Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

RECEIVED
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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, Jeff Stewart
Name of the Holding Company Director and Official

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.

Jeff D. Stewart
Signature of Holding Company Director and Official

03/28/2017
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

Comanche National Corporation
Legal Title of Holding Company

P.O. Box 191
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Comanche	TX	76442

100 East Central, Comanche TX 76442
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Jeff Stewart	President

325-356-2577
Area Code / Phone Number / Extension

325-356-2752
Area Code / FAX Number

jstewart@comanchenational.com
E-mail Address

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

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

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID 2973238
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.

Comanche National Corporation of Delaware
Legal Title of Subsidiary Holding Company

1209 North Orange Street
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City	State	Zip Code
Wilmington	DE	19801

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Form FR Y-6

COMANCHE NATIONAL CORPORATION

Comanche, Texas

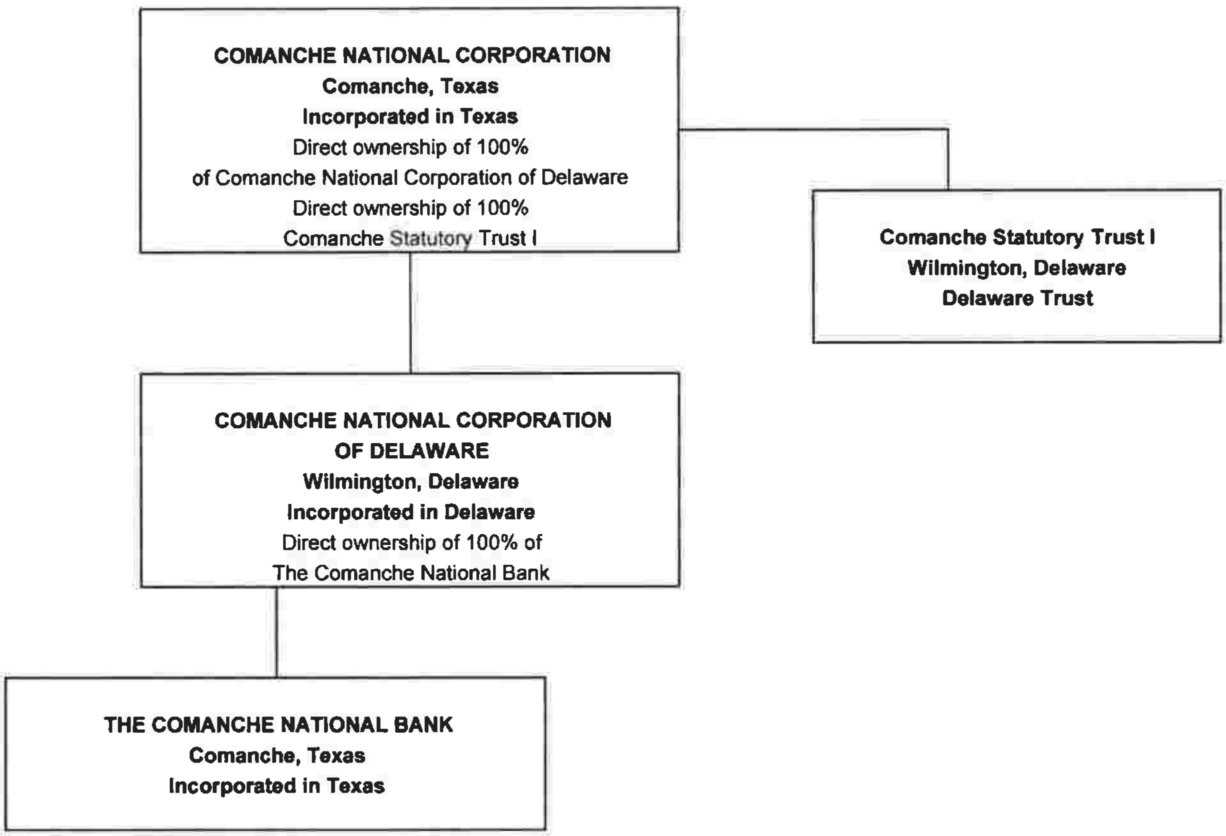
Fiscal Year Ending December 31, 2016

Report Item

1: a. The BHC is not required to file form 10(k) with the SEC.

b. The BHC does prepare an annual report for its shareholders.
Enclosed are two copies of the Audited Financial Statements.

2. Organizational Chart



None of these entities have a LEI number.

Results: A list of branches for your depository institution: COMANCHE NATIONAL BANK, THE (ID_RSSD: 949556).
This depository institution is held by COMANCHE NATIONAL CORPORATION (2973238) of COMANCHE, 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)	949556	COMANCHE NATIONAL BANK, THE	100 EAST CENTRAL STREET	COMANCHE	TX	76442	COMANCHE	UNITED STATES	2015	0	COMANCHE NATIONAL BANK, THE	949556	
OK		Full Service	4611235	BANK OF JACKSBORO, THE	1220 NORTH MAIN STREET	JACKSBORO	TX	76458	JACK	UNITED STATES	Not Required	Not Required	COMANCHE NATIONAL BANK, THE	949556	
OK		Full Service	3538885	MILLSAP BRANCH	107 FANNIN STREET	MILLSAP	TX	76066	PARKER	UNITED STATES	207802	4	COMANCHE NATIONAL BANK, THE	949556	
OK		Full Service	4985897	MINERAL WELLS BRANCH	701 E. HUBBARD	MINERAL WELLS	TX	76067	PALO PINTO	UNITED STATES	Not Required	Not Required	COMANCHE NATIONAL BANK, THE	949556	
OK		Full Service	1865729	MINGUS BRANCH	117 HIGHWAY 193	MINGUS	TX	76463	PALO PINTO	UNITED STATES	207800	2	COMANCHE NATIONAL BANK, THE	949556	
OK		Full Service	3538867	PALO PINTO BRANCH	539 OAK STREET	PALO PINTO	TX	76484	PALO PINTO	UNITED STATES	207801	3	COMANCHE NATIONAL BANK, THE	949556	
OK		Full Service	399067	SANTO BRANCH	14003 SOUTH FM 4	SANTO	TX	76472	PALO PINTO	UNITED STATES	3750	1	COMANCHE NATIONAL BANK, THE	949556	
OK		Full Service	4366450	COOL BRANCH	9702 MINERAL WELLS HIGHWAY	WEATHERFORD	TX	76088	PARKER	UNITED STATES	531917	5	COMANCHE NATIONAL BANK, THE	949556	

FORM FR Y-6
COMANCHE NATIONAL CORPORATION
December 31, 2016

REPORT ITEM 3: SHAREHOLDERS

Current shareholders with ownership, control or holdings of 5% or more with power to vote as of 12-31-16.

(1)(a) NAME AND ADDRESS	(1)(b) CITIZENSHIP	(1)(c) SHARES OWNED, CONTROLLED, OR HELD WITH POWER TO VOTE	
		NUMBER	PERCENT*
William Kendall Nix Fort Worth, Texas	USA	107,568	26.75%
Beverlee E. Nix Weir, Texas	USA	107,567	26.75%
Estate of W. L. Nix W. K. Nix, Ind Co-Executor Beverlee Nix, Ind Co-Executor Fort Worth, Texas	USA	27,115	6.74%

(2) Shareholders not listed in 3(1) that had ownership, control or holdings of 5% or more with the power to vote during fiscal year ending 12-31-16.

