through seven with a notional amount of $5,155,000 on the then existing debt obligation. Both the debt obligation and the swap reprice and require payments to be made or received on March 17, June 17, September 17 and December 17 of each year. No premium was paid for the swap. This swap matured on June 17, 2016.

The second swap is at a variable rate of LIBOR, plus 2.60 percent for the first year, then a fixed rate of 6.06 percent for years two through seven with a notional amount of $7,732,000 on the then existing debt obligation. Both the debt obligation and the swap reprice and require payments to be made or received on January 23, April 23, July 23 and October 23 of each year. No premium was paid for the swap. This swap matured on April 25, 2016.

As part of the Master Swap agreements, the Company has also entered into a Credit Support Annex, which requires the Company to post collateral when the market value of the swaps reaches $250,000 against (recorded as a liability) the Company. Additionally, collateral must continue to be posted for each additional $250,000 of market value over the original $250,000 threshold. As of December 31, 2015, the Company had posted collateral in the amount of $1,500,000. At December 31, 2016, no collateral was required to be posted since both swaps matured in 2016.

The Company's risk management objective is to lock in the interest cash outflows on the debt obligation. Therefore, both at inception and on an ongoing basis, the Company can reasonably conclude that the hedging relationship is expected to be highly effective in achieving offsetting cash flows attributable to changes in LIBOR (*i.e.*, that changes in the value of the interest rate swap will offset changes in the expected future cash outflows related to interest on the debt obligation attributable to fluctuations in LIBOR). Thus, the hedging relationship will be highly effective in fixing the cash outflows from interest at 6.3375 percent and 6.0600 percent.

Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with floating-rate, long-term debt obligations are reported as a component of OCI (loss). These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligation affects earnings.

No net gains are included in OCI related to the interest rate swaps for the year ended December 31, 2016. During the year ended December 31, 2015, approximately $251,000 of net gains, net of taxes, were included in OCI related to the interest rate swaps. At December 31, 2015, fair value of the interest rate swaps was $138,000. This amount is included in other liabilities on the accompanying consolidated balance sheet.

Note 8: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2015, were (in thousands):

	2016	2015
Balance as of January 1	$ 26,283	$ 20,688
Goodwill acquired during the year	1,667	5,595
Balance as of December 31	$ 27,950	$ 26,283

Note 9: Other Intangible Assets

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

	2016		2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	$ 10,830	$ 7,089	$ 10,440	$ 6,428

Amortization expense for the years ended December 31, 2016 and 2015, was $651,000 and $669,000, respectively. Estimated amortization expense for each of the following five years is (in thousands):

2017	$ 667
2018	647
2019	611
2020	374
2021	362

Note 10: Interest-bearing Deposits

Interest-bearing time deposits in denominations of $250,000 or more were $32,751,000 on December 31, 2016, and $29,561,000 on December 31, 2015.

At December 31, 2016, the scheduled maturities of time deposits are as follows (in thousands):

2017	$ 170,898
2018	34,450
2019	9,479
2020	9,716
2021 and over	11,049
	$ 235,592

Note 11: Other Borrowings

In 2015, the Company executed a revolving promissory note with Frost Bank. The note has a maximum limit of $35,000,000 and is secured by a first priority security interest in 100 percent of the outstanding shares of common stock of the Bank. Interest on the note is due and payable in eight quarterly interest only payments and then in 24 quarterly payments of principal and interest, at LIBOR plus 3.20% per annum. The balance outstanding at December 31, 2016 and 2015, was $10,000,000 and is included in other borrowings in the accompanying consolidated balance sheets.

Note 12: Federal Home Loan Bank Advances

FHLB advances were $710,000 at December 31, 2016 and $960,000 at December 31, 2015 with a weighted average interest rate of 2.83% and 2.90%, respectively, and are included in other borrowings in the accompanying consolidated balance sheets. The FHLB advance is secured by a blanket lien on 1-4 Family first lien mortgage loans totaling $315,531,000 at December 31, 2016. The advance is subject to restrictions or penalties in the event of prepayment and matures in 2021.

Note 13: Subordinated Debentures

On December 17, 2003, the Company, in a private placement, issued $5,000,000 (5,000 shares with a liquidation amount of $1,000 per security) of Floating Rate Cumulative Trust Preferred Securities (TruPS) through a newly formed, wholly owned subsidiary, Trust I. Trust I invested the total proceeds from the sale of the TruPS and from the sale of common stock to the Company in floating rate Junior Subordinated Debentures (the Debentures) issued by the Company. The terms of the TruPS are such that they qualify as Tier 1 capital under the Federal Reserve Board's regulatory capital guidelines applicable to bank holding companies. Interest on the Debentures is payable quarterly on March 17, June 17, September 17 and December 17 of each year, commencing on March 17, 2004, at a rate equal to the three-month LIBOR rate, plus 2.80 percent. The interest is deferrable on a cumulative basis for up to five years. Principal payments are due at maturity on December 17, 2033. The TruPS are guaranteed by the Company and are subject to redemption. The Company may redeem the Debentures, in whole or in part, on any interest payment date on or after the redemption date of December 17, 2008, at an amount equal to the principal amount of the Debentures being redeemed, plus accrued and unpaid interest on such Debentures to the redemption date. In the event the Debentures are redeemed, a like amount of the TruPS will be redeemed. The Debentures' balance related to Trust I is $5,155,000 at December 31, 2016 and 2015.

