Board of Governors of the Federal Reserve System

AMENDED JUL 27 2017

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, Gilbert Narvaez, Jr.
Name of the Holding Company Director and Official

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

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

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

Signature of Holding Company Director and Official

03/29/2017
Date of Signature

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

Falcon Bancshares, Inc.
Legal Title of Holding Company

5219 McPherson Rd.
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Laredo	TX	78041

7718 McPherson Rd., Laredo, TX 78045
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Rita Ancira	Senior Vice President

956-723-2265 Ext. 1149
Area Code / Phone Number / Extension

956-794-9748
Area Code / FAX Number

rita@falconbank.com
E-mail Address

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

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 2270251
C.I.

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."

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

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

City State Zip Code

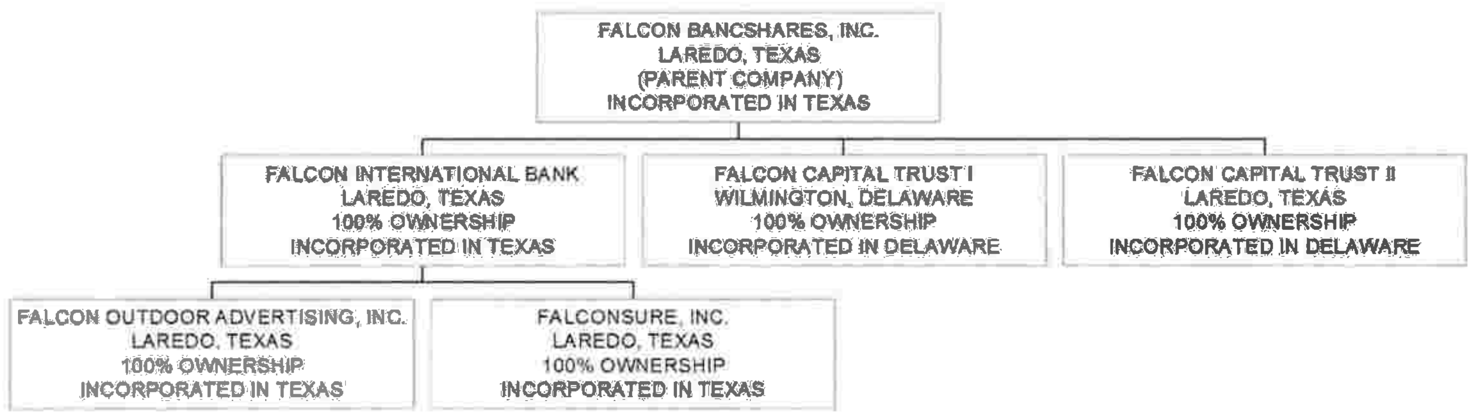
Physical Location (if different from mailing address)

FR Y-6 REPORT ITEM 1: ANNUAL REPORT TO SHAREHOLDERS

The BHC does prepare an annual report for its shareholders.

Annual report will be sent under separate cover as soon as available.

FRY-6 REPORT ITEM 2a: ORGANIZATION CHART



*Note: None of these entities have an LEI

Results: A list of branches for your holding company: FALCON BANCSHARES INCORPORATED (2270254) of LAREDO, 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)	564557	FALCON INTERNATIONAL BANK	7718 MCPHERSON ROAD, BUILDING F	LAREDO	TX	78045-2005	WEBB	UNITED STATES	362113	3	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3570816	BROWNSVILLE BOCA CHICA BRANCH	2200 BOCA CHICA BLVD., SUITE 100	BROWNSVILLE	TX	78521	CAMERON	UNITED STATES	466248	13	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3378719	BUDA BRANCH	1005 N LOOP 4	BUDA	TX	78610-3319	HAYS	UNITED STATES	452523	9	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3461554	DEL RIO CHEVROLET DRIVE BRANCH	110 CHEVROLET DR	DEL RIO	TX	78840-3139	VAL VERDE	UNITED STATES	466245	12	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3302836	DEL RIO MAIN STREET BRANCH	504 S MAIN ST	DEL RIO	TX	78840-5860	VAL VERDE	UNITED STATES	452521	7	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3586439	BIBB AVENUE BRANCH	476 SOUTH BIBB AVENUE	EAGLE PASS	TX	78852-5063	MAVERICK	UNITED STATES	461427	11	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3152782	EAGLE PASS MAIN BRANCH	275 S BIBB AVE	EAGLE PASS	TX	78852	MAVERICK	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3783902	BANDERA ROAD BRANCH	12002 BANDERA ROAD	HELOTES	TX	78023	BEXAR	UNITED STATES	480907	18	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	2978336	DOWNTOWN BRANCH	801 MATAMOROS STREET	LAREDO	TX	78040	WEBB	UNITED STATES	260315	1	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	2978345	EAST BRANCH	204 BOB BULLOCK LOOP	LAREDO	TX	78043	WEBB	UNITED STATES	334412	2	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3036514	HILLSIDE BRANCH	5219 MCPHERSON ROAD	LAREDO	TX	78041	WEBB	UNITED STATES	16119	0	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3383807	LAREDO I-35 BRANCH	4625 SAN DARIO AVE	LAREDO	TX	78041	WEBB	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3297593	LAREDO MCPHERSON BRANCH	8002 N MCPHERSON	LAREDO	TX	78041	WEBB	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3622243	MCPHERSON BRANCH	10511 MCPHERSON ROAD	LAREDO	TX	78045	WEBB	UNITED STATES	478503	16	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3556293	HIGHWAY 83 BRANCH	500 EAST HIGHWAY 83	MCALLEN	TX	78501-8938	HIDALGO	UNITED STATES	468934	14	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3724839	MCALLEN 6301 10TH STREET BRANCH	6301 NORTH 10TH STREET	MCALLEN	TX	78504-3234	HIDALGO	UNITED STATES	478504	17	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	299420E	STONE OAK BRANCH	19230 STONE OAK PARKWAY	SAN ANTONIO	TX	78258	BEXAR	UNITED STATES	196324	4	FALCON INTERNATIONAL BANK	564557	

FR Y-6 REPORT ITEM 2b: DOMESTIC BRANCH LISTING

The Branch Verification Report was e-mailed on March 28, 2017

FR Y-6 REPORT ITEM 3(1):
FALCON BANCSHARES, INC.
SHAREHOLDERS

NAME & ADDRESS	COUNTRY OF CITIZENSHIP OR INCORPORATION	NO. SHARES COMMON STOCK	OWNERSHIP PERCENT
GUTIERREZ FAMILY LAREDO/SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,277,682	82.61%
ADOLFO E. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	1,329,769	48.23%
MARY K. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,249	0.08%
ADOLFO E. GUTIERREZ, JR. LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	9,551	0.35%
AMANDA L. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	5,282	0.19%
MARY KATHRYN GUTIERREZ, TRUSTEE OF THE MARY KATHRYN GUTIERREZ TRUST UNDER TRUST AGREEMENT DATED DEC. 24, 2012 LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	138,194	5.01%
ADOLFO EDUARDO GUTIERREZ, JR., TRUSTEE OF THE ADOLFO EDUARDO GUTIERREZ, JR. TRUST UNDER TRUST AGREEMENT DATED DEC. 24, 2012 LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	144,444	5.24%
AMANDA LEIGH GUTIERREZ, TRUSTEE OF THE AMANDA LEIGH GUTIERREZ TRUST UNDER TRUST AGREEMENT DATED DEC. 24, 2012 LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	144,444	5.24%
HUGO A. GUTIERREZ, JR. SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	16,597	0.60%
ELVIRA LETICIA LOZANO GUTIERREZ FAMILY TRUST SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	239,741	8.70%
HUGO A. GUTIERREZ, III TRUST SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	81,857	2.97%
SELINA MICHELLE GUTIERREZ TRUST SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	82,919	3.01%
HUGO A. GUTIERREZ, JR., TRUSTEE FOR CARLO GUTIERREZ SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
HUGO A. GUTIERREZ, III SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	26,561	0.96%