None			

* Total voting shares December 31, 2016 402,152

FORM FR Y-6
COMANCHE NATIONAL CORPORATION
December 31, 2016

REPORT ITEM 4: Directors, Officers and Principal Shareholders

(1) & (2) Name & Address Principal Occupation	Organization	(3)(a)&(3)(b)&(3)(c) Title or Position With	4(a)&4(b)&4(c) Percentage of Voting Shares
Jeff Stewart Comanche, Texas	Comanche National Corporation	President/ Director	0.52%
Banker	Comanche National Corporation of Delaware	Vice President/ Secretary/Treasurer Director	N/A
	Comanche National Bank	President/CEO/Director	N/A
	Other Business	None	N/A
William K. Nix Fort Worth, Texas	Comanche National Corporation	Chairman/CEO/ Director	26.75%
Consultant	Comanche National Corporation of Delaware	President/ Director	N/A
	Comanche National Bank	Chairman/ Director	N/A
	Other Business: Howling Wolf Holdings	President	50.00%
James H. Dudley Comanche, Texas	Comanche National Corporation	Director	2 49%
Attorney	Comanche National Corporation of Delaware	Director	N/A
	Comanche National Bank	Director	N/A
	Other Business: Woodley & Dudley Law Office	Partner	50.00%
	Dudley Bros., Ltd.	Partner	N/A
	4-J Ranch Co, Ltd.	Partner	25.00%
	Dudley Bros. I, LLC	Partner	N/A

FORM FR Y-6
COMANCHE NATIONAL CORPORATION
December 31, 2016

REPORT ITEM 4: Directors, Officers and Principal Shareholders

John E. Dudley Comanche, Texas	Comanche National Corporation	Director	0.77%
	Comanche National Corporation of Delaware	None	N/A
Rancher	Comanche National Bank	Director	N/A
	Other Business:		
	Dudley Bros., Ltd.	Partner	N/A
	4-J Ranch Co., Ltd.	General Partner	N/A
	JJ Ranch	Partner	25.00%
	Dudley Bros. I, Ltd.	President	N/A
Frazier Clark Comanche, Texas	Comanche National Corporation	Director	0.02%
	Comanche National Corporation of Delaware	None	N/A
Rancher	Comanche National Bank	Director	N/A
	Other Business	None	N/A
Elton Ray McDonald Comanche, Texas	Comanche National Corporation	Director	0.19%
	Comanche National Corporation of Delaware	None	N/A
Farmer	Comanche National Bank	Director	N/A
	Other Business	None	N/A
David H. Beene San Antonio, Texas	Comanche National Corporation	Director	0.75%
	Comanche National Corporation of Delaware	None	N/A
Retired Office Manager	Comanche National Bank	Director	N/A
	Other Business	None	N/A

FORM FR Y-6
COMANCHE NATIONAL CORPORATION
December 31, 2016

REPORT ITEM 4: Directors, Officers and Principal Shareholders

Ellison Carter Santo, Texas	Comanche National Corporation	Director	0.27%
Rancher	Comanche National Corporation of Delaware	Director	N/A
	Comanche National Bank	Director	N/A
	Other Business:		
	E. C. Cattle Co., Inc.	Owner	100.00%
	E. C. Trucking Co.	Partner	45.00%
	Carter - Lewis	Partner	50.00%
	Carter Brothers	Partner	50.00%
Estate of W. L. Nix W. K. Nix and Beverlee E. Nix, Co-Executors	Comanche National Corporation	Principal Shareholder	6.74%
Fort Worth, Texas Estate for Investor	Comanche National Corporation of Delaware	None	N/A
	Comanche National Bank	None	N/A
	Other Business	None	N/A
Beverlee E. Nix Weir, Texas	Comanche National Corporation	Principal Shareholder	26.75%
Veterinarian of Public Health	Comanche National Corporation of Delaware	None	N/A
	Comanche National Bank	None	N/A
	Other Business	None	N/A

FORM FR Y-6

COMANCHE NATIONAL CORPORATION OF DELAWARE

DECEMBER 31, 2016

REPORT ITEM 3: SHAREHOLDERS

Current shareholders with ownership, control or holdings of 5% or more with power to vote as of 12-31-16.

(1)(a) NAME AND ADDRESS	(1)(b) COUNTRY OF INCORP.	(1)(c) SHARES OWNED, CONTROLLED, OR HELD WITH POWER TO VOTE	
		NUMBER	PERCENT
Comanche National Corporation Comanche, Texas	USA	450	100.00%

(2) Shareholder not listed in 3(1) that had ownership, control or holdings of 5% or more with the power to vote during the fiscal year ending 12-31-16.

NONE			

FORM FR Y-6
COMANCHE NATIONAL CORPORATION OF DELAWARE
December 31, 2016

REPORT ITEM 4: Directors, Officers and Principal Shareholders

(1) & (2) Name & Address Principal Occupation	Organization	(3)(a)&(3)(b)&(3)(c) Title or Position With	4(a)&4(b)&4(c) Percentage of Voting Shares
Jeff Stewart Comanche, Texas	Comanche National Corporation of Delaware	Vice President/ Secretary/Treasurer Director	N/A
Banker	Comanche National Bank	President/CEO/Director	N/A
	Other Business	None	N/A
William K. Nix Fort Worth, Texas	Comanche National Corporation of Delaware	President/ Director	N/A
Consultant	Comanche National Bank	Chairman/ Director	N/A
	Other Business: Howling Wolf Holdings	President	50.00%
James H. Dudley Comanche, Texas	Comanche National Corporation of Delaware	Director	N/A
Attorney	Comanche National Bank	Director	N/A
	Other Business: Woodley & Dudley Law Office	Partner	50.00%
	Dudley Bros., Ltd	Partner	N/A
	4-J Ranch Co., Ltd.	Partner	25.00%
	Dudley Bros. I, Ltd.	Partner	N/A
Ellison Carter Santo, Texas	Comanche National Corporation of Delaware	Director	N/A
Rancher	Comanche National Bank	Director	N/A
	Other Business: E. C. Cattle Co., Inc.	Owner	100.00%
	E. C. Trucking Co.	Partner	45.00%
	Carter - Lewis	Partner	50.00%
	Carter Brothers	Partner	50.00%
Comanche National Corporation Comanche, Texas	Comanche National Corporation of Delaware	Principal Shareholder	100.00%
Bank Holding Company	Comanche National Bank	None	N/A
	Other Business	None	N/A

COMANCHE NATIONAL CORPORATION
COMANCHE, TEXAS

AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2016 AND 2015

COMANCHE NATIONAL CORPORATION
AND SUBSIDIARIES
COMANCHE, TEXAS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND
AUDITED BANK ONLY FINANCIAL STATEMENTS
FOR

The Comanche National Bank

December 31, 2016 and 2015

CONTENTS

AUDITED FINANCIAL STATEMENTS:

	PAGE
Independent Auditor's Report	1
Comanche National Corporation and Subsidiaries (Consolidated):	
Balance Sheets	3
Statements of Income	4
Statements of Comprehensive Income (Loss)	5
Statements of Changes in Shareholders' Equity	6
Statements of Cash Flows	7
The Comanche National Bank (Bank Only):	
Balance Sheets	9
Statements of Income	10
Statements of Comprehensive Income (Loss)	11
Statements of Changes in Shareholder's Equity	12
Statements of Cash Flows	13
Notes to Financial Statements:	
Consolidated and Bank Only	15

OTHER FINANCIAL INFORMATION:

Comanche National Corporation and Subsidiaries:	
Consolidating Balance Sheet	50
Consolidating Statement of Income	51
Non-Interest Expense – The Comanche National Bank (Bank Only)	52

Stovall Grandey & Allen LLP

500 W. 7th Street
Suite 900
Fort Worth, Texas
76102-4702

Phone 817-632-2500
Fax 817-632-2598

www.sga-cpas.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
of Comanche National Corporation
Comanche, Texas

We have audited the accompanying consolidated financial statements of Comanche National Corporation and Subsidiaries which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying balance sheets of The Comanche National Bank (Bank Only) as of December 31, 2016 and 2015 and the related statements of income, comprehensive income (loss), changes in shareholder's equity and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal controls 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Comanche National Corporation and Subsidiaries and The Comanche National Bank (Bank Only) as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other financial information on pages 50-52 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, L.L.P.
Fort Worth, Texas
February 7, 2017

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 3	$ 6,498,618	$ 6,808,502
Interest-bearing deposits maturing in less than three months	12,715,787	1,220,827
Total cash and cash equivalents	19,214,405	8,029,329
Investment securities - Note 4:		
Available-for-sale	170,089,561	188,920,537
Held-to-maturity	500,904	608,748
Federal Home Loan Bank and Federal Reserve Bank stock, at cost - Note 2	328,450	328,050
Investment in unconsolidated subsidiary	110,000	126,000
Loans, net of deferred loan fees and allowance for loan losses - Note 5	122,655,747	108,952,349
Premises and equipment, net of accumulated depreciation - Note 6	5,720,836	5,483,553
Other foreclosed and repossessed assets	39,096	138,488
Net deferred tax assets - Note 11	1,208,967	-
Goodwill - Note 7	3,814,844	3,814,844
Bank-owned life insurance - Note 8	6,567,159	6,380,007
Accrued interest receivable	1,782,325	1,835,205
Other assets	334,084	426,223
Total Assets	$ 332,366,378	$ 325,043,333
LIABILITIES		
Deposits - Note 9	$ 289,910,338	$ 280,810,716
Other liabilities:		
Dividends payable	502,690	508,305
Accrued interest payable	123,893	117,076
Deferred compensation plans - Note 16	689,300	432,720
Other accrued expenses	873,870	783,217
Federal income taxes payable:		
Current	-	17,394
Deferred - Note 11	-	425,440
Debentures payable - Note 10	3,811,000	4,311,000
Total other liabilities	6,000,753	6,595,152
Total Liabilities	295,911,091	287,405,868
Commitments and contingencies - Notes 13, 14, 15, 17 and 18		
SHAREHOLDERS' EQUITY		
Common stock, no par value, stated value $2 per share:		
Authorized - 2,000,000 shares		
Issued - 450,000 shares	900,000	900,000
Capital surplus	17,446,851	17,446,851
Retained earnings	22,087,408	19,940,317
Accumulated other comprehensive income (loss), net of tax (benefit) of ($661,073) in 2016 and $890,520 in 2015	(1,283,259)	1,728,657
Treasury stock at cost 47,848 and 43,356 shares at December 31, 2016 and 2015, respectively	(2,695,713)	(2,378,360)
Total Shareholders' Equity	36,455,287	37,637,465
Total Liabilities and Shareholders' Equity	$ 332,366,378	$ 325,043,333

The accompanying notes are an integral part of these financial statements.

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Interest income		
Interest and fees on loans	$ 7,016,617	$ 6,570,888
Interest on investment securities:		
Taxable	2,555,703	3,227,950
Exempt from federal income tax	1,581,111	1,505,103
	4,136,814	4,733,053
Interest on federal funds sold and deposits in correspondent banks	28,230	24,067
Other interest	2,976	2,618
Total interest income	11,184,637	11,330,626
Interest expense		
On deposits	1,264,352	1,333,443
On borrowings	102,981	90,304
Total interest expense	1,367,333	1,423,747
Net interest income	9,817,304	9,906,879
Provision for loan losses - Note 5	-	-
Net interest income after provision for loan losses	9,817,304	9,906,879
Non-interest income		
Service charges on deposit accounts	772,224	728,904
Net gain on sales of investment securities (includes $126,701 and $310,428 for 2016 and 2015, respectively, of accumulated other comprehensive income reclassifications for unrealized gains on available-for-sale securities)	212,265	291,055
Net gain (loss) on sales of other real estate	6,684	(5,235)
Loss on sale of premises and equipment	-	(5,105)
Earnings on bank-owned life insurance - Note 8	187,152	181,809
Other	485,607	456,170
Total non-interest income	1,663,932	1,647,598
Non-interest expense		
Salaries and employee benefits	5,337,901	5,080,756
Occupancy expense	582,432	524,580
Furniture and equipment expense	481,205	529,259
Other	1,657,541	1,641,673
Total non-interest expense	8,059,079	7,776,268
Income before income taxes	3,422,157	3,778,209
Federal income tax - Note 11	569,054	719,190
Net Income	$ 2,853,103	$ 3,059,019

The accompanying notes are an integral part of these financial statements.

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Net Income	$ 2,853,103	$ 3,059,019
Other comprehensive loss, net of tax benefit		
Securities available-for-sale:		
Change in net unrealized gains/losses, net of tax benefit, during the year	(2,885,215)	(559,256)
Reclassification adjustment for net realized gains on sales, net of tax, during the year	(126,701)	(310,428)
Other comprehensive loss, net of tax benefit	(3,011,916)	(869,684)
Comprehensive Income (Loss)	$ (158,813)	$ 2,189,335

The accompanying notes are an integral part of these financial statements.

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2015	$ 900,000	$ 17,446,851	$ 17,593,715	$ 2,598,341	$ (2,208,169)	$ 36,330,738
Purchase treasury stock					(170,191)	(170,191)
Comprehensive income (loss) for the year ended December 31, 2015			3,059,019	(869,684)		2,189,335
Dividends declared - $1.75 per share			(712,417)			(712,417)
Balance at December 31, 2015	900,000	17,446,851	19,940,317	1,728,657	(2,378,360)	37,637,465
Purchase treasury stock					(317,353)	(317,353)
Comprehensive income (loss) for the year ended December 31, 2016			2,853,103	(3,011,916)		(158,813)
Dividends declared - $1.75 per share			(706,012)			(706,012)
Balance at December 31, 2016	$ 900,000	$ 17,446,851	$ 22,087,408	$ (1,283,259)	$ (2,695,713)	$ 36,455,287

The accompanying notes are an integral part of these financial statements.