On May 18, 2004, the Company, in a private placement, issued $7,500,000 (7,500 shares with a liquidation amount of $1,000 per security) of Floating Rate Cumulative Trust Preferred Securities (TruPS) through a newly formed, wholly owned subsidiary, Trust II. Trust II invested the total proceeds from the sale of the TruPS and from the sale of common stock to the Company in floating rate Debentures issued by the Company. The terms of the TruPS are such that they qualify as Tier 1 capital under the Federal Reserve Board's regulatory capital guidelines applicable to bank holding companies. Interest on the Debentures is payable quarterly on January 23, April 23, July 23 and October 23 of each year, commencing on July 23, 2004, at a rate equal to the three-month LIBOR rate, plus 2.60 percent. The interest is deferrable on a cumulative basis for up to five years. Principal payments are due at maturity on July 23, 2034. The TruPS are guaranteed by the Company and are subject to redemption. The Company may redeem the Debentures, in whole or in part, on any interest payment date on or after the redemption date of July 23, 2009, at an amount equal to the principal amount of the Debentures being redeemed, plus accrued and unpaid interest on such Debentures to the redemption date. In the event the Debentures are redeemed, a like amount of the TruPS will be redeemed. The Debentures' balance related to Trust II is $7,732,000 at December 31, 2016 and 2015.

Note 14: Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. Federal jurisdiction and the State of Texas. The Company is not subject to U.S. Federal and state tax examinations by tax authorities for years before 2012.

The provision for income taxes includes these components (in thousands):

	2016	2015
Taxes currently payable	$ 2,513	$ 2,681
Deferred income taxes	881	(121)
Income tax expense	$ 3,394	$ 2,560

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

	2016	2015
Computed at the statutory rate 34%	$ 5,101	$ 4,370
Decreases resulting from:		
Tax-exempt interest	(1,639)	(1,626)
Other	(68)	(184)
Actual tax expense	$ 3,394	$ 2,560

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were (in thousands):

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 3,298	$ 2,988
Accrued liabilities - deferred compensation	1,800	1,821
Net unrealized loss on available-for-sale securities	2,087	-
Unrealized loss on derivatives	-	47
Other	244	111
Total deferred tax asset	7,429	4,967
Deferred tax liabilities:		
Depreciation and amortization	(1,305)	(652)
Investment securities	(32)	(2)
Intangibles	(1,022)	(717)
Net unrealized gain on available-for-sale securities	-	(1,339)
Other	(618)	(288)
Total deferred tax liability	(2,977)	(2,998)
Net deferred tax asset	$ 4,452	$ 1,969

Note 15: Comprehensive Income

Other comprehensive income (loss) components and related taxes were as follows (in thousands):

	2016	2015
Net unrealized gain (loss) on available-for-sale securities	$ (9,867)	$ 1,479
Net unrealized gain on derivatives used for cash flow hedges	-	380
Less reclassification adjustment for realized gains included in income	(73)	(2,265)
Other comprehensive loss before tax effect	(9,940)	(406)
Tax benefit	(3,380)	(138)
Other comprehensive loss	$ (6,560)	$ (268)

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows (in thousands):

Components of Accumulated Other Comprehensive Income (Loss):

	2016	2015
Net unrealized gain (loss) on available-for-sale securities	$ (6,138)	$ 3,939
Net unrealized loss on derivatives used for cash flow hedges	-	(138)
	(6,138)	3,801
Tax effect	(2,087)	1,292
Net-of-tax amount	$ (4,051)	$ 2,509

Note 16: Regulatory Matters

The Company (on a consolidated basis) and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's and Bank’s regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

Prior to January 1, 2015, the risk-based capital standards applicable to the Company and Bank (the "general risk-based capital rules") were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee. In July 2015, the federal bank regulators approved final rules (the "Basel III Capital Rules") implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and Bank, as compared to the general risk-based capital rules. The Basel III Capital Rules became effective for the Company and Bank on January 1, 2015 (subject to phase-in period for certain provisions).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CETI"), (ii) specify that Tier 1 Capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised 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 to capital as compared to existing regulations.

Under the Basel III Capital Rules, the minimum capital ratios effective as of January 1, 2015 are:

- 4.5% CET1 to risk weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The Basel III Capital Rules also introduced a new "capital conservation buffer", composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. At December 31, 2016, the capital conservation buffer was 0.625%, which is included in the minimum capital requirements relative to risk-weighted assets in the following table. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is only applicable to certain covered institutions and does not have any current applicability to the Company or Bank. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company and Bank to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, (iii) a minimum ratio of Total capital to risk-weighted assets of at least 10.5%, and (iv) a minimum leverage ratio of 4%.

The Basel III Capital Rules also provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter).