FR Y-6 REPORT ITEM 3(1):
FALCON BANCSHARES, INC.
SHAREHOLDERS

NAME & ADDRESS	COUNTRY OF CITIZENSHIP OR INCORPORATION	NO. SHARES COMMON STOCK	OWNERSHIP PERCENT
SELINA M. GUTIERREZ SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
SHELBY GUTIERREZ SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
RICARDO X. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	22,500	0.82%
RICARDO X. GUTIERREZ, TRUSTEE FOR RICARDO X. GUTIERREZ, JR. LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
RICARDO X. GUTIERREZ, TRUSTEE FOR ANGELIQUE R. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
ROBERTO G. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	17,574	0.64%
ROBERTO G. GUTIERREZ, TRUSTEE FOR ANALEE GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
ROBERTO G. GUTIERREZ, TRUSTEE FOR ALEJANDRA GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
ROBERTO G. GUTIERREZ, TRUSTEE FOR ANDREA GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
VILLANUEVA FAMILY SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	298,233	10.82%
PABLO VILLANUEVA SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	MEXICO	149,117	5.41%
SANTIAGO VILLANUEVA SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	MEXICO	149,116	5.41%

FR Y-6 REPORT ITEM 3(2):
FALCON BANCSHARES, INC.
SHAREHOLDERS

NAME & ADDRESS	COUNTRY OF CITIZENSHIP OR INCORPORATION	NO. SHARES COMMON STOCK	OWNERSHIP PERCENT
N/A			

FR Y-6 REPORT ITEM 4: FALCON BANCSHARES, INC.
INSIDERS

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION			# SHARES / % OWNERSHIP		
		BHCs	SUBSIDIARY	OTHER BUSINESS	BHC	SUBSIDIARY	OTHER BUSINESS
GUTIERREZ FAMILY: ADOLFO E. GUTIERREZ LAREDO, TX USA	N/A	DIRECTOR, PRESIDENT, & TREASURER- FALCON BANCSHARES, INC.	DIRECTOR & CEO - FALCON INT'L BANK	OWNER - A&M DEVELOPMENT CO (A&M DEV)	1,329,769 SHARES 48.23%	N/A	A&M DEV. - 100%
				MEMBER - MESA CANYON SPRINGS, LTD (MCS)			MCS < 25%
				PRESIDENT - 3-G ELECTRICAL SUPPLY, INC (3G)			3G - 100%
				PARTNER - LOS VETERANOS (LV)			LV - 33.3%
				PRESIDENT - VETLAND INC. (VET)			VET - 100%
				PARTNER - TALLEY-HO VENTURES, LTD (THV)			THV - 99%
				PARTNER - TALLEY-HO MANAGEMENT, LLC. (THM)			THM - 50%
				PARTNER - TALLEY-HO 220 VENTURE, LTD (TH2V)			TH2V - 99%
				LTD PARTNER - KAMARY INVESTMENTS, LTD. (KILTD)			KILTD - 49.5%
				PARTNER - AEG-MAG MANAGEMENT, LC (AMM)			AMM - 50%
				PARTNER - KAMARY DEVELOPMENT, LTD. (KDLTD)			KDLTD < 25%
				PARTNER - AEG MANAGEMENT, LC. (AMLC)			AMLC - 50%
				LTD PARTNER - EMERALD VALLEY DEVELOPMENT, LTD. (EVD)			EVD < 25%
				PARTNER - GEA-GAM MANAGEMENT, LC (GGM)			GGM - 50%
				LTD PARTNER - LAREDO KAMARY PROPERTIES, LTD (LKP)			LKP - 49.5%
				PARTNER - TALLEY-HO 220 MANAGEMENT, LC. (TH2M)			TH2M - 50%
				PARTNER - MAG MANAGEMENT, LC (MMLC)			MMLC - 50%
				PARTNER - SHOWCASE LIGHTING BY 3G, LTD (SLB3G)			SLB3G - 49.5%

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION			# SHARES / % OWNERSHIP		
		BHCs	SUBSIDIARY	OTHER BUSINESS	BHC	SUBSIDIARY	OTHER BUSINESS
				OWNER - DOMINION 900, LTD. (D9LTD) OWNER - DOMINION 900, MANAGEMENT, LC. (D9MLC) MEMBER - EVANS RANCH MGMT, LC. (ERMLC) LTD PARTNER - LAREDO WESTOVER RIDGE, LTD. (LWRLTD) MEMBER - PEREGRINE FINANCIAL INVESTMENTS, LLC. (PFILLC)			D9LTD - 99% D9MLC - 50% ERMLC - 40% LWRLTD < 25% PFILLC - 48.3%
MARY K. GUTIERREZ LAREDO, TEXAS USA	FREELANCE WRITER	PRINCIPAL SECURITIES HOLDER	N/A	N/A	2,249 SHARES 0.08%	N/A	N/A
ADOLFO E. GUTIERREZ, JR. LAREDO, TEXAS USA	ATTORNEY	PRINCIPAL SECURITIES HOLDER	N/A	N/A	9,551 SHARES 0.35%	N/A	N/A
AMANDA L. GUTIERREZ LAREDO, TEXAS USA	ELECTRICAL SHOWROOM MANAGER	PRINCIPAL SECURITIES HOLDER	N/A	N/A	5,282 SHARES 0.19%	N/A	N/A
MARY KATHRYN GUTIERREZ, TRUSTEE OF THE MARY KATHRYN GUTIERREZ TRUST UNDER TRUST AGREEMENT DATED DEC. 24, 2012 LAREDO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	138,194 SHARES 5.01%	N/A	N/A
ADOLFO EDUARDO GUTIERREZ, JR., TRUSTEE OF THE ADOLFO EDUARDO GUTIERREZ, JR. TRUST UNDER TRUST AGREEMENT DATED DEC. 24, 2012 LAREDO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	144,444 SHARES 5.24%	N/A	N/A
AMANDA LEIGH GUTIERREZ, TRUSTEE OF THE AMANDA LEIGH GUTIERREZ TRUST UNDER TRUST AGREEMENT DATED DEC. 24, 2012 LAREDO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	144,444 SHARES 5.24%	N/A	N/A
HUGO A. GUTIERREZ, JR. SAN ANTONIO, TX USA	REAL ESTATE DEVELOPMENT	DIRECTOR - FALCON BANCSHARES, INC.	N/A	OWNER - PEOPLE'S MANAGEMENT LTD. (PML) OWNER - PEOPLE'S MNGMT OF SOUTH TX INC (PMS) MANAGING PARTNER - VISE OAKS I LTD. (VOLTD)	16,597 SHARES 0.60%	N/A	PML - 100% PMS - 100% VOLTD - 25%

FR Y-6 REPORT ITEM 4: FALCON BANCSHARES, INC.
INSIDERS

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION			# SHARES / % OWNERSHIP		
		BHCs	SUBSIDIARY	OTHER BUSINESS	BHC	SUBSIDIARY	OTHER BUSINESS
				MANAGING PARTNER - SAN-HAG MANAGEMENT L.C. (SHAG)			SHAG - 50%
				PARTNER - CAMPBELTON ROAD LTD (CRL)			CRL - 25%
				PARTNER - BECKER RANCH LTD. (BRL)			BRL < 25%
				OWNER - PEOPLE'S MNGMT OF TX, 1 LTD (PMOTL)			PMOTL - 100%
				OWNER - PEOPLE'S MGNT OF NEVADA INC. (PMON)			PMON - 100%
				OWNER - H.A. GUTIERREZ, JR. LTD - (HAGLTD)			HAGLTD - 100%
				OWNER - H.A. GUTIERREZ, JR. OPERATING INVESTMENTS LTD. (HAGOI)			HAGOI - 100%
				OWNER - THE GREEN MINES RANCH LTD. (GMR)			GMR - 100%
				OWNER - VERDES MINES LC. (VM)			VM - 100%
				OWNER - PEOPLE'S VERDES RANCH HOLDING CO. LTD - (PVRH)			PVRH - 100%
				MANAGING PARTNER - SPH CULEBRA LTD. (SPHC)			SPHC - 50%
				MANAGING PARTNER - SAN MARCOS SHK LTD. (SMS)			SMS - 25%
				PARTNER - SOUTHTON RANCH LTD (SRLTD)			SRLTD - 25%
				OWNER - BECKER CREEK ESTATES LC. (BCELC)			BCELC - 33%
				OWNER - SOUTHTON MANAGEMENT LC (SMLC)			SMLC - 25%
				OWNER - SOUTHTON DEVELOPMENTS, LTD (SDLTD)			SDLTD - 25%
				OWNER - VISE OAKS L.C. (VOLC)			VOLC < 25%
				OWNER - VISE OAKWELL LC (VOWLC)			VOWLC < 25%