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,853,103	$ 3,059,019
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	342,083	368,467
Deferred income tax benefit	(82,815)	(110,055)
Stock dividends	(400)	(400)
Net premium amortization on investment securities	2,425,647	2,543,252
Net gain on sales of investment securities	(212,265)	(291,055)
Net (gain) loss on sales of other real estate	(6,684)	5,235
Loss on sale of premises and equipment	-	5,105
Earnings on bank-owned life insurance	(187,152)	(181,809)
(Increase) decrease in accrued income and other assets	124,656	(248,658)
Increase in accrued expenses and other liabilities	336,656	332,084
Total adjustments	2,739,726	2,422,166
Net Cash Provided by Operating Activities	5,592,829	5,481,185
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities:		
Available-for-sale	(43,577,415)	(49,731,996)
Held-to-maturity	-	(317,000)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	5,900,000	3,415,000
Held-to-maturity	107,822	117,822
Proceeds from sales of investment securities:		
Available-for-sale	23,671,869	13,577,807
Principal payments on mortgage-backed securities:		
Available-for-sale	26,059,633	30,314,379
Held-to-maturity	21	128
Net (increase) decrease in loans	(13,576,959)	(8,350,338)
Proceeds from partial redemption of common stock held in trust subsidiary	16,000	16,000
Proceeds from sale of premises and equipment	-	298,125
Purchases of premises and equipment	(579,366)	(743,726)
Net Cash Used by Investing Activities	$ (1,978,395)	$ (11,403,799)

The accompanying notes are an integral part of these financial statements.

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	$ 12,732,757	$ 2,821,014
Net decrease in certificates of deposit	(3,633,135)	(15,050,274)
Purchases of treasury stock	(317,353)	(170,191)
Payments on debentures	(500,000)	(500,000)
Dividends paid	(711,627)	(715,643)
Net Cash Provided (Used) by Financing Activities	7,570,642	(13,615,094)
Net increase (decrease) in cash and cash equivalents	11,185,076	(19,537,708)
Cash and cash equivalents at beginning of year	8,029,329	27,567,037
Cash and cash equivalents at end of year	$ 19,214,405	$ 8,029,329
Supplemental Schedule of Operating and Investing Activities:		
Interest paid	$ 1,360,516	$ 1,429,301
Income tax paid	683,675	765,185
Other real estate acquired through loan foreclosure	98,760	138,488
Bank financed sales of other real estate	211,172	32,760

THE COMANCHE NATIONAL BANK
BALANCE SHEETS
(BANK ONLY)
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 6,487,880	$ 6,797,285
Interest-bearing deposits maturing in less than three months	12,715,787	1,220,827
Total cash and cash equivalents	19,203,667	8,018,112
Investment securities:		
Available-for-sale	170,089,561	188,920,537
Held-to-maturity	500,904	608,748
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	328,450	328,050
Loans, net of deferred loan fees and allowance for loan losses	122,655,747	108,952,349
Premises and equipment, net of accumulated depreciation	5,689,897	5,452,614
Other foreclosed and repossessed assets	39,096	138,488
Net deferred tax assets	1,208,967	-
Goodwill	3,814,844	3,814,844
Bank-owned life insurance	6,567,159	6,380,007
Accrued interest receivable	1,782,189	1,835,084
Other assets	319,671	426,223
Total Assets	$ 332,200,152	$ 324,875,056
LIABILITIES		
Deposits	$ 291,879,908	$ 282,868,586
Other liabilities:		
Accrued interest payable	119,190	112,934
Deferred compensation plans	689,300	432,720
Other accrued expenses	873,870	776,324
Federal income taxes payable:		
Current	21,817	54,504
Deferred	-	425,440
Total other liabilities	1,704,177	1,801,922
Total Liabilities	293,584,085	284,670,508
Commitments and contingencies - Notes 13, 14, 15, 17 and 18		
SHAREHOLDER'S EQUITY - Note 20		
Common stock, $20 par value per share:		
Authorized, issued and outstanding - 45,000 shares	900,000	900,000
Capital surplus	5,238,270	5,238,270
Retained earnings	33,761,056	32,337,621
Accumulated other comprehensive income (loss), net of tax (benefit) of ($661,073) in 2016 and $890,520 in 2015	(1,283,259)	1,728,657
Total Shareholder's Equity	38,616,067	40,204,548
Total Liabilities and Shareholder's Equity	$ 332,200,152	$ 324,875,056

The accompanying notes are an integral part of these financial statements.

THE COMANCHE NATIONAL BANK
STATEMENTS OF INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Interest income		
Interest and fees on loans	$ 7,016,617	$ 6,570,888
Interest on investment securities:		
Taxable	2,555,703	3,227,950
Exempt from federal income tax	1,581,111	1,505,103
	4,136,814	4,733,053
Interest on federal funds sold and deposits in correspondent banks	28,230	24,067
Total interest income	11,181,661	11,328,008
Interest expense		
On deposits	1,264,352	1,333,443
On borrowings	1,086	1,126
Total interest expense	1,265,438	1,334,569
Net interest income	9,916,223	9,993,439
Provision for loan losses	-	-
Net interest income after provision for loan losses	9,916,223	9,993,439
Non-interest income		
Service charges on deposit accounts	772,224	728,904
Net gain on sales of investment securities (includes $126,701 and $310,428 for 2016 and 2015, respectively, of accumulated other comprehensive gain reclassifications for unrealized gains on available-for-sale securities)	212,265	291,055
Net gain (loss) on sales of other real estate	6,684	(5,235)
Earnings on bank-owned life insurance	187,152	181,809
Other	485,607	456,170
Total non-interest income	1,663,932	1,652,703
Non-interest expense		
Salaries and employee benefits	5,337,901	5,080,756
Occupancy expense	581,732	522,506
Furniture and equipment expense	481,205	529,259
Other	1,650,599	1,626,265
Total non-interest expense	8,051,437	7,758,786
Income before income taxes	3,528,718	3,887,356
Federal income tax	605,283	756,300
Net Income	$ 2,923,435	$ 3,131,056

The accompanying notes are an integral part of these financial statements.

THE COMANCHE NATIONAL BANK
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Net Income	$ 2,923,435	$ 3,131,056
Other comprehensive loss, net of tax benefit		
Securities available-for-sale:		
Change in net unrealized gains/losses, net of tax benefit, during the year	(2,885,215)	(559,256)
Reclassification adjustment for net realized gains on sales, net of tax, during the year	(126,701)	(310,428)
Other comprehensive loss, net of tax benefit	(3,011,916)	(869,684)
Comprehensive Income (Loss)	$ (88,481)	$ 2,261,372

The accompanying notes are an integral part of these financial statements.

THE COMANCHE NATIONAL BANK
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2015	$ 900,000	$ 5,238,270	$ 30,606,565	$ 2,598,341	$ 39,343,176
Comprehensive income (loss) for the year ended December 31, 2015			3,131,056	(869,684)	2,261,372
Cash dividends - $31.11 per share			(1,400,000)		(1,400,000)
Balance at December 31, 2015	900,000	5,238,270	32,337,621	1,728,657	40,204,548
Comprehensive income (loss) for the year ended December 31, 2016			2,923,435	(3,011,916)	(88,481)
Cash dividends - $33.33 per share			(1,500,000)		(1,500,000)
Balance at December 31, 2016	$ 900,000	$ 5,238,270	$ 33,761,056	$ (1,283,259)	$ 38,616,067

The accompanying notes are an integral part of these financial statements.