In addition, under the general risk-based capital rules, the effects of accumulated other comprehensive income items included in capital were excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive income items are not excluded; however, non-advanced approaches banking organizations, including the Company and Bank, are able to make a one-time permanent election to continue to exclude these items. Both the Company and Bank have made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their available-for-sale securities portfolio. Under the Basel III Capital Rules, trust preferred securities no longer included in our Tier 1 capital may nonetheless be included as a component of Tier 2 capital on a permanent basis without phase-out.

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expanded the risk-weighting categories from the general risk-based capital rules to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

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

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

	Actual		Minimum Capital Requirment		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
The Company						
As of December 31, 2016:						
Total Capital (to risk-weighted assets):	$ 142,239	13.28%	$ 92,370	8.625%	N/A	N/A
Tier I Capital (to risk-weighted assets):	132,327	12.36%	70,951	6.625%	N/A	N/A
Common Equity Tier I Capital:	119,827	11.19%	54,886	5.125%	N/A	N/A
Tier I Capital (to average assets):	132,327	7.72%	68,523	4.000%	N/A	N/A
As of December 31, 2015:						
Total Capital (to risk-weighted assets):	$ 130,031	13.90%	$ 74,836	8.000%	N/A	N/A
Tier I Capital (to risk-weighted assets):	121,032	12.94%	56,127	6.000%	N/A	N/A
Common Equity Tier I Capital:	108,532	11.60%	42,095	4.500%	N/A	N/A
Tier I Capital (to average assets):	121,032	7.43%	65,134	4.000%	N/A	N/A
The Bank						
As of December 31, 2016:						
Total Capital (to risk-weighted assets):	150,090	14.04%	92,181	8.625%	$ 106,876	10.00%
Tier I Capital (to risk-weighted assets):	140,178	13.12%	70,805	6.625%	85,501	8.00%
Common Equity Tier I Capital:	140,178	13.12%	54,774	5.125%	69,470	6.50%
Tier I Capital (to average assets):	140,178	8.35%	67,142	4.000%	83,928	5.00%
As of December 31, 2015:						
Total Capital (to risk-weighted assets):	135,890	14.57%	74,635	8.000%	$ 93,293	10.00%
Tier I Capital (to risk-weighted assets):	126,891	13.60%	55,976	6.000%	74,635	8.00%
Common Equity Tier I Capital:	126,891	13.60%	41,982	4.500%	60,641	6.50%
Tier I Capital (to average assets):	126,891	7.82%	64,912	4.000%	81,139	5.00%

There are certain regulatory guidelines on the amount of dividends that can be paid by the Bank to the Company. These guidelines do not currently have a significant effect on the amount of dividends paid by the Bank.

Note 17: Related-party Transactions

The Company enters into various loans and other transactions in the ordinary course of business with its directors, executive officers, employees and some of their related business interests. The aggregate amounts of these loans were $3,703,000 and $3,460,000 at December 31, 2016 and 2015, respectively. The change during 2016 reflects $456,000 in new and acquired loans and $213,000 of repayments. The change during 2015 reflected $0 in new and acquired loans and $264,000 of repayments. Unfunded commitments to such related parties were approximately $507,000 and $439,000 at December 31, 2016 and 2015, respectively.

Deposits from related parties held by the Bank totaled $5,036,000 and $6,259,000 at December 31, 2016 and 2015, respectively.

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

The Company is affiliated with H.C.B., Inc. (HCB). The Board of Directors (the Board) for both the Company and HCB are the same. HCB has been used, in part, to own certain assets amounting to approximately $1,632,000 and $1,809,000 at December 31, 2016 and 2015, respectively, that supervisory agencies have generally not permitted banks to own directly for extended periods of time. The Company charged HCB a management fee of $42,000 in 2016 and 2015 for various services provided to HCB. Citizens National Bank's trust department charged HCB an additional $18,000 in 2016 and $25,000 in 2015 for management services related to HCB's mineral interests.

Note 18: Employee Benefits

The Company has a 401(k) employee stock ownership plan, "Henderson Citizens Bancshares KSOP," which covers substantially all employees with at least three months of service. With respect to employer contributions, vesting under the plan begins in the second year and participants become fully vested after six years.

The Company has two components in the contribution of its retirement plan, one being a matching component and one being at the discretion of the Board. Part of the discretionary component may be in the form of Company stock. For 2016 and 2015, the matching component was 100 percent of each participant's elective deferral up to 4 percent of compensation. The Company expensed $1,528,000 and $1,593,000 for the years ended December 31, 2016 and 2015, respectively.

The Company has a phantom stock ownership and long-term incentive plan for certain management employees of the Company. The phantom stock under the plan does not consist of actual stock of the Company, but rather is a tracking mechanism used to measure the changes in the value of the Company over a certain period of time. The phantom stock is granted at the discretion of the Board and generally vests over four years. The Company expensed $941,000 and $708,000 related to these plans during 2016 and 2015, respectively. The recorded obligation for the phantom stock plan was approximately $2,299,000 at December 31, 2016, and $1,868,000 at December 31, 2015.