FR Y-6 REPORT ITEM 4: FALCON BANCSHARES, INC.
INSIDERS

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION			# SHARES / % OWNERSHIP		
		BHCs	SUBSIDIARY	OTHER BUSINESS	BHC	SUBSIDIARY	OTHER BUSINESS
				OWNER - VISE OAKWELL 1 LTD (VOW1LTD) OWNER - BRAUNING RANCH LC (BRLC) OWNER - EAST PAPALOTE, LC (EPLC) OWNER - 359 PAPALOTE LTD (359PLTD) OWNER - PEOPLES MGMT OF TX 1, INC (PMOTI) LTD PARTNER - CARLSON PARK, LLC (CPLLC) OWNER - CELL RIGHT TECHNOLOGIES (CRT) LTD PARTNER - S.A. TRIO HOMES, LTD. - (SATH) MEMBER - PEREGRINE FINANCIAL INVESTMENTS, LLC. (PFILLC)			VOW1LTD < 25% BRLC - 50% ELPLC - 25% 359PLTD - 25% PMOTI - 100% CPLLC < 25% CRT < 25% SATH - 75% PFILLC < 25%
ELVIRA LETICIA LOZANO GUTIERREZ FAMILY TRUST SAN ANTONIO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	239,741 SHARES 8.70%	N/A	N/A
HUGO A. GUTIERREZ, III TRUST SAN ANTONIO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	81,857 SHARES 2.97%	N/A	N/A
SELINA MICHELLE GUTIERREZ TRUST SAN ANTONIO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	82,919 SHARES 3.01%	N/A	N/A
HUGO A. GUTIERREZ, JR., TRUSTEE FOR CARLO GUTIERREZ SAN ANTONIO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	2,000 SHARES 0.07%	N/A	N/A
HUGO A. GUTIERREZ, III SAN ANTONIO, TEXAS USA	BANKER	PRINCIPAL SECURITIES HOLDER	VICE PRESIDENT - FALCON INT'L BANK	N/A	26,561 SHARES 0.96%	N/A	N/A
SELINA M. GUTIERREZ SAN ANTONIO, TEXAS USA	REALTOR	PRINCIPAL SECURITIES HOLDER	N/A	N/A	2,000 SHARES 0.07%	N/A	N/A
SHELBY GUTIERREZ	ATTORNEY	PRINCIPAL	N/A	N/A	2,000 SHARES	N/A	N/A

FR Y-6 REPORT ITEM 4: FALCON BANCSHARES, INC.
INSIDERS

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION: BHCs	TITLE OR POSITION: SUBSIDIARY	TITLE OR POSITION: OTHER BUSINESS	# SHARES / % OWNERSHIP: BHC	# SHARES / % OWNERSHIP: SUBSIDIARY	# SHARES / % OWNERSHIP: OTHER BUSINESS
SAN ANTONIO, TEXAS USA		SECURITIES HOLDER			0.07%		
RICARDO X. GUTIERREZ LAREDO, TEXAS USA	ELECTRIAL CONTRACTOR	PRINCIPAL SECURITIES HOLDER	N/A	N/A	22,500 SHARES 0.82%	N/A	N/A
RICARDO X. GUTIERREZ, TRUSTEE FOR RICARDO X. GUTIERREZ, JR. LAREDO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	2,000 SHARES 0.07%	N/A	N/A
RICARDO X. GUTIERREZ, TRUSTEE FOR ANGELIQUE R. GUTIERREZ LAREDO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	2,000 SHARES 0.07%	N/A	N/A
ROBERTO G. GUTIERREZ LAREDO, TEXAS USA	CONTRACTOR	PRINCIPAL SECURITIES HOLDER	N/A	N/A	17,574 SHARES 0.64%	N/A	N/A
ROBERTO G. GUTIERREZ, TRUSTEE FOR ANALEE GUTIERREZ LAREDO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	2,000 SHARES 0.07%	N/A	N/A
ROBERTO G. GUTIERREZ, TRUSTEE FOR ALEJANDRA GUTIERREZ LAREDO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	2,000 SHARES 0.07%	N/A	N/A
ROBERTO G. GUTIERREZ, TRUSTEE FOR ANDREA GUTIERREZ LAREDO, TEXAS USA	TRUST	PRINCIPAL SECURITIES HOLDER	N/A	N/A	2,000 SHARES 0.07%	N/A	N/A
JOHN J. HILL LAREDO, TX USA	INSTALLATION OF MATERIALS	DIRECTOR - FALCON BANCSHARES, INC.	N/A	OWNER - AUTOMATED DOORS INC (ADI) MEMBER - PEREGRINE FINANCIAL INVESTMENTS, LLC (PFILLC)	12,280 SHARES 0.45%	N/A	ADI - 100% PFILLC < 25%
GILBERT NARVAEZ, JR. LAREDO, TX USA	N/A	DIRECTOR, VICE PRES., & SECRETARY - FALCON BANCSHARES, INC.	DIRECTOR, PRESIDENT, & COO - FALCON INT'L BANK	MEMBER - TAGNR INVESTMENTS (TAGNR) PARTNER - HANGG INVESTMENTS, LLC. (HILLC) MEMBER - PEREGRINE FINANCIAL INVESTMENTS, LLC. (PFILLC)	30,766 SHARES 1.12%	N/A	TAGNR < 25% HILLC < 25% PFILLC < 25%
RAY A. GONZALES LAREDO, TX USA	N/A	DIRECTOR - FALCON BANCSHARES, INC.	DIRECTOR, SR. EXEC VICE PRESIDENT - FALCON INT'L BANK	MANAGER - TAGNR INVESTMENTS (TAGNR) MANAGER - HANGG	20,016 SHARES 0.73%	N/A	TAGNR - 40% HILLC - 40%

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION BHCs	TITLE OR POSITION SUBSIDIARY	TITLE OR POSITION OTHER BUSINESS	# SHARES / % OWNERSHIP BHC	# SHARES / % OWNERSHIP SUBSIDIARY	# SHARES / % OWNERSHIP OTHER BUSINESS
				INVESTMENTS, LLC (HILLC)			
				MEMBER - PEREGRINE FINANCIAL INVESTMENTS, LLC (PFILLC)			PFILLC < 25%
EDUARDO A GARZA LAREDO, TX USA	FORWARDING AGENCY	DIRECTOR - FALCON BANCSHARES, INC.	N/A	PRESIDENT - UNI-TRADE FORWARDING LC (UTFLC)	38,398 SHARES 1.39%	N/A	UTFLC - 75%
				PRESIDENT - UNI-TRADE LOGISTICS LC (UTLLC)			UTLLC - 85%
				PRESIDENT - UNI-TRADE BROKERS LC (UTBLC)			UTBLC - 61%
				PRESIDENT - 4-G INVESTMENTS LTD (4GILTD)			4GILTD - 55%
				PRESIDENT - CONSORTIUM PROPERTIES, LTD (CPLTD)			CPLTD - 51%
				PRESIDENT - LAR-TEX INVESTMENTS LTD (LTILTD)			LTILTD - 50%
				MANAGER - ED-SAL INVESTMENTS LTD (ESILTD)			ESILTD - 50%
				MANAGER - LAS TIENDAS INVESTMENTS LTD (LTILTD)			LSTILTD - 75%
				MANAGER - GAR-RAM INVESTMENTS LTD (GRILTD)			GRILTD - 75%
				MANAGER - IMPORT AUTO MEX LC (IAMLC)			IAMLC - 55%
				MANAGER - COTULLA PARTNERS LTD (CPL)			CPL - 50%
				MANAGER - EL NOPAL DEVELOPMENT LTD (ENDLTD)			ENDLTD - 50%
				MANAGER - GARROS SERVICES, LLC (GSLLC)			GSLLC - 60%
				PRESIDENT - GARROS DEVELOPMENT INC (GDINC)			GDINC - 50%
				MANAGER - AIR TRADE LAREDO LLC (ATLLC)			ATLLC - 50%
				PRESIDENT - UTF FINANCIAL LLC (UTFFLLC)			UTFFLLC - 55%
				PRESIDENT - UNI-TRADE COLD STORAGE LLC (UTCSLLC)			UTCSLLC - 70%