THE COMANCHE NATIONAL BANK
STATEMENTS OF CASH FLOWS
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,923,435	$ 3,131,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	342,083	368,467
Deferred income tax benefit	(82,815)	(110,055)
Stock dividends	(400)	(400)
Net premium amortization on investment securities	2,425,647	2,543,252
Net gain on sales of investment securities	(212,265)	(291,055)
Net (gain) loss on sales of other real estate	(6,684)	5,235
Earnings on bank-owned life insurance	(187,152)	(181,809)
(Increase) decrease in accrued income and other assets	139,084	(283,820)
Increase in accrued expenses and other liabilities	327,695	362,454
Total adjustments	2,745,193	2,412,269
Net Cash Provided by Operating Activities	5,668,628	5,543,325
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities:		
Available-for-sale	(43,577,415)	(49,731,996)
Held-to-maturity	-	(317,000)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	5,900,000	3,415,000
Held-to-maturity	107,822	117,822
Proceeds from sales of investment securities:		
Available-for-sale	23,671,869	13,577,807
Principal payments on mortgage-backed securities:		
Available-for-sale	26,059,633	30,314,379
Held-to-maturity	21	128
Net increase in loans	(13,576,959)	(8,350,338)
Purchases of premises and equipment	(579,366)	(409,557)
Net Cash Used by Investing Activities	$ (1,994,395)	$ (11,383,755)

The accompanying notes are an integral part of these financial statements.

THE COMANCHE NATIONAL BANK
STATEMENTS OF CASH FLOWS, Continued
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	$ 12,644,457	$ 2,753,555
Net decrease in certificates of deposit	(3,633,135)	(15,050,274)
Dividends paid	(1,500,000)	(1,400,000)
Net Cash Provided (Used) by Financing Activities	7,511,322	(13,696,719)
Net increase (decrease) in cash and cash equivalents	11,185,555	(19,537,149)
Cash and cash equivalents at beginning of year	8,018,112	27,555,261
Cash and cash equivalents at end of year	$ 19,203,667	$ 8,018,112

	2016	2015
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	$ 1,259,182	$ 1,339,970
Income tax paid	720,784	800,341
Other real estate acquired through loan foreclosure	98,760	138,488
Bank financed sales of other real estate	211,172	32,760

Note 1 History

Comanche National Corporation ("Corporation"), a Texas Corporation, and Comanche National Corporation of Delaware ("Delaware"), a Delaware Corporation, were chartered on October 11, 2000 and March 8, 2001, respectively, to serve as first and second tier bank holding companies.

The Corporations were inactive until March 31, 2001 when Comanche National Corporation and The Comanche National Bank ("Bank") entered into a Share Exchange Agreement in order to effect the acquisition of 100 percent of the issued and outstanding common stock of the Bank. Each eligible Bank Shareholder received ten shares of Corporation stock in exchange for each share of Bank stock owned.

After the Corporation had completed the acquisition, the Bank stock was transferred to Delaware in exchange for 450 shares (100%) of the issued and outstanding common stock of the Delaware Company. Consequently, the Corporation holds 100% of the common stock of Delaware and Delaware holds 100% of the common stock of the Bank.

On August 10, 2006, Comanche National Corporation acquired 100% of the issued and outstanding common stock of First National Bank of Santo ("Santo"). After the Corporation had completed this acquisition, the stock of Santo was contributed to the Corporation's wholly-owned subsidiary, Comanche National Corporation of Delaware.

On February 29, 2008, The Comanche National Bank and First National Bank of Santo merged with The Comanche National Bank being the surviving entity.

Comanche National Corporation owns 100% of Comanche Statutory Trust I ("Trust") which was formed August 9, 2006. Trust was formed to facilitate the acquisition of long-term funding.

Nature of Operations

The Corporation generates commercial, mortgage and consumer loans and receives deposits from customers located in Comanche, Palo Pinto, Parker and Jack Counties, Texas and the surrounding areas. The Bank operates under a national bank charter and provides full banking services. As a national bank, the Bank is subject to regulation by the Office of the Comptroller of the Currency.

Note 2 Summary of Significant Accounting Policies

The consolidated financial statements of the Corporation include its accounts and those of its one hundred percent (100%) owned subsidiary, Comanche National Corporation of Delaware and Delaware's one hundred percent (100%) owned subsidiary, The Comanche National Bank. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of all these entities are in accordance with accounting principles generally accepted in the United States of America.

Note 2 Summary of Significant Accounting Policies, continued

The Corporation determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States of America. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Corporation consolidates voting interest entities in which it has all the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Corporation's wholly owned subsidiary, Comanche Statutory Trust I, is a VIE for which the Corporation is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Corporation's consolidated financial statements.

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, the 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.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Corporation's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Corporation has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Corporation to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Note 2 Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in cash and amounts due from depository institutions, interest-bearing deposits in other banks maturing in three months or less and federal funds sold.

Investment Securities

The Corporation accounts for investment securities according to authoritative guidance issued by the Financial Accounting Standards Board (FASB). Debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income and, when applicable, are reported as a reclassification adjustment, net of tax (benefit), in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other than temporary result in writedowns of the individual securities to their fair value. The related writedowns are included in earnings as realized losses. In estimating other-than temporary impairment losses, management considers (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 Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank and Federal Reserve Bank Stock

At December 31, 2016 and 2015, the Corporation had $184,150 recorded as stock in the Federal Reserve Bank (Fed). A minimum investment in Fed stock is required based on the amount of the Bank's capital. At December 31, 2016 and 2015, the Corporation had $144,300 and $143,900, respectively, recorded as stock in the Federal Home Loan Bank (FHLB). A minimum investment in FHLB stock is required to be a member of the FHLB. As a result of this, the Fed stock and FHLB stock are classified as restricted investment securities, carried at cost and evaluated annually for impairment. During 2016 and 2015, no impairment expense was recorded.

Note 2 Summary of Significant Accounting Policies, continued

Loans

Loans are stated at the principal amount outstanding less deferred loan fees and the allowance for loan losses. Interest income on loans is recognized based upon the principal amounts outstanding. The accrual of interest on a loan is discontinued when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal. All interest accrued but not collected for loans that are placed on nonaccrual 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 the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due status is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is comprised of amounts charged against income in the form of the provision for loan losses, less charged-off loans, net of recoveries. Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses.

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

The allowance consists of specific, general and unallocated components. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Note 2 Summary of Significant Accounting Policies, continued

Loan Origination Fees and Costs

Loan origination fees are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method based upon the estimated useful lives of the assets.

Maintenance and repairs are charged to operating expenses. Renewals and betterments are added to the asset accounts and depreciated over the periods benefited. Depreciable assets sold or retired are removed from the asset and related accumulated depreciation accounts and any gain or loss is reflected in the income and expense accounts.