The Company has a supplemental employee retirement plan (SERP) for certain officers of the Company. The SERP is partially funded through life insurance policies on the respective officers. Expense related to the plan was approximately $447,000 and $348,000 for the years ended December 31, 2016 and 2015, respectively. The recorded obligation was approximately $3,261,000 and $2,987,000 at December 31, 2016 and 2015, respectively. The related life insurance policies had cash surrender values of $23,241,000 and $22,570,000 at December 31, 2016 and 2015, respectively.

The Company has a deferred cash incentive plan (DCIP) for one senior officer. Expense related to the DCIP was approximately $18,000 and $17,000 for the years ended December 31, 2016 and 2015, respectively. The recorded obligation was approximately $135,000 at December 31, 2016 and $117,000 at December 31, 2015.

Note 19: Acquisitions and Divestiture

On July 22, 2016, the Company acquired 95% percent of the outstanding common stock of Kilgore National Financial Corporation (KNFC) and its wholly-owned subsidiary Kilgore National Bank (KNB) headquartered in Kilgore, Texas. KNB operated three banking locations in East Texas. On October 28, 2016, KNB sold the branch located in Troup, Texas to The First National Bank of Hughes Springs located in Hughes Springs, Texas. The Company acquired KNFC to increase its deposit base. Under the terms of the acquisition agreement, the Company issued 124,279 shares of Company common stock at $77.00 per share for a total of $9,570,000 and paid $2,392,000 in cash for all the outstanding shares of KNB. Prior to the acquisition, the Company had an investment in KNFC of $301,000. Based upon the purchase price, the Company recognized a step up of the basis in this investment of $314,000. This step up in basis is not taxable. The Company incurred approximately $1,274,000 in third-party acquisition-related costs related to the KNFC acquisition. Goodwill of $1,667,000 related to this acquisition resulted from a combination of expected operational synergies and cross-selling opportunities. Goodwill is not expected to be deductible for tax purposes.

A summary of the consideration paid for KNFC and the amounts of the assets acquired and liabilities assumed recognized as of acquisition date is as follows (in thousands):

Fair value of consideration transferred:	
Common shares issued (124,279)	$ 9,570
CNB investment in KNB	615
Cash	2,392
Total consideration transferred	12,577
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	4,461
Interest-bearing time deposits in banks	15,724
Securities	3,377
Loans	54,341
Premises and equipment	2,522
Foreclosed assets held for sale	1,214
Accrued interest receivable	227
Other assets	294
Core deposit intangibles	390
Deposits	(70,617)
Accrued interest payable	(9)
Other liabilities	(1,014)
Total identifiable net assets	10,910
Goodwill	$ 1,667

On October 28, 2016, the Company completed the sale of 100% of the loans, deposits and net fixed assets of its branch located in Troup, Texas. The net cash paid to The First National Bank of Hughes Springs was $3,954,000. A gain on the divestiture of $247,000 was recognized related to premium on the sale of the deposits. The Company incurred approximately $21,000 in third-party acquisition-related costs related to this divestiture.

A summary of the net identifiable assets and liabilities sold to The First National Bank of Hughes Springs as of the divestiture date is as follows (in thousands):

Recognized amounts of identifiable assets and liabilities sold:		
Cash	$	(287)
Loans		(2,122)
Premises and equipment		(456)
Accrued interest receivable		(6)
Deposits		7,062
Other liabilities		10
Total identifiable net liabilites		4,201
Premium on deposits		(247)
Net cash due to First National Bank of Hughes Springs	$	3,954

On January 23, 2015, the Company completed the acquisition of five branches from Bank of America. The Company acquired 100 percent of the deposits and net fixed assets of five branches from Bank of America. This transaction provides the Company an opportunity to increase its deposit base with three new locations in Mount Pleasant and Lufkin, and consolidate new branches in Huntsville and Corsicana with the Company's locations in the same markets.

The Company received $241,498,000 in cash and $674,000 in loans and assumed $252,920,000 in deposits. The Company also recognized core deposit intangibles of $2,257,000, which are being amortized using the straight-line method over a period of 10 years. In 2015, the Company incurred $460,000 of third party acquisition related costs. The expenses are included in non-interest expense in the Company's consolidated statement of income and comprehensive income for the year ended December 31, 2015. Goodwill of $5,595,000 was recognized from the acquisition.

The following table summarizes the consideration paid for the Bank of America branches and the amounts of the assets acquired and liabilities assumed at the acquisition date (in thousands).

Fair value of consideration transferred:		
Cash	$	11,437
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		252,935
Prepaids		114
Loans		674
Premises and equipment		2,841
Accrued interest receivable		2
Core deposit intangibles		2,257
Deposits		(252,920)
Accrued interest payable		(14)
Other liabilities		(47)
Total identifiable net assets		5,842
Goodwill	$	5,595

Note 20: Disclosures About Fair Value of Assets and Liabilities

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

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

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

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

Recurring Measurements

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

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Third-party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities' relationship to other benchmark-quoted investment securities. Inputs to matrix pricing are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Matrix pricing is utilized in the valuation of the U.S. Government agency debt, U.S. Treasury debt, mortgage-backed securities and collateralized mortgage obligations, as well as securities issued by state and political subdivisions.