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION			# SHARES / % OWNERSHIP		
		BHCs	SUBSIDIARY	OTHER BUSINESS	BHC	SUBSIDIARY	OTHER BUSINESS
				MEMBER - PEREGRINE FINANCIAL INVESTMENTS, LLC. (PFILLC)			PFILLC < 25%
VILLANUEVA FAMILY: PABLO VILLANUEVA SAN ANTONIO, TX USA	REAL ESTATE DEVELOPMENT	DIRECTOR - FALCON BANCSHARES, INC.	N/A	MANAGING PARTNER - WESTPOINT AIR LC (WPALC)	149,117 SHARES 5.41%	N/A	WPALC - 50%
				PARTNER - VISE OAKS 1, LTD. (VOLTD)			VOLTD - 75%
				OWNER - LAREDO FINANCIAL COMPANY, LLC (LFCLLC)			LFCLLC - 100%
				OWNER - CELL RIGHT TECHNOLOGIES (CRT)			CRT < 25%
				LTD PARTNER - CARLSON PARK, LLC (CPLLC)			CPLLC < 25%
				PARTNER - CAMPBELTON ROAD LTD (CRL)			CRL - 75%
				MEMBER - PEREGRINE FINANCIAL INVESTMENTS, LLC. (PFILLC)			PFILLC < 25%
SANTIAGO VILLANUEVA SAN ANTONIO, TX USA	REAL ESTATE DEVELOPMENT	PRINCIPAL SECURITIES HOLDER	N/A	N/A	149,116 SHARES 5.41%	N/A	N/A

2270254

FALCON
INTERNATIONAL
BANK MEMBER FDIC

April 20, 2017

Federal Reserve Bank of Dallas
NIC Unit, Statistics Department
2200 North Pearl Street
Dallas, Texas 75201-2216

RE: Falcon Bancshares, Inc. Audited Financials for FR Y-6 Report

Dear Sir or Madam:

Please find enclosed the Falcon Bancshares, Inc. Annual Report to be included with our FR Y-6 report which was sent to your office on March 29, 2017. We had indicated on the FR Y-6 cover page that it would be sent under a separate cover. If you have any questions, please do not hesitate to call me at (956) 723-2265 ext. 1149.

Sincerely,

Rita Ancira

Rita Ancira
Falcon International Bank
Senior Vice President/CFO

Falcon Bancshares, Inc.
and Subsidiary

Annual Financial Report

December 31, 2016

Falcon Bancshares, Inc. and Subsidiary

Table of Contents

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Directors and Stockholders
Falcon Bancshares, Inc. and Subsidiary

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Falcon Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2016; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended; and the related notes to the consolidated financial statements.

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

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

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

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

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

Other Matter
The consolidated financial statements of Falcon Bancshares, Inc. and Subsidiary as of and for the year ended December 31, 2015, were audited by other auditors, whose report dated April 19, 2016, expressed an unmodified opinion on those statements.

RSM US LLP

Austin, Texas
April 14, 2017

Falcon Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2016 and 2015

(Dollars in Thousands, Except Share Data)

	2016	2015
Cash and due from banks	$ 198,816	$ 139,367
Federal funds sold	18,148	43,300
Cash and cash equivalents	216,964	182,667
Interest-bearing time deposits in banks	15,735	6,471
Securities available for sale	94,864	64,872
Restricted investment security	671	667
Loans – net of allowance for loan losses of $9,683 ($9,763 in 2015)	701,375	640,517
Bank premises and equipment – net	52,728	46,783
Accrued interest receivable	2,316	1,947
Foreclosed assets – net	6,411	11,735
Cash surrender value of life insurance	16,085	15,566
Prepaid expenses and other assets	2,201	2,336
Deferred tax asset	2,062	1,753
Total assets	$ 1,111,412	$ 975,353
Liabilities		
Deposits:		
Noninterest-bearing	$ 145,157	$ 118,637
Interest-bearing	837,738	738,915
Total deposits	982,895	857,552
Federal Home Loan Bank borrowings	3,981	4,734
Junior subordinated debentures	15,465	15,465
Accrued interest payable and other liabilities	4,292	1,218
Total liabilities	1,006,633	879,009
Commitments and contingencies (notes 6, 8, 11, and 14)		
Stockholders' Equity		
Common stock – $0.05 par value; 4,000,000 shares authorized; 2,761,877 shares issued; 2,757,156 shares outstanding (2,760,885 shares outstanding in 2015)	138	138
Surplus	8,340	8,269
Retained earnings	97,250	87,879
Accumulated other comprehensive income (loss)	(792)	88
Treasury stock – at cost (4,721 shares in 2016; 992 in 2015)	(157)	(30)
Total stockholders' equity	104,779	96,344
Total liabilities and stockholders' equity	$ 1,111,412	$ 975,353

Notes to the consolidated financial statements form an integral part of these statements.

Falcon Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Interest income:		
Loans – including fees	$ 35,625	$ 33,820
Securities available for sale	1,301	1,138
Federal funds sold	163	143
Interest-bearing time deposits in banks	1,157	570
Other	17	18
Total interest income	38,263	35,689
Interest expense:		
Deposits	3,868	3,718
Federal Home Loan Bank borrowings	77	106
Junior subordinated debentures	549	559
Total interest expense	4,494	4,383
Net interest income	33,769	31,306
Credit for loan losses	-	(750)
Net interest income after credit for loan losses	33,769	32,056
Noninterest income:		
Service charges, fees, and rental income	10,119	10,313
Gain on early payment of junior subordinated debentures	-	1,980
Net realized gains on sales of foreclosed assets and other assets	2,973	391
Total noninterest income	13,092	12,684
Noninterest expense:		
Salaries and employee benefits	15,832	15,015
Occupancy and equipment expenses	5,273	5,449
Other operating expenses	8,653	7,759
Total noninterest expense	29,758	28,223
Income before income taxes	17,103	16,517
Income tax expense	5,642	5,400
Net income	$ 11,461	$ 11,117

Notes to the consolidated financial statements form an integral part of these statements.

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

	2016	2015
Net income	$ 11,461	$ 11,117
Other items of comprehensive income:		
Unrealized holding gain (loss) on securities available for sale	(1,352)	(194)
Total other items of comprehensive income	(1,352)	(194)
Comprehensive income before income tax expense (benefit)	10,109	10,923
Income tax expense (benefit) related to other items of comprehensive income	(471)	(66)
Comprehensive income after income tax expense (benefit)	$ 10,580	$ 10,989

Notes to the consolidated financial statements form an integral part of these statements.

Falcon Bancshares, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2016 and 2015

(Dollars in Thousands)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2014	138	8,059	77,446	216	(749)	85,110
Net income – year ended December 31, 2015	-	-	11,117	-	-	11,117
Purchase of treasury stock	-	-	-	-	(669)	(669)
Treasury stock sold	-	210	-	-	1,388	1,598
Cash dividends declared	-	-	(684)	-	-	(684)
Change in other comprehensive income – net of tax	-	-	-	(128)	-	(128)
Balance at December 31, 2015	138	8,269	87,879	88	(30)	96,344
Net income – year ended December 31, 2016	-	-	11,461	-	-	11,461
Purchase of treasury stock	-	-	-	-	(623)	(623)
Treasury stock sold	-	71	-	-	496	567
Cash dividends declared	-	-	(2,090)	-	-	(2,090)
Change in other comprehensive income – net of tax	-	-	-	(880)	-	(880)
Balance at December 31, 2016	$ 138	$ 8,340	$ 97,250	$ (792)	$ (157)	$ 104,779

Notes to the consolidated financial statements form an integral part of these statements.

Falcon Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

(Dollars in Thousands)

Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
Cash Flows From Operating Activities		
Net income	$ 11,461	$ 11,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,885	2,106
Gain on sale of bank premises and equipment	(699)	(276)
Gain on early payment of junior subordinated debentures	-	(1,980)
Net amortization of securities	486	404
Credit for loan losses	-	(750)
Net realized (gains) losses on sales and write-downs of foreclosed assets and other assets	(2,273)	(115)
Deferred income tax expense (benefit)	162	118
Increase in cash surrender value of life insurance	(519)	(561)
Net change in:		
Accrued interest receivable	(340)	(79)
Prepaid expenses and other assets	1,137	75
Accrued interest payable and other liabilities	3,008	(657)
Net cash provided by operating activities	14,308	9,402
Cash Flows From Investing Activities		
Net change in:		
Loans	(48,562)	(77,792)
Interest-bearing time deposits in banks	(9,264)	2,523
Recoveries of loans previously charged off	247	461
Proceeds from payments and maturities of investment securities	178,007	223,035
Purchases of investment securities	(209,841)	(203,477)
Capital expenditures	(5,456)	(1,262)
Proceeds from sales of bank premises and equipment and other assets	2,714	1,132
Net settlement related to branch acquisition	41,634	32,285
Purchase of bank owned life insurance	-	(5,000)
Proceeds from sales of foreclosed assets	5,261	4,963
Net cash used in investing activities	(45,260)	(23,132)
Cash Flows From Financing Activities		
Net change in deposits	68,148	12,024
Purchase of treasury stock	(623)	(669)
Sale of treasury stock	567	1,598
Repayment on Federal Home Loan Bank borrowings	(753)	(3,663)
Proceeds from Federal Home Loan Bank borrowings	-	5,000
Payment on junior subordinated debentures	-	(4,206)
Cash dividends paid	(2,090)	(684)
Net cash provided by financing activities	65,249	9,400
Net increase (decrease) in cash and cash equivalents	34,297	(4,330)
Cash and cash equivalents at beginning of year	182,667	186,997
Cash and cash equivalents at end of year	$ 216,964	$ 182,667
Schedules of Other Cash Flow Information		
Interest paid	$ 4,339	$ 4,381
Schedules of Noncash Activities		
Foreclosed assets financed by the Bank	$ 3,295	$ 1,329
Other real estate acquired by foreclosure on loans	$ 1,949	$ 1,557

Notes to the consolidated financial statements form an integral part of these statements.

1. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Falcon Bancshares, Inc., its wholly owned subsidiary, Falcon International Bank (the "Bank"), and the Bank's wholly owned subsidiaries, Falconsure, Inc. and Falcon Outdoor Advertising, Inc. (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a variety of financial services to individuals and small businesses through its main bank and branches in the Texas cities of Laredo, San Antonio, McAllen, Del Rio, Buda, Eagle Pass, and Brownsville. Its primary deposit products are savings and term certificate accounts, and its primary lending products are real estate loans.

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 in the near term relate to the determination of the allowance for loan losses and the valuation of foreclosed assets.

New and Recently Issued Accounting Standards

Accounting Standards Update ("ASU") No. 2014-09, Revenue From Contracts With Customers – ASU No. 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 will be effective for public business entities in 2018 and nonpublic business entities in 2019. The Company is still evaluating the potential impact of this new ASU on its consolidated financial statements.

ASU No. 2016-01, Financial Instruments- Recognition and Measurement of Financial Assets and Liabilities- ASU No. 2016-01 is designed to improve the recognition and measurement of financial instruments through targeted changes to existing accounting standards. The new standard will require equity investments (except those that are accounted for under the equity method of accounting or result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It also will require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the consolidated balance sheet or the accompanying notes to the financial statements. It also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities. The provisions of ASU No. 2016-01 will be effective for public entities in 2018 and nonpublic entities in 2019. The Company does not anticipate the adoption of the provisions of this standard will have a material impact on its consolidated financial statements in future years.

ASU 2016-02, *Leases* - The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for public business entities in fiscal years beginning after December 15, 2018, and for non-public business entities in fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

ASU 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments.* This ASU creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2020 for public companies that are not SEC filers and non-public business entities. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Webb, Bexar, Hidalgo, Val Verde, Hays, Maverick, and Cameron Counties and their surrounding areas, including the border region of Mexico. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations in any one industry or customer. Commercial real estate; including land development, vacant land, and other construction loans; represented 66% and 67% of the total loan portfolio as December 31, 2016 and 2015, respectively.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. During the years ended December 31, 2016 and 2015, the Company had no securities classified as trading securities or held to maturity.

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.

Declines in the fair value of held-to-maturity and available-for-sale securities are evaluated to determine whether declines in fair value below their amortized cost are other than temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors including, but not limited to, (1) the length of time and the extent to which the fair value has been less than the amortized cost; (2) the financial condition and near-term prospects of the issuer; (3) the current market conditions; and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.

Restricted Investment Security

Restricted investment securities include Federal Home Loan Bank stock, which is carried at cost on the consolidated balance sheets. These equity securities are "restricted" in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other marketable equity securities. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. No other-than-temporary write-downs have been recorded on these securities.

Loans

The Company grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans within Webb, Bexar, Hidalgo, Val Verde, Hays, Maverick, and Cameron Counties. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. Commercial and residential real estate loans are subject to underwriting standards that evaluate cash flow and fair value of the collateral. The collectability of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on collateral, geography, and risk criteria.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets and frequently include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and collect amounts due from their customers.

Consumer loans are originated after evaluation of the credit history and repayment ability of the borrower based on current personal income. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower's income.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal adjusted for any charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

Loan origination fees are recognized as income and loan origination costs are expensed as incurred, as management has determined that capitalization of these items would be immaterial to the consolidated financial statements.

A loan is considered delinquent when principal and/or interest amounts are not current, in accordance with the contractual loan agreement.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual status 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 status or charged off is 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 status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal 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 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 shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis 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.

Loans are fully or partially charged down to the fair value of the collateral securing the loan when management determines the asset to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy, or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan.

In situations related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include interest rate reductions, payment forbearance, or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for Loan Losses
The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's methodology for the allowance for loan losses includes allowance allocations calculated in accordance with Accounting Standards Codification ("ASC"), *Receivables*, and ASC, *Contingencies*. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools, and specific loss allocations, with adjustments for current events and conditions.

The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations, and loan quality trends, including trends in nonaccrual, past-due, and classified loans; current period loan charge-offs; and recoveries. The determination also includes qualitative aspects, such as changes in local, regional, or national economies or markets, and other factors. Such qualitative factors are highly judgmental and require constant refinement. The Company has an internal loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade, and assist senior management in maintaining an adequate allowance for loan losses account by reviewing and refining the methodology, as needed, based on changing circumstances.

The Company's allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with the ASC based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with the ASC based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

Premises and Equipment
Land is carried at cost. Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is recognized on the straight-line method over the estimated useful lives of the assets.

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

Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

The Company is subject to the Texas gross margin tax.

Off-Balance Sheet Credit-Related Financial Instruments
In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, unfunded commitments under lines of credit, and commercial and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Cash and Cash Equivalents
For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of clearing), and federal funds sold.

Interest-Bearing Time Deposits in Banks
Interest-bearing time deposits in banks are carried at cost and mature in 2017.

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

Subsequent Events
The Company has evaluated subsequent events through April 14, 2017, the date the consolidated financial statements were available to be issued.

Reclassifications
Certain amounts have been reclassified from prior presentation at December 31, 2015 to conform to classifications at December 31, 2016. There is no effect on previously reported net income or retained earnings.

2. Fair Value Measurements

The Company follows the provisions of the ASC, *Fair Value Measurements and Disclosures*. The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a "class" basis rather than a major category basis for assets and liabilities; and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.

- Level 2 – Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities.

Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs.

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively-traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. 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. Level 2 securities generally include certain United States government and agency securities, corporate debt securities, and certain derivatives. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

The following table summarizes assets measured at fair value on a recurring basis as reported on the consolidated balance sheets as of December 31, 2016 and 2015, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	Total Fair Value Measurement at December 31, 2016	Level 1	Level 2	Level 3
Assets:				
United States government agency securities	$ 10,100	$ -	$ 10,100	$ -
Mortgage-backed securities	73,515	-	73,515	-
Other equity investments	11,249	11,249	-	-
	$ 94,864	$ 11,249	$ 83,615	$ -

	Total Fair Value Measurement at December 31, 2015	Level 1	Level 2	Level 3
Assets:				
United States government agency securities	$ 17,085	$ -	$ 17,085	$ -
Mortgage-backed securities	37,755	-	37,755	-
Other equity investments	10,032	10,032	-	-
	$ 64,872	$ 10,032	$ 54,840	$ -

A description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Foreclosed Assets

Foreclosed assets consist mainly of other real estate owned, but may include other types of assets repossessed by the Company. Foreclosed assets are adjusted to the lower of carrying value or fair value less the cost of disposal upon transfer of the loans to foreclosed assets. Fair value is generally based upon independent market prices or appraised values of the collateral.

The following table summarizes assets with fair value changes during the years ended December 31, 2016 and 2015 that are measured at fair value by class on a nonrecurring basis, as follows (dollars in thousands):

	Total Fair Value Measurement at December 31, 2016	Level 1	Level 2	Level 3
Assets – foreclosed assets	$ 1,208	$ -	$ -	$ 1,208

	Total Fair Value Measurement at December 31, 2015	Level 1	Level 2	Level 3
Assets – foreclosed assets	$ 4,400	$ -	$ -	$ 4,400

Write-downs during the year ended December 31, 2016 related to the above foreclosed assets totaled $144 and are included in other operating expenses in the consolidated statements of income ($419 thousand in 2015).