Other Real Estate

Other real estate is foreclosed property held pending disposition and is initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. At foreclosure, if the fair value of the real estate acquired less estimated selling costs is less than the Corporation's recorded investment in the related loan, a writedown is recognized through a charge to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to income, if necessary, to reduce the carrying value of the property to its fair value less estimated selling costs. Sales of other real estate are accounted for according to authoritative guidance issued by the FASB.

Federal Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the tax and financial reporting of the allowance for loan losses, non-accrual loans, securities, deferred compensation and accumulated depreciation.

The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Corporation, Delaware and the Bank join in filing consolidated federal income tax returns. Taxes are paid by each entity to the Corporation based on each entity's separate taxable income.

Note 2 Summary of Significant Accounting Policies, continued

Federal Income Taxes, continued

The Companies maintain their records for both financial reporting and tax purposes on the accrual basis of accounting.

In accordance with authoritative guidance issued by the FASB, the Corporation performed an evaluation to determine if there were any uncertain tax positions that would have an impact on the consolidated financial statements. No uncertain tax positions were identified. The December 31, 2013 through December 31, 2016 tax years remain subject to examination by the Internal Revenue Service. The Corporation does not believe that any reasonably possible changes will occur within the next 12 months which will have a material impact on the consolidated financial statements. The Corporation records incurred penalties and interest in other non-interest expense. There were no penalties or interest assessed by taxing authorities during 2016 or 2015.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. The Corporation has adopted authoritative guidance issued by the FASB which eliminates amortization of goodwill associated with business combinations completed after September 30, 2001. Goodwill is periodically assessed for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. The Corporation bases its evaluation on such impairment factors as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. See Note 7 – Goodwill and Other Intangible Assets.

Intangibles and Other Long-Lived Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. The Corporation's intangible assets relate to core deposits. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets with indefinite useful lives are not amortized until their lives are determined to be definite. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. See Note 7 – Goodwill and Other Intangible Assets.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of $98,489 and $89,059 were expensed during 2016 and 2015, respectively.

Note 2 Summary of Significant Accounting Policies, continued

Fair Values of Financial Instruments

The FASB has issued authoritative guidance which requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values 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. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The FASB authoritative guidance excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

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

Cash and Cash Equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Investment Securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Federal Home Loan Bank and Federal Reserve Bank Stock: The carrying amounts reported in the balance sheet for Federal Home Loan Bank and Federal Reserve Bank stock approximate those assets' fair values.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.

Bank-Owned Life Insurance: The carrying amount reported in the balance sheet for bank-owned life insurance approximates those assets' fair values.

Deposits: The fair values disclosed for demand deposits (for example, interest-bearing checking accounts and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates its fair value.

Junior Subordinated Deferrable Interest Debentures: The fair value is estimated based on the quoted market prices of these instruments.

Note 2 Summary of Significant Accounting Policies, continued

Comprehensive Income (Loss)

The Corporation has adopted authoritative guidance issued by the FASB which establishes standards for the reporting and display of comprehensive income (loss) and its components. The Corporation reports comprehensive income (loss) in the Statement of Comprehensive Income (Loss).

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Corporation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Corporation's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the consolidated financial statements are available to be issued. The Corporation has evaluated subsequent events from December 31, 2016 through February 7, 2017, the date the financial statements were available to be issued. The Corporation did not note any subsequent events requiring disclosure or adjustment to these consolidated financial statements.

Reclassifications

Certain accounts have been reclassified in the consolidated financial statements of 2015 to conform to the 2016 presentation.

New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a corporation will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the corporation expects to be entitled in exchange for those goods or services. In doing so, corporations will need to use more judgement and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective for annual reporting periods beginning after December 31, 2018. Implementation of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

Note 2 Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In June 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures.* This guidance amended previous guidance related to repurchase-to-maturity transactions to require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendment requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. The amendment requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, the amendment requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. This amendment became effective during 2015 and did not have a significant impact on the Corporation's consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*, which amended its authoritative guidance related to debt issuance costs. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. However, the recognition and measurement guidance related to debt issuance costs is not affected by this amendment. The amendment is effective for annual and interim reporting periods beginning after December 15, 2015 and is to be applied on a retrospective basis. This amendment became effective in 2016 and did not have a significant impact on the Corporation's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendment has a number of provisions including the requirements that public business entities use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, a separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans receivables), and eliminating the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendment is effective for annual and interim reporting periods beginning after December 15, 2018. The Corporation is evaluating the potential impact of the amendment on the Corporation's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Corporation is evaluating the potential impact of the amendment on the Corporation's consolidated financial statements.

Note 2 Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)* intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Corporation believes the amendments in this update will have an impact on the Corporation's consolidated financial statements and is working to evaluate the significance of that impact.

Note 3 Restrictions on Cash and Due From Banks

The Comanche National Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. At December 31, 2016 and 2015, there were no required reserves.

Note 4 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2016 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-For-Sale				
Obligations of states and political subdivisions	$ 53,284,649	$ 930,015	$ (1,288,826)	$ 52,925,838
U.S. government agency mortgage-backed securities	109,180,658	148,982	(1,660,709)	107,668,931
Collateralized mortgage obligations	9,568,586	23,375	(97,169)	9,494,792
Totals	172,033,893	1,102,372	(3,046,704)	170,089,561
Held-To-Maturity				
Obligations of states and political subdivisions	500,778	3,464	(34,725)	469,517
U.S. government agency mortgage-backed securities	126	1	-	127
Totals	500,904	3,465	(34,725)	469,644
Totals – All Securities	$ 172,534,797	$ 1,105,837	$ (3,081,429)	$ 170,559,205

The balance sheet as of December 31, 2016 reflects the amortized cost of held-to-maturity securities, $500,904, and the fair value of available-for-sale securities, $170,089,561, for a total of $170,590,465. A net unrealized loss of $1,944,332 is included in the available-for-sale investment securities balance. The unrealized loss, net of tax benefit, is included in shareholders' equity.

Note 4 Investment Securities, continued

The amortized cost and fair values of investment securities at December 31, 2015 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-For-Sale				
Obligations of states and political subdivisions	$ 50,135,641	$ 2,316,319	$ (14,356)	$ 52,437,604
U.S. government agency mortgage-backed securities	128,604,338	839,521	(507,439)	128,936,420
Collateralized mortgage obligations	7,561,381	47,009	(61,877)	7,546,513
Totals	186,301,360	3,202,849	(583,672)	188,920,537
Held-To-Maturity				
Obligations of states and political subdivisions	608,601	12,547	-	621,148
U.S. government agency mortgage-backed securities	147	2	-	149
Totals	608,748	12,549	-	621,297
Totals – All Securities	$ 186,910,108	$ 3,215,398	$ (583,672)	$ 189,541,834

The balance sheet as of December 31, 2015 reflects the amortized cost of held-to-maturity securities, $608,748, and the fair value of available-for-sale securities, $188,920,537, for a total of $189,529,285. A net unrealized gain of $2,619,177 is included in the available-for-sale investment securities balance. The unrealized gain, net of tax, is included in shareholders' equity.