Interest Rate Swap

The interest rate swaps are classified within Level 2 of the valuation hierarchy. The Company obtains fair value measurements from a third-party pricing service that uses observable data for similar instruments.

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

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016:				
Available-for-sale securities:				
U.S. Government agencies	$ 119,746	$ -	$ 119,746	$ -
State and political subdivisions	271,271	-	271,271	-
Mortgage-backed securities and collateralized mortgage obligations - GSEs residential	237,674	-	237,674	-
Corporate bonds	8,856	-	8,856	-
December 31, 2015:				
Available-for-sale securities:				
U.S. Government agencies	$ 138,586	$ -	$ 138,586	$ -
State and political subdivisions	266,521	-	266,521	-
Mortgage-backed securities and collateralized mortgage obligations - GSEs residential	269,054	-	269,054	-
Corporate bonds	9,163	-	9,163	-
Interest rate swap	(138)	-	(138)	-

Non-recurring Measurements

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

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value to consider lack of marketability and estimated costs to sell.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2016 and 2015 (in thousands).

	Fair Value at December 31, 2016	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 2,020	Market comparable properties	Marketability and cost to carry discounts	10% - 25% (20%)
Collateral-dependent impaired loans	3,741	Net value of pledged assets	Discounts for cost to sell and marketability	30% - 40% (35%)
	$ 5,761			

	Fair Value at December 31, 2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 1,897	Market comparable properties	Marketability and cost to carry discounts	10% - 25% (20%)
Collateral-dependent impaired loans	3,291	Net value of pledged assets	Discounts for cost to sell and marketability	30% - 40% (35%)
	$ 5,188			

The following table presents the fair value measurement of assets measured at fair value on a non-recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015 (in thousands):

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016:				
Impaired loans	$ 5,761	$ -	$ -	$ 5,761
December 31, 2015:				
Impaired loans	$ 5,188	$ -	$ -	$ 5,188

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest-bearing Time Deposits in Banks and Federal Reserve Bank Stock

The carrying amount approximates fair value. The fair value of Federal Reserve Bank stock is estimated at book value due to restrictions that limit the sale or transfer of such securities.

Loans, Loans Held for Sale and Accrued Interest Receivable

Fair value of loans is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the banks would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions. For loans held for sale, the carrying amount approximates fair value due to the insignificant time between origination and date of sale. The carrying amount of accrued interest approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Deposits and Accrued Interest Payable

Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the Bank's subsidiary.

The estimated fair value of demand, NOW, savings and money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

Other Borrowings and Subordinated Debentures

The carrying amount approximates fair value. Other borrowings include FHLB advances and the Frost Bank revolving promissory note. The Frost Bank revolving promissory note's carrying value approximates fair value as it is a variable rate debt instrument. The FHLB advances and subordinated debentures' carrying value approximate fair value as they are variable rate debt instruments.

Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The carrying values and related fair values of these instruments were not material at December 31, 2016 and 2015.

The table below presents estimated fair values of the Company's financial instruments at December 31, 2016 and 2015 (in thousands).

	December 31, 2016				
	Carrying Amount	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 60,519	$ 60,519	$ -	$ -	$ 60,519
Interest-bearing time deposits in banks	8,207	-	8,207	-	8,207
Loans held for sale	864	-	-	864	864
Loans, net	913,813	-	-	917,322	917,322
Federal Reserve Bank stock	3,198	-	-	3,198	3,198
Accrued interest receivable	7,568	-	7,568	-	7,568
Financial liabilities:					
Deposits	1,558,876	-	1,445,908	-	1,445,908
Other borrowings	10,710	-	10,710	-	10,710
Subordinated debentures	12,887	-	12,887	-	12,887
Accrued interest payable	371	-	371	-	371

	December 31, 2015				
	Carrying	Estimated Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 87,427	$ 87,427	$ -	$ -	$ 87,427
Interest-bearing time deposits in banks	250	-	250	-	250
Loans held for sale	2,257	-	-	2,257	2,257
Loans, net	788,192	-	-	792,836	792,836
Federal Reserve Bank stock	3,198	-	-	3,198	3,198
Accrued interest receivable	7,227	-	7,227	-	7,227
Financial liabilities:					
Deposits	1,495,452	-	1,383,829	-	1,383,829
Other borrowings	10,960	-	10,960	-	10,960
Subordinated debentures	12,887	-	12,887	-	12,887
Accrued interest payable	414	-	414	-	414

Note 21: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk. Other significant estimates and concentrations not discussed in these footnotes include:

Investments

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

Other Commitments

The Company is self-insured for employee medical claims up to a predetermined ceiling of $80,000 per employee as December 31, 2016 and $60,000 as December 31, 2015. Monthly premiums are transferred into an account from which claims are paid by the administrator of the plan. Total amounts charged to expense by the Company during the years ended December 31, 2016 and 2015, were approximately $3,987,000 and $3,915,000, respectively.