3. Restrictions on Cash and Amounts Due From Banks

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2016 and 2015, these reserve balances totaled $33.9 and $28.4 million, respectively.

4. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities Available for Sale at December 31, 2016				
United States government agency securities	$ 10,000	$ 100	$ -	$ 10,100
Mortgage-backed securities	74,583	8	1,076	73,515
Total debt securities	84,583	108	1,076	83,615
Other equity investments	11,500	18	269	11,249
	$ 96,083	$ 126	$ 1,345	$ 94,864

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities Available for Sale at December 31, 2015				
United States government agency securities	$ 17,000	$ 90	$ 5	$ 17,085
Mortgage-backed securities	37,739	160	144	37,755
Total debt securities	54,739	250	149	54,840
Other equity investments	10,000	80	48	10,032
	$ 64,739	$ 330	$ 197	$ 64,872

Investment securities carried at $73.5 and $54.6 million at December 31, 2016 and 2015, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

The fair value of debt securities by contractual maturity at December 31, 2016 were as follows (dollars in thousands):

	Amortized Cost	Fair Value
Securities available for sale:		
Within one year	$ -	$ -
After one year through five years	10,000	10,100
After five years through ten years	-	-
	10,000	10,100
Mortgage-backed securities	74,583	73,515
	$ 84,583	$ 83,615

For the years ended December 31, 2016 and 2015, there were no sales of securities and, therefore, no gross realized gains or losses.

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (dollars in thousands):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale at December 31, 2016						
United States government agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securites	50,416	892	16,052	184	66,468	1,076
Other equity investments	5,860	140	3,371	129	9,231	269
	$ 56,276	$ 1,032	$ 19,423	$ 313	$ 75,699	$ 1,345
Securities Available for Sale at December 31, 2015						
United States government agency securities	$ -	$ -	$ 3,995	$ 5	$ 3,995	$ 5
Mortgage-backed securites	21,534	144	-	-	21,534	144
Other equity investments	498	2	2,953	46	3,451	48
	$ 22,032	$ 146	$ 6,948	$ 51	$ 28,980	$ 197

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2016 and 2015, the Company did not have any securities with other-than-temporary impairment.

5. Loans and Allowance for Loan Losses

The components of loans in the consolidated balance sheets were as follows (dollars in thousands):

	December 31, 2016	December 31, 2015
Real estate:		
Commercial	$ 339,225	$ 307,346
Residential	115,457	107,901
Land development, vacant land, and other construction	127,376	130,347
Commercial	102,377	82,100
Consumer	17,697	15,083
Other	8,926	7,503
	711,058	650,280
Allowance for loan losses	9,683	9,763
	$ 701,375	$ 640,517

During the years ended December 31, 2016 and 2015, the Company did not purchase or sell any significant amount of loans to other nonrelated banks.

As part of its on-going monitoring of the credit quality of the Company's loan portfolio, management assigns risk grades to loans as follows:

- ***Pass*** – loans to borrowers with acceptable credit quality and risk.
- ***Pass/Watch*** – loans to borrowers having potential weaknesses that deserve management's close attention, which, if left uncorrected, will likely result in the asset becoming inadequately protected. A loan can be rated as "Pass/Watch" even though the performance is adequate.
- ***Substandard*** – loans to borrowers with well-defined credit quality weaknesses, which make payment default or principal exposure possible, but not yet certain. Such loans are individually evaluated for a specific valuation allowance.
- ***Doubtful*** – loans to borrowers in which payment default or principal exposure is probable. Such loans are individually evaluated for a specific valuation allowance.

At December 31, 2016 and 2015, the Company's loan portfolio risk grades by loan segment were as follows (dollars in thousands):

	Pass	Pass/ Watch	Substandard	Doubtful	Total Loans
December 31, 2016					
Real estate:					
Commercial	$ 321,631	$ 5,790	$ 11,804	$ -	$ 339,225
Residential	111,759	714	2,984	-	115,457
Land development, vacant land, and other construction	125,951	1,343	82	-	127,376
Commercial	102,336	-	41	-	102,377
Consumer	17,679	-	18	-	17,697
Other	8,926	-	-	-	8,926
	$ 688,282	$ 7,847	$ 14,929	$ -	$ 711,058
December 31, 2015					
Real estate:					
Commercial	$ 287,711	$ 8,201	$ 11,434	$ -	$ 307,346
Residential	104,706	712	2,483	-	107,901
Land development, vacant land, and other construction	126,542	1,462	2,343	-	130,347
Commercial	81,573	446	81	-	82,100
Consumer	15,029	-	54	-	15,083
Other	7,503	-	-	-	7,503
	$ 623,064	$ 10,821	$ 16,395	$ -	$ 650,280

An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2016 and 2015 is as follows (dollars in thousands):

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
December 31, 2016						
Real estate:						
Commercial	$ 619	$ 2,061	$ 2,680	$ 336,545	$ 339,225	$ -
Residential	1,035	702	1,737	113,720	115,457	-
Land development, vacant land, and other construction	4	-	4	127,372	127,376	-
Commercial	24	-	24	102,353	102,377	-
Consumer	90	-	90	17,607	17,697	-
Other	14	-	14	8,912	8,926	-
	$ 1,786	$ 2,763	$ 4,549	$ 706,509	$ 711,058	$ -
December 31, 2015						
Real estate:						
Commercial	$ 251	$ 122	$ 373	$ 306,973	$ 307,346	$ -
Residential	616	230	846	107,055	107,901	-
Land development, vacant land, and other construction	1	13	14	130,333	130,347	-
Commercial	11	20	31	82,069	82,100	-
Consumer	100	1	101	14,982	15,083	1
Other	30	-	30	7,473	7,503	-
	$ 1,009	$ 386	$ 1,395	$ 648,885	$ 650,280	$ 1

Loans are considered impaired and placed on nonaccrual status when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due. An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2016 and 2015 is as follows (dollars in thousands):

	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
December 31, 2016					
Real estate:					
Commercial	$ 10,565	$ -	$ 10,565	$ -	$ 10,177
Residential	2,650	-	2,650	-	2,567
Land development, vacant land, and other construction	63	-	63	-	2,453
Commercial	15	26	41	16	57
Consumer	-	-	0	-	27
Other	-	-	-	-	-
	$ 13,293	$ 26	$ 13,319	$ 16	$ 15,281
December 31, 2015					
Real estate:					
Commercial	$ 9,427	$ 362	$ 9,789	$ 31	$ 10,560
Residential	2,483	-	2,483	-	1,862
Land development, vacant land, and other construction	4,793	51	4,844	27	6,297
Commercial	43	29	72	16	250
Consumer	-	54	54	29	78
Other	-	-	-	-	-
	$ 16,746	$ 496	$ 17,242	$ 103	$ 19,047

During the years ended December 31, 2016 and 2015, the Company recognized no interest income on impaired and nonaccrual loans.

The Company's loan portfolio includes loans totaling $10.8 million and $9.3 million at December 31, 2016 and 2015, respectively, that have been modified in a troubled debt restructuring ("TDR"), of which $8.1 million are considered performing TDRs and $2.7 million are past due and on nonaccrual at December 31, 2016 ($7.5 million are considered performing and $1.8 million are considered past due and on nonaccrual in 2015) and mainly consist of other construction, land development, and other land loans. There are no specific reserves related to these loans at December 31, 2016 and 2015. These loans are generally modified by allowing the borrower concessions that delay the payment of principal or interest beyond contractual requirements, but not the forgiveness of either principal or interest.

The Bank has evaluated any possible impairment loss on such loans consistent with its accounting for impaired loans and recognized such loss through a charge-off to the allowance for loan loss account.