Note 22: Commitments and Credit Risk

The Bank grants real estate, commercial and industrial loans to customers primarily in Henderson, Texas, and surrounding areas of east Texas. Although the Bank has a diversified loan portfolio, a substantial portion (approximately 72 percent and 71 percent at December 31, 2016 and 2015, respectively) of its debtors' ability to honor their contracts is dependent upon the real estate market in this region. The Bank typically requires collateral sufficient in value to cover the principal amount of the loan. Such collateral is evidenced by mortgages on property held and readily accessible to the Bank.

Commitments to Originate Loans

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

At December 31, 2016 and 2015, the Company had outstanding commitments to originate loans aggregating approximately $53,105,000 and $18,505,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Standby Letters of Credit

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

The Company had total outstanding standby letters of credit amounting to $4,219,000 and $3,663,000, at December 31, 2016 and 2015, respectively, with terms ranging from one to ten years.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line of credit may expire without being drawn upon, the total unused lines of credit do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable; inventory;

property, plant and equipment; commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2016, the Company had granted lines of credit to borrowers aggregating approximately $307,198,000 for commercial lines of credit and open-end consumer lines of credit. At December 31, 2016, unused lines of credit to borrowers aggregated approximately $152,857,000 for commercial lines of credit and open-end consumer lines of credit.

Note 23: Subsequent Events

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

Note 24: Condensed Financial Information (Parent Company Only)

Presented in the following table is condensed financial information as to financial position, results of operations and comprehensive income, and cash flows of the Company.

Condensed Balance Sheets

(In Thousands)

	December 31, 2016	December 31, 2015
Assets		
Cash	$ 117	$ 658
Available-for-sale securities	-	1,509
Investment in common stock of subsidiaries	166,077	156,742
Goodwill	633	633
Other assets	2,193	2,601
Total assets	$ 169,020	$ 162,143
Liabilities		
Subordinated debentures	$ 12,887	$ 12,887
Other borrowings	10,000	10,000
Other liabilities	163	327
Total liabilities	23,050	23,214
Stockholders' Equity	145,970	138,929
Total liabilities and stockholders' equity	$ 169,020	$ 162,143

Condensed Statements of Income and Comprehensive Income

(In Thousands)

	Years Ended December 31, 2016	2015
Income		
Other income	$ 21	$ 31
Expenses		
Interest expense	986	1,145
Other expenses	-	41
Total expense	986	1,186
Loss Before Income Tax and Equity in Undistributed Net Income of Subsidiaries	(965)	(1,155)
Income Tax Benefit	327	394
Loss Before Equity in Undistributed Net Income of Subsidiaries	(638)	(761)
Equity in Undistributed Net Income of Subsidiaries	12,246	11,055
Net Income	11,608	10,294
Other Comprehensive Income (Loss)		
Change in fair value of derivative financial instruments, net of taxes of $0 and $129, for 2016 and 2015, respectively	-	251
Unrealized depreciation on available-for-sale securities, net of taxes of $3,380 and $(267), for 2016 and 2015, respectively	(6,560)	(519)
Comprehensive Income	$ 5,048	$ 10,026

Condensed Statements of Cash Flows
(In Thousands)

	Years Ended December 31, 2016	2015
Operating Activities		
Net income	$ 11,608	$ 10,294
Items not requiring (providing) cash:		
Equity in undistributed net income of subsidiaries	(12,246)	(11,055)
Changes in other assets and liabilities	(356)	(314)
Net cash used in operating activities	(994)	(1,075)
Investing Activities		
Sales and maturities of available-for-sale securities	1,507	-
Dividends from subsidiaries	9,229	2,998
Payment for investment in subsidiary	(2,392)	(10,000)
Net cash used in investing activities	8,344	(7,002)
Financing Activities		
Net change in other borrowings	-	10,000
Net sales (purchases) of treasury stock	(5,722)	359
Dividends paid	(2,169)	(2,190)
Net cash provided by financing activities	(7,891)	8,169
Net Change in Cash	(541)	92
Cash, Beginning of Year	658	566
Cash, End of Year	$ 117	$ 658

Other Information

Henderson Citizens Bancshares, Inc. and Subsidiaries

Selected Financial Data

	As of and for the Years ended December 31,				
(In thousands)	2016	2015	2014	2013	2012
Balance Sheet Data					
Total assets	$ 1,739,091	$ 1,667,536	$ 1,353,267	$ 1,265,218	$ 1,055,217
Loans, net	913,813	788,192	721,715	645,197	538,524
Allowance for loan losses	9,700	8,787	7,610	6,704	7,291
Total deposits	1,558,876	1,495,452	1,198,328	1,116,683	928,729
Stockholders' equity	145,970	138,929	130,734	120,147	97,292
Subordinated debentures/trust-preferred securities	12,887	12,887	12,887	12,887	12,887
Other borrowings	10,710	10,960	1,984	5,970	5,912
Income Statement Data					
Interest income	$ 56,336	$ 50,100	$ 44,482	$ 39,394	$ 34,494
Interest expense	4,066	4,242	3,754	4,371	4,573
Net interest income	52,270	45,858	40,728	35,023	29,921
Provision for credit losses	1,860	2,220	1,000	-	-
Net interest income after provision for credit losses	50,410	43,638	39,728	35,023	29,921
Non-interest income	21,445	22,823	17,815	14,775	14,084
Non-interest expense	56,853	53,607	43,063	38,480	31,937
Income before income taxes	15,002	12,854	14,480	11,318	12,068
Provision for income taxes	3,394	2,560	3,608	2,350	2,850
Net income	$ 11,608	$ 10,294	$ 10,872	$ 8,968	$ 9,218
Common Share Data					
Basic earnings per common share	$ 5.40	$ 4.89	$ 5.17	$ 4.21	$ 5.27
Book value	67.93	65.95	62.21	56.39	55.57
Dividend pay-out ratio	18.69%	21.27%	20.19%	22.06%	19.87%
Cash dividends per common share	1.04	1.04	1.04	1.04	1.04
Performance Data					
Return on average total assets	0.68%	0.64%	0.84%	0.78%	0.96%
Return on average stockholders' equity	7.92%	7.65%	8.59%	8.42%	9.62%
Average stockholders' equity to average assets	8.56%	8.32%	9.77%	9.29%	9.98%
Total gross loans to total deposits at year-end	59.24%	53.29%	60.86%	58.38%	58.77%