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2016 and 2015 were as follows (dollars in thousands):

	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Year Ended December 31, 2016							
Balance at beginning of year	$ 4,566	$ 1,686	$ 1,996	$ 1,065	$ 439	$ 11	$ 9,763
Provision (credit) for loan losses	(223)	(79)	(101)	237	171	(6)	-
Charge-offs	(2)	-	(31)	(93)	(200)	-	(327)
Recoveries	12	10	6	131	88	-	247
Net (charge-offs) recoveries	10	10	(25)	38	(112)	-	(80)
Balance at end of year	$ 4,353	$ 1,617	$ 1,870	$ 1,340	$ 498	$ 5	$ 9,683
Allocation:							
Individually evaluated for impairment	$ -	$ -	$ -	$ 16	$ -	$ -	$ 16
Collectively evaluated for impairment	$ 4,353	$ 1,617	$ 1,870	$ 1,324	$ 498	$ 5	$ 9,667

	Commercial Real Estate	Residential Real Estate	Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Year Ended December 31, 2015							
Balance at beginning of year	$ 4,801	$ 1,461	$ 2,966	$ 1,008	$ 378	$ 13	$ 10,627
Provision (credit) for loan losses	(393)	171	(973)	291	156	(2)	(750)
Charge-offs	(31)	-	(58)	(318)	(168)	-	(575)
Recoveries	189	54	61	84	73	-	461
Net (charge-offs) recoveries	158	54	3	(234)	(95)	-	(114)
Balance at end of year	$ 4,566	$ 1,686	$ 1,996	$ 1,065	$ 439	$ 11	$ 9,763
Allocation:							
Individually evaluated for impairment	$ 31	$ -	$ 27	$ 16	$ 29	$ -	$ 103
Collectively evaluated for impairment	$ 4,535	$ 1,686	$ 1,969	$ 1,049	$ 410	$ 11	$ 9,660

During the year ended December 31, 2016, the Company did not implement any significant changes to its allowance for loan loss methodology.

The Company's recorded investment in loans as of December 31, 2016 and 2015 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows:

	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Years Ended December 31, 2016							
Loans individually evaluated for impairment	$ 10,565	$ 2,650	$ 63	$ 41	$ -	$ -	$ 13,319
Loans collectively evaluated for impairment	328,660	112,807	127,313	102,336	17,697	8,926	697,739
Ending balance	$ 339,225	$ 115,457	$ 127,376	$ 102,377	$ 17,697	$ 8,926	$ 711,058

	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Years Ended December 31, 2015							
Loans individually evaluated for impairment	$ 9,789	$ 2,483	$ 4,844	$ 72	$ 54	$ -	$ 17,242
Loans collectively evaluated for impairment	297,557	105,418	125,503	82,028	15,029	7,503	633,038
Ending balance	$ 307,346	$ 107,901	$ 130,347	$ 82,100	$ 15,083	$ 7,503	$ 650,280

6. Premises and Equipment

Components of premises and equipment included in the consolidated balance sheets were as follows (dollars in thousands):

	December 31, 2016	December 31, 2015
Land	**$ 21,426**	$ 18,704
Equipment and furniture	**13,127**	12,644
Building	**34,211**	31,390
Building improvements	**2,728**	2,668
Leasehold improvements	**1,022**	1,022
Computer software	**2,236**	1,887
Construction in progress	**979**	82
	75,729	68,397
Less accumulated depreciation	**23,001**	21,614
	$ 52,728	$ 46,783

Depreciation expense for the years ended December 31, 2016 and 2015 totaled $1.9 and $2.1 million respectively.

The Company has several noncancellable lease agreements in effect at December 31, 2016 and 2015 pertaining to Company premises. The operating leases vary from a one-year term to a five-year term with an option for additional years.

In 2012, the Bank also entered into additional lease agreements that included its wholly owned subsidiary, Falcon Outdoor Advertising, Inc. These lease agreements were obtained for the sole purpose of erecting, placing, and maintaining outdoor advertising sign structures on specified premises. The initial terms of the leases are five years, and each automatically renews for successive like terms unless terminated.

The future minimum rental commitments under these leases are as follows (dollars in thousands):

Year ending December 31,	
2017	$ 256
2018	241
2019	26
2020	26
	$ 549

Rental expense for the years ended December 31, 2016 and 2015 totaled $392 and $405 thousand, respectively.

7. Deposits

The aggregate amount of certificates of deposit ("CDs") in denominations of $250 thousand or more was approximately $171 million at December 31, 2016.

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

Year ending December 31,	
2017	$ 343,020
2018	15,841
2019	3,567
2020	201
2021	669
	$ 363,298

Included in total deposits on the consolidated balance sheets are $285.6 million and $245.9 million of foreign deposits at December 31, 2016 and 2015, respectively.

At December 31, 2016, the Bank held deposits for one customer totaling $164.7 million, or approximately 16.8% of total deposits ($140.7 million, or 16.4% of total deposits in 2015).

8. Federal Home Loan Bank Borrowings

The Bank executed fixed rate long-term borrowings with the Federal Home Loan Bank ("FHLB") of Dallas. Advances are received pursuant to a collateral pledge and security agreements giving FHLB a lien in certain of the Bank's loans, including 1-4 family mortgage loans; multifamily mortgage loans; home equity loans; and other commercial real estate loans with a carrying value of approximately $41.5 million at December 31, 2016 ($51.3 million in 2015). Repayments in 2016 and 2015 totaled $752 thousand and $3.7 million, respectively.

FHLB borrowings totaled $4.0 million at December 31, 2016 ($4.7 million in 2015). Advances on the debt were made with varying terms at rates ranging from 1.32% to 3.85%.

The contractual maturities of FHLB borrowings are as follows (dollars in thousands):

Year ending December 31,	
2017	$ 702
2018	698
2019	667
2020	288
2021	162
Thereafter	1,464
	$ 3,981

At December 31, 2016, the Bank had been issued $160 million in standby letters of credit from FHLB ($147 million in 2015). These letters of credit expire in varying amounts during 2016. There were no funds advanced on these letters of credit during 2016 and 2015. The letters of credit are secured by the same collateral as the long-term borrowings indicated above.

9. Junior Subordinated Debentures

On March 28, 2003, the Company established the Falcon Capital Trust I ("Trust I") with capital of $310 thousand. Trust I issued $10.0 million in Floating Capital Securities ("Trust Preferred Securities") to private market investors. The Trust Preferred Securities bear interest at a floating rate equal to the three-month LIBOR plus 3.25% at December 31, 2016. The Trust Preferred Securities mature and are payable on April 24, 2033.

On May 23, 2005, the Company established the Falcon Capital Trust II ("Trust II") with capital of $155 thousand. Trust II issued $5.0 million in Trust Preferred Securities to private market investors. The Trust Preferred Securities bear interest at a floating rate equal to the three-month LIBOR plus 1.90% at December 31, 2016. The Trust Preferred Securities mature and are payable on August 23, 2035.

On April 25, 2007, the Company established the Falcon Capital Trust III ("Trust III") with capital of $186 thousand. Trust III issued $6.0 million in Trust Preferred Securities to private investors. The Trust Preferred Securities bear interest at a floating rate equal to the three-month LIBOR plus 1.75%. The Trust Preferred Securities were schedule to mature on July 1, 2037, but were redeemed on August 14, 2015, see below.

The Company issued the Trust Preferred Securities as a method of increasing regulatory capital. Trust Preferred Securities are includable in regulatory capital, with certain limitations.

The Company entered into guarantee agreements to pay in full investors of the Trust Preferred Securities.

In connection with the transactions, the Company issued Floating Rate Junior Subordinated Deferrable Interest Debentures ("Debentures") to Trust I for $10.3 million, to Trust II for $5.1 million, and to Trust III for $6.2 million with interest and maturity terms identical to the Trust Preferred Securities.

The Company incurred issuance costs of $300 thousand for Trust I and $155 thousand for Trust II, which have been capitalized and are being amortized over the term of the Trust Preferred Securities. There were no issuance costs related to Trust III.

On August 14, 2015, the Company bought back all the capital and common securities of Trust III from the holder of the securities for $4 million which reflected an approximate 35% discount from the redemption price of the securities. This transaction resulted in a gain of $2.0 million which is reflected in the consolidated statements of income. The Company also retired the related Debentures totaling $6.2 million.

In accordance with the ASC, the Trusts are not consolidated in the accompanying consolidated financial statements. Instead, the investments in the Trust are included in "prepaid expenses and other assets" and the Debentures are shown as "junior subordinated debentures" on the consolidated balances sheets. Interest expense on the Debentures is reported in the consolidated statements of income.

10. Federal Income Taxes

The provision (benefit) for federal income taxes consists of and represents the tax effect of the following (dollars in thousands):

	Years Ended December 31, 2016	Years Ended December 31, 2015
Currently paid or payable	**$ 5,480**	$ 5,282
Deferred income tax expense	**162**	118
	$ 5,642	$ 5,400

The provision (benefit) for federal income tax differs from the amount which would be provided by applying the statutory federal income tax rates as indicated in the following analysis (dollars in thousands):

	Years Ended December 31, 2016	Years Ended December 31, 2015
Computed at the expected statutory rate of 34%	**$ 5,815**	$ 5,616
Effect of tax-exempt income	**(222)**	(232)
Interest and other nondeductible expenses	**76**	80
Other	**(27)**	(64)
	$ 5,642	$ 5,400

Cash paid for federal income taxes was $5.6 million for the year ended December 31, 2016 ($4.9 million for 2015).

Management believes it is more likely than not the full tax benefit of deferred tax assets will be realized; therefore no valuation allowance was and considered necessary at December 31, 2016 and 2015. The tax effects of temporary differences that give rise to the significant portions of deferred tax assets and deferred tax liabilities are presented below (dollars in thousands):

	December 31, 2016	December 31, 2015
Deferred tax assets related to:		
Allowance for loan losses	**$ 3,295**	$ 3,320
Nonaccrual loan interest	**178**	236
Foreclosed assets	**217**	362
Net unrealized depreciation on securities available for sale	**427**	-
Total deferred tax assets	**4,117**	3,918
Deferred tax liabilities related to:		
Depreciation	**(1,235)**	(1,291)
FHLB stock	**(16)**	(15)
Net unrealized appreciation on securities available for sale	**-**	(45)
Prepaid expenses	**(211)**	(206)
Deferred gain on sale of other real estate	**(568)**	(568)
Other	**(25)**	(40)
Total deferred tax liabilities	**(2,055)**	(2,165)
Net deferred tax asset	**$ 2,062**	$ 1,753

11. Off-Balance Sheet Activities

Credit-Related Financial Instruments

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unfunded commitments under lines of credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

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

The following financial instruments, whose contract amounts represent credit risk, were outstanding (dollars in thousands):

	Contract Amount	
	December 31,	
	2016	2015
Unfunded commitments under lines of credit	**$ 79,263**	$ 45,311
Unfunded commitments under credit card arrangements	**2,356**	2,355
Commitments to extend credit	**12,035**	23,188
Commercial and standby letters of credit	**1,254**	1,233

Commitments to extend credit include commitments to lend under corporate lines of credit and are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Unfunded commitments under lines of credit include revolving credit lines, straight credit lines, interim construction loans, and overdraft protection agreements, which are commitments for possible future extensions of credit to existing customers. These lines of credit may not be drawn upon to the total extent to which the Company is committed.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Company's credit evaluation of the customer. Collateral held varies but may include cash; securities; accounts receivable; inventory; property, plant, and equipment; and real estate.

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

12. Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates. Annual activity as of and for the years ended December 31, 2016 and 2015 consisted of the following (dollars in thousands):

	2016	2015
Beginning balance	**$ 13,181**	$ 13,363
New loans	**1,311**	2,382
Repayments	**(3,952)**	(2,564)
Ending balance	**$ 10,540**	$ 13,181

Deposits from related parties held by the Company totaled $7.2 and $2.9 million at December 31, 2016 and 2015, respectively.

13. Employee Benefits

The Company has a 401(k) plan (the "Plan") designed to benefit substantially all its employees. Annual matching and profit sharing contributions are at the Company's discretion and are determined by the Board of Directors each year. For the year ended December 31, 2016, the Company's expense under the plan was $94 thousand ($88 thousand in 2015).

During 2004, the Company adopted a partially self-funded medical insurance plan for its full-time employees that is administered by a third party. Included in accrued interest payable and other liabilities is an accrual of $8 and $36 thousand at December 31, 2016 and 2015, respectively. During 2016, there were premiums collected of $1.6 million ($1.7 million in 2015) and payments of $1.6 million ($1.7 million in 2015). The Bank also has stop-loss insurance for additional coverage.

During 2014 and 2015, the Company purchased life insurance policies for certain officers in an effort to offset benefit costs and obligations, including health insurance. These policies had an aggregate cash surrender value of $16.1 million at December 31, 2016 ($15.6 million at 2015).

14. Legal Contingencies

The Company is party to litigation arising in the normal course of business. Management, after consultation with legal counsel, believes the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

15. Capital and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about component classification, risk weighting, and other factors.

The Basel III capital rules became effective for the Bank on January 1, 2015, subject to a four-year phase-in period. Quantitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital to Risk-Weighted Assets, and of Tier 1 Capital to Average Assets. In connection with the adoption of the Basel III capital rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital.

Management believes, as of December 31, 2016 and 2015, that the Bank met all capital adequacy requirements to which it is subject. As of December 31, 2016, the most recent notification from the primary regulatory agency of the Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The following table presents actual and required capital ratios as of December 31, 2016 for the Bank under the Basel III capital rules. The minimum required capital amounts present the minimum required levels as of December 31, 2016 based on the phase-in of the Basel III capital rules and the minimum required as of January 1, 2019 when the phase-in is complete. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

	Actual		Minimum Required Basel III Current Phase-In		Minimum Required Basel III Full Phase-In		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016								
Common Equity Tier 1 Capital to Risk-Weighted Assets	**$120,158**	**16.3%**	**$37,711**	**5.1%**	**$51,508**	**7.0%**	**$47,829**	**6.5%**
Tier 1 Capital to Risk-Weighted Assets	**$120,158**	**16.3%**	**$48,749**	**6.6%**	**$62,545**	**8.5%**	**$58,866**	**8.0%**
Total Capital to Risk-Weighted Assets	**$129,362**	**17.6%**	**$63,465**	**8.6%**	**$77,262**	**10.5%**	**$73,583**	**10.0%**
Tier 1 Capital to Average Assets	**$120,158**	**11.3%**	**$42,543**	**4.0%**	**$42,543**	**4.0%**	**$53,179**	**5.0%**

The following table presents actual and required capital ratios as of December 31, 2015 for the Bank under regulatory capital rules then in effect:

	Actual		Minimum Required Basel III Current Phase-In		Minimum Required Basel III Full Phase-In		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015								
Common Equity Tier 1 Capital to Risk-Weighted Assets	$111,095	16.4%	$30,524	4.5%	$47,482	7.0%	$44,091	6.5%
Tier 1 Capital to Risk-Weighted Assets	$111,095	16.4%	$40,699	6.0%	$57,657	8.5%	$54,266	8.0%
Total Capital to Risk-Weighted Assets	$119,604	17.6%	$54,266	8.0%	$71,224	10.5%	$67,832	10.0%
Tier 1 Capital to Average Assets	$111,095	11.3%	$39,399	4.0%	$39,399	4.0%	$49,249	5.0%

16. Fair Value of Financial Instruments

The fair value of a financial instrument is the estimated amount at which assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair value are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The *Financial Instruments* topic of the ASC excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Carrying amounts approximate fair values for the following instruments:

Cash and due from banks
Federal funds sold
Interest-bearing time deposits in banks
Securities available for sale
Restricted investment security
Accrued interest receivable
Accrued Interest payable
Noninterest-bearing deposits
Interest-bearing transactional and savings accounts
Federal Home Loan Bank borrowings
Junior subordinated debentures

Discounted cash flows using interest rates currently being offered on instruments with similar terms and with similar credit quality:

Loans
Time deposits

The estimated fair value of the Company's financial instruments is as follows (dollars in thousands):

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and due from banks	$ 198,816	$ 198,816	$ 139,367	$ 139,367
Federal funds sold	18,148	18,148	43,300	43,300
Interest-bearing time deposits in banks	15,735	15,735	6,471	6,471
Securities available for sale	94,864	94,864	64,872	64,872
Restricted investment security	671	671	667	667
Loans – net	701,375	708,340	640,517	644,607
Accrued interest receivable	2,316	2,316	1,947	1,947
Financial Liabilities				
Deposits:				
Noninterest-bearing and interest-bearing transactional and savings accounts	619,597	619,597	522,266	522,266
Time deposits	363,298	364,140	335,286	336,071
Federal Home Loan Bank borrowings	3,981	3,981	4,734	4,734
Junior subordinated debentures	15,465	15,465	15,465	15,465
Accrued interest payable	710	710	666	666

The fair value of off-balance sheet financial instruments is not considered significant at December 31, 2016 and 2015.

17. Branch Acquisition

In December 2016, the Company acquired certain assets and liabilities of two branches of another financial institution. As a result of the acquisition, the Company received assets totaling approximately $57.3 million comprised primarily of $11.2 million in loans, $4.4 million of real and personal property at fair value, and $41.6 million in cash. The Company assumed $57.3 million of liabilities primarily comprised of $57.2 million in deposits. The Company did not acquire any significant intangible assets as a result of this acquisition.