2016 Leadership

2016 Board of Directors

David Alford
Chairman of the Board
Investments

Stayton M. Bonner, Jr
Attorney

Kathryn Wylie Deason
Public Accounting

Jason Flanagan
Wholesale Foods

Sheila Smith Gresham
Investments

Andrew Kangerga
Investments

Jim Kangerga
Investments

J. Mark Mann
Attorney

Andrew D. Mills
Oil & Gas Industry

Michael R. Moores
Executive Vice President
& Chief Lending Officer
Citizens National Bank

Bradley H. Tidwell
President & CEO
Citizens National Bank

Henderson Citizens Bancshares, Inc. Officers

David Alford - Chairman of the Board

Bradley H. Tidwell - President & CEO

Michael R. Moores, CPA - EVP

Rosalyn Williamson, CPA - SVP

Danette Heffner - Secretary

Gay Davis - Assistant Secretary

Rhonda Calhoun - Assistant Secretary & Treasurer

Rita Smith - VP, Cashier

Citizens National Bank **Senior Management Team**

Bradley H. Tidwell - President & CEO

Todd Engemoen - Executive VP & Chief Financial Officer

Danette Heffner - Executive VP & Director of Human Resources

Michael R. Moores, CPA - Executive VP & Chief Lending Officer

Laura McKethan - Executive VP & Chief Credit Officer

Woodie Tipps - Executive VP & Chief Retail Officer, Commercial Services/ Business Development

Cliff Bomer - SVP & Regional Manager

Kathy Brown - SVP Loan Operations

Gaye Clements - SVP & Regional Manager

Pamela DeCeault - SVP & Market President

Toby Fails - SVP & Wealth Management Manager

Christina Janecka - SVP & Corsicana Regional Manager

David Litton - SVP, Marketing & Training

George Meisenheimer - SVP & Regional Manager

Jon Moore - SVP & Regional Manager

Ronald Nix - SVP & Chief Technology Officer

Mike Northcutt - SVP & Longview Market Chair

Rita Smith - SVP & Cashier

Rosalyn Williamson, CPA - SVP & Controller

Citizens National Bank **Officers**

EXECUTIVE

David Alford - Chairman of the Board

Bradley H. Tidwell - President & CEO

Michael R. Moores, CPA - EVP & Chief Lending Officer

Woodie Tipps - EVP & Chief Retail Officer

Danette Heffner - EVP & Director of Human Resources

Todd Engemoen - EVP & Chief Financial Officer

Laura McKethan - EVP & Chief Credit Officer

LENDING

Michael R. Moores, CPA - EVP & Chief Lending Officer

Laura McKethan - EVP & Chief Credit Officer

Shawn Schrecengost - SVP

Christina Janecka - SVP & Mortgage Lending Manager

Jon Tate - VP

Jackie Moseley - VP

Amanda Berryhill - AVP

Loretta Watson - AVP

Chapin Miller - Banking Officer

LOAN OPERATIONS

Kathy Brown - SVP

Margaret Brown - AVP

Carolyn King - Banking Officer

Ida Grammer - Banking Officer

Katie Woodall - Banking Officer

OPERATIONS

Rita Smith - SVP & Cashier

Lark Korando - VP

Rhonda McFarland - VP

Diana Morgan - Assistant Cashier

Nancy Denson - AVP

Julia Stuckey - Banking Officer

INFORMATION SERVICES

Ronald Nix - SVP & Chief Technology Officer

Jeanne Cunningham - Banking Officer

Patti Williams - Banking Officer

CUSTOMER SERVICE

Patti Fitzgerald - VP

Cheryl Kale - VP

Kathie Sims - AVP

Kaye Cannon - AVP

Charla Nash - AVP

Dana Alexander - Banking Officer

Karen Waldo - Banking Officer

Tiffany Green - Banking Officer

ADMINISTRATION

Todd Engemoen - EVP & Chief Financial Officer

Rosalyn Williamson, CPA - SVP & Controller

Andrew Cawthon - SVP

Rhonda Calhoun - VP

Danny Copeland - Banking Officer

Terry Martin - Banking Officer

HUMAN RESOURCES

Danette Heffner - EVP & Director of Human Resources

Nancy Truelock - Banking Officer

MARKETING & TRAINING

David Litton - SVP

E-BRANCH

Jeremy Cartwright - AVP & Electronic Banking Manager

AUDIT AND COMPLIANCE

Lois Jones - VP

Barbara Long - VP & Audit Manager

COMMERCIAL SERVICES/ BUSINESS DEVELOPMENT

Woodie Tipps - EVP & Chief Retail Officer

Michael Purifoy - SVP

Patty Best - VP

Steve Esparza - VP

Kristina Durham - AVP

Sarah Humphrey - AVP

Matt Trevino - Banking Officer

WEALTH MANAGEMENT AND TRUST

Toby Fails - SVP & Wealth Management Manager

Thomas M. Weaver, CPA - SVP

Carol Thomson - VP

Connie Fain - VP

Brad Keitt - VP

Tim Lewinski - VP

Gordon Northcutt - VP

Don Tekell - VP

Sue Plummer - Marketing Officer

Thomas Dougherty - Trust Officer

Dana Dowling - Trust Officer

Kit Herrington - Trust Officer

Vicki Payne - Trust Officer

ATHENS

Cresha Foster - VP & Branch Manager

Genia Gregory - AVP

Ethan Jackson - Banking Officer

CHANDLER

Charla Hendrix - VP & Branch Manager

D'Laine Brooks - Banking Officer

CORSICANA – COLLEGE PARK

Jake Griggs - AVP & Branch Manager

Susan Colburn - AVP

CORSICANA – DOWNTOWN

Christina Janecka - SVP & Corsicana Regional Manager

Chance Kirk - Banking Officer

Viviana Reyna - Banking Officer

HENDERSON – DOWNTOWN

Ryan Ellis - VP

Brian Lowrie - VP

Gay Davis - Banking Officer

Gloria Holland - Banking Officer & Branch Manager

Shea Vestal - Banking Officer

HENDERSON – SOUTH 79

Elidia Ramirez - AVP & Branch Manager

HUNTSVILLE

Gaye Clements - SVP & Regional Manager

Marcus Payne - VP & Branch Manager

Edwina Edmond - Banking Officer

Claudine McAdams - Banking Officer

JEFFERSON

Don Preston - VP & Branch Manager

Penny Moore - Banking Officer

Mary Taylor - Banking Officer

KILGORE

Pamela DeCeault - SVP & Market President

LAKEPORT

Kim Hicks-Graham - VP & Branch Manager

LONGVIEW – 4TH STREET

Tamara Stoker-Byrdsong - AVP & Branch Manager

Katrina Hooks - AVP

LONGVIEW – DOWNTOWN

Mike Northcutt - SVP & Chairman of Longview Region

Cliff Hale - SVP

Greg Colquitt - VP

Julia Harris - Banking Officer & Branch Manager

LUFKIN - DOWNTOWN

David Jenkins -Banking Officer

LUFKIN - WEST

Trent Ashby - SVP & Angelina County Chairman

Kerry Bennett - VP & Branch Manager

Melissa Keeling - VP

Chase Luce - AVP

Maria Enriquez-Anderson - AVP

MALAKOFF

Carlos Padron - AVP & Branch Manager

MARSHALL

George Meisenheimer - SVP & Eastern Region Manager

Terri Brown - VP & Branch Manager

Orlando Valle - Banking Officer

MEXIA

Rick Sanders - VP & Branch Manager

Cheryl Hancock - Banking Officer

Pamela Sturdivant - Banking Officer

MOUNT ENTERPRISE

Tim Farley - VP & Branch Manager

Misty Cours - Banking Officer

MOUNT PLEASANT

Joe Harwell - VP

Tawana Kizer - AVP & Branch Manager

Sheri Wood - AVP

OVERTON

Scott Andrews - AVP & Branch Manager

PALESTINE

Cliff Bomer - SVP & Western Region Manager

Betty Germany - VP & Branch Manager

David Hennessee - VP

Rachael Johnson - AVP

Susan Callahan - Banking Officer

Jane Mathews - Banking Officer

Stephanie Pittman - Banking Officer

PINE TREE

Melinda Martin - VP & Branch Manager

Donna Herrera - Banking Officer

TATUM

Karen McIlwain - AVP & Branch Manager

TYLER – CUMBERLAND

Jon Moore - SVP & Tyler Region Manager

Stuart Meisenheimer - VP & Branch Manager

Brenda Hall - VP

Carmen Carpenter - VP

Priscilla Roberson - AVP

TYLER – FRONT STREET

Jesus Vera - VP & Branch Manager

Rosio Esparza - AVP

TYLER – GRANDE

Tom Seale - SVP

Kim Page - VP

Claire McNabb - Banking Officer

WASKOM

Duane Waldrop - VP & Branch Manager

WHITE OAK

Barbara Fergus - VP

Carla Bohanan - AVP

Jennifer Barnett - Banking Officer & Branch Manager

CITIZENS National BANK

(903) 657-8521 • 877-566-2621 • CNBTexas.com