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2016 AND 2015

Note 4 Investment Securities, continued

The amortized cost and fair values of held-to-maturity and available-for-sale securities at December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are shown separately, since they are not due at a single maturity date.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	$ 1,340,129	$ 1,348,737	$ 110,822	$ 110,930
After one year through five years	7,366,746	7,644,514	149,956	150,757
After five years through ten years	10,885,123	11,014,664	74,000	65,507
After ten years	33,692,651	32,917,923	166,000	142,323
	53,284,649	52,925,838	500,778	469,517
Mortgage-backed securities	109,180,658	107,668,931	126	127
Collateralized mortgage obligations	9,568,586	9,494,792	-	-
Totals	$ 172,033,893	$ 170,089,561	$ 500,904	$ 469,644

During 2016 and 2015, there were proceeds from sales of available-for-sale investment securities in the amount of $23,671,869 and $13,577,807, respectively, which resulted in gross realized gains of $334,227 and $315,667 and gross realized losses of $121,962 and $24,612, respectively.

Securities with amortized cost of approximately $100,714,000 and $84,749,000 and fair values of approximately $99,422,000 and $85,200,000 at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Note 4 Investment Securities, continued

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, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2016:						
Federal agencies	$ 86,355,712	$ (1,627,307)	$ 6,166,771	$ (130,571)	$ 92,522,483	$ (1,757,878)
State and municipal governments	27,136,179	(1,323,551)	-	-	27,136,179	(1,323,551)
Totals	$ 113,491,891	$ (2,950,858)	$ 6,166,771	$ (130,571)	$ 119,658,662	$ (3,081,429)
December 31, 2015:						
Federal agencies	$ 54,011,841	$ (424,988)	$ 11,064,290	$ (144,328)	$ 65,076,131	$ (569,316)
State and municipal governments	1,879,389	(9,010)	262,970	(5,346)	2,142,359	(14,356)
Totals	$ 55,891,230	$ (433,998)	$ 11,327,260	$ (149,674)	$ 67,218,490	$ (583,672)

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 Corporation to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2016, the 154 debt securities with unrealized losses have depreciated 2.51% from the Corporation's amortized cost basis. These securities are guaranteed by either the U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 5 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2016 and 2015 is as follows:

	2016	2015
Commercial and agricultural loans	$ 20,351,836	$ 18,578,847
Real estate (RE) loans:		
Construction, land and land development	32,486,363	32,841,683
Residential 1-4 family	32,288,036	31,828,861
Commercial RE	29,948,618	18,920,115
Consumer loans	10,499,600	9,732,746
Overdrafts	125,660	75,482
	125,700,113	111,977,734
Less: Deferred loan fees	(41,264)	(55,291)
Allowance for loan losses	(3,003,102)	(2,970,094)
Loans, Net	$ 122,655,747	$ 108,952,349

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(CONSOLIDATED AND BANK ONLY)
DECEMBER 31, 2016 AND 2015

Note 5 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2016 are summarized as follows:

	Commercial/ Agricultural	Construction, Land and Land Development	Residential Real Estate	Commercial Real Estate	Consumer and Other	Unallocated	2016 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 486,691	$ 608,687	$ 847,741	$ 454,535	$ 232,569	$ 339,871	$ 2,970,094
Reallocation of loan loss provisions	13,105	(16,095)	(37,288)	198,070	(40,619)	(117,173)	-
	499,796	592,592	810,453	652,605	191,950	222,698	2,970,094
Loans charged-off	-	-	(20,695)	-	(46,839)	-	(67,534)
Recoveries of loans previously charged-off	2,194	-	629	-	97,719	-	100,542
Net (charge-offs) recoveries	2,194	-	(20,066)	-	50,880	-	33,008
Balance, end of year	$ 501,990	$ 592,592	$ 790,387	$ 652,605	$ 242,830	$ 222,698	$ 3,003,102
Ending balance: Individually evaluated for impairment	$ 20,604	$ -	$ 54,600	$ 100,162	$ 3,221	$ -	$ 178,587
Ending balance: Collectively evaluated for impairment	481,386	592,592	735,787	552,443	239,609	222,698	2,824,515
Balance, end of year	$ 501,990	$ 592,592	$ 790,387	$ 652,605	$ 242,830	$ 222,698	$ 3,003,102
Loans:							
Ending balance: Individually evaluated for impairment	$ 137,359	$ -	$ 363,999	$ 667,749	$ 21,471		$ 1,190,578
Ending balance: Collectively evaluated for impairment	20,214,477	32,486,363	31,924,037	29,280,869	10,603,789		124,509,535
Ending balance total loans	$ 20,351,836	$ 32,486,363	$ 32,288,036	$ 29,948,618	$ 10,625,260		$ 125,700,113

Note 5 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2015 are summarized as follows:

	Commercial/ Agricultural	Construction, Land and Land Development	Residential Real Estate	Commercial Real Estate	Consumer and Other	Unallocated	2015 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 401,725	$ 745,637	$ 850,961	$ 466,595	$ 240,499	$ 290,963	$ 2,996,380
Reallocation of loan loss provisions	33,578	(136,950)	(3,289)	(12,060)	69,813	48,908	-
	435,303	608,687	847,672	454,535	310,312	339,871	2,996,380
Loans charged-off	-	(5)	-	-	(132,054)	-	(132,059)
Recoveries of loans previously charged-off	51,388	5	69	-	54,311	-	105,773
Net (charge-offs) recoveries	51,388	-	69	-	(77,743)	-	(26,286)
Balance, end of year	$ 486,691	$ 608,687	$ 847,741	$ 454,535	$ 232,569	$ 339,871	$ 2,970,094
Ending balance: Individually evaluated for impairment	$ 24,791	$ -	$ 61,692	$ -	$ -	$ -	$ 86,483
Ending balance: Collectively evaluated for impairment	461,900	608,687	786,049	454,535	232,569	339,871	2,883,611
Balance, end of year	$ 486,691	$ 608,687	$ 847,741	$ 454,535	$ 232,569	$ 339,871	$ 2,970,094
Loans:							
Ending balance: Individually evaluated for impairment	$ 158,987	$ -	$ 362,373	$ -	$ -		$ 521,360
Ending balance: Collectively evaluated for impairment	18,419,860	32,841,683	31,466,488	18,920,115	9,808,228		111,456,374
Ending balance total loans	$ 18,578,847	$ 32,841,683	$ 31,828,861	$ 18,920,115	$ 9,808,228		$ 111,977,734

Note 5 Loans and Allowance for Loan Losses, continued

Federal regulations require that the Corporation periodically evaluate the risks inherent in its loan portfolio. In addition, the Corporation's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of loans classified as "Substandard," with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions and values. There is a high possibility of loss in loans classified as "Doubtful." Because of the high possibility of loss, these loans are charged-off by the Corporation through the allowance for loan losses. A loan classified as "Loss" is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as "Loss," it must be charged-off, meaning the amount of the loss is charged against the allowance for loan losses, thereby reducing that reserve. The Corporation also classifies some loans as "Watch" or "Other Assets Especially Mentioned" ("OAEM"). Loans classified as Watch are performing assets and classified as pass credits but have elements of risk that require more monitoring than other performing loans. Loans classified as OAEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

Loans by credit quality risk rating at December 31, 2016 are as follows:

	Pass	Other Assets Especially Mentioned	Sub-Standard	Total
Commercial and agricultural loans	$ 19,489,501	$ 128,999	$ 733,336	$ 20,351,836
Real estate (RE) loans:				
Construction, land and land development	32,364,788	120,432	1,143	32,486,363
Residential 1-4 family	30,408,005	251,021	1,629,010	32,288,036
Commercial RE	29,101,810	-	846,808	29,948,618
Consumer and other loans	10,210,705	183,708	230,847	10,625,260
Subtotal	$ 121,574,809	$ 684,160	$ 3,441,144	125,700,113
Less: Deferred loan fees				(41,264)
Total loans				$125,658,849

Note 5 Loans and Allowance for Loan Losses, continued

Loans by credit quality risk rating at December 31, 2015 are as follows:

	Pass	Other Assets Especially Mentioned	Sub-Standard	Total
Commercial and agricultural loans	$ 17,523,484	$ 163,210	$ 892,153	$ 18,578,847
Real estate (RE) loans:				
Construction, land and land development	32,691,764	79,461	70,458	32,841,683
Residential 1-4 family	29,715,729	-	2,113,132	31,828,861
Commercial RE	17,986,650	-	933,465	18,920,115
Consumer and other loans	9,303,409	283,598	221,221	9,808,228
Subtotal	$ 107,221,036	$ 526,269	$ 4,230,429	111,977,734
Less: Deferred loan fees				(55,291)
Total loans				$111,922,443

An analysis of nonaccrual loans by category at December 31, 2016 and 2015 is as follows:

	2016	2015
Commercial and agricultural loans	$ 137,359	$ 158,987
Real estate (RE) loans:		
Residential 1-4 family	363,999	362,373
Commercial real estate	667,749	-
Consumer and other loans	21,471	-
Total nonaccrual loans	$ 1,190,578	$ 521,360

Note 5 Loans and Allowance for Loan Losses, continued

At December 31, 2016 and 2015, a summary of information pertaining to impaired loans is as follows:

	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016:							
Commercial and agricultural loans	$ 151,425	$ -	$ 137,359	$ 137,359	$ 20,604	$ 148,173	$ -
Real estate (RE) loans:							
Residential 1-4 family	388,862	-	363,999	363,999	54,600	363,186	-
Commercial real estate	674,207	-	667,749	667,749	100,162	333,874	-
Consumer and other loans	21,471	-	21,471	21,471	3,221	10,736	-
Totals	$ 1,235,965	$ -	$ 1,190,578	$ 1,190,578	$ 178,587	$ 855,969	$ -
December 31, 2015:							
Commercial and agricultural loans	$ 165,277	$ -	$ 158,987	$ 158,987	$ 24,791	$ 79,494	$ -
Real estate (RE) loans:							
Construction, land and land development	-	-	-	-	-	67,594	-
Residential 1-4 family	390,438	-	362,373	362,373	61,692	297,622	-
Totals	$ 555,715	$ -	$ 521,360	$ 521,360	$ 86,483	$ 444,710	$ -

At December 31, 2016 and 2015, the Corporation has no commitments to loan additional funds to borrowers whose loans are impaired.

Note 5 Loans and Allowance for Loan Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2016:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More and Still Accruing
Commercial and agricultural loans	$ 109,783	$ -	$ 109,783	$ 20,242,053	$ 20,351,836	$ -
Real estate (RE) loans:						
Construction, land and land development	443,434	-	443,434	32,042,929	32,486,363	-
Residential 1-4 family	630,720	156,041	786,761	31,501,275	32,288,036	-
Commercial RE	132,935	667,749	800,684	29,147,934	29,948,618	-
Consumer and other loans	225,387	21,471	246,858	10,378,402	10,625,260	-
Less: Deferred loan fees	-	-	-	(41,264)	(41,264)	-
Totals	$ 1,542,259	$ 845,261	$ 2,387,520	$ 123,271,329	$ 125,658,849	$ -

The following table illustrates an age analysis of past due loans as of December 31, 2015:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More and Still Accruing
Commercial and agricultural loans	$ 158,987	$ -	$ 158,987	$ 18,419,860	$ 18,578,847	$ -
Real estate (RE) loans:						
Construction, land and land development	106,541	-	106,541	32,735,142	32,841,683	-
Residential 1-4 family	743,471	222,198	965,669	30,863,192	31,828,861	77,790
Commercial RE	16,214	-	16,214	18,903,901	18,920,115	-
Consumer and other loans	113,668	-	113,668	9,694,560	9,808,228	-
Less: Deferred loan fees	-	-	-	(55,291)	(55,291)	-
Totals	$ 1,138,881	$ 222,198	$ 1,361,079	$ 110,561,364	$ 111,922,443	$ 77,790

Note 6 Premises and Equipment

The investment in premises and equipment at December 31, 2016 and 2015, is as follows:

	2016	2015
Land	$ 1,165,277	$ 737,173
Buildings and improvements	6,220,960	5,855,885
Furniture and equipment	3,479,508	3,396,158
Auto	88,998	73,365
Construction and equipment in process	-	334,051
	10,954,743	10,396,632
Less accumulated depreciation	(5,233,907)	(4,913,079)
Bank Premises and Equipment, Net	$ 5,720,836	$ 5,483,553

Depreciation and amortization on premises and equipment charged to expense totaled $342,083 and $368,467 for the years ended December 31, 2016 and 2015, respectively.

Note 7 Goodwill and Other Intangible Assets

On August 10, 2006, the Corporation acquired First National Bank of Santo. A premium of $5,423,335 was paid by the Corporation, of which $1,608,491 was identified as core deposit intangibles. The remaining $3,814,844 was recorded as goodwill. In accordance with authoritative guidance issued by the FASB, the goodwill will not be amortized and is evaluated for impairment annually. No impairment loss was recorded in 2016 or 2015. The core deposit intangibles were amortized using a straight line method over their estimated useful life of 8 years. The core deposit intangibles became fully amortized in 2014. As a result, there was no amortization expense recorded in 2016 and 2015.

Note 8 Bank-Owned Life Insurance

During 2013, the Corporation purchased several life insurance policies for a total cost of $6,000,000. The Corporation is the beneficiary of these policies which insure the lives of selected key officers of the Corporation. During 2016 and 2015, earnings on these insurance policies in the amount of $187,152 and $181,809, respectively, were recorded through non-interest income. The carrying amount of the Bank-Owned Life Insurance at December 31, 2016 and 2015 was $6,567,159 and $6,380,007, respectively. Refer to Note 16 for additional information.

Note 9 Deposits

The carrying amount of deposits at December 31, 2016 and 2015 are as follows:

	2016	2015
Demand	$ 53,611,522	$ 54,112,592
Interest-bearing transaction accounts	102,892,380	88,478,343
Savings	21,200,726	22,380,936
Certificates of deposit less than $100,000	34,118,309	36,992,784
Certificates of deposit $100,000 and over	78,087,401	78,846,061
Total Deposits	$289,910,338	$280,810,716

Maturities of certificates of deposit for each of the next five years are:

2017	$ 89,317,185
2018	22,757,649
2019	130,876
2020	-
2021	-
Total	$ 112,205,710

Note 10 Debentures

On August 9, 2006, Comanche National Corporation issued $6,186,000 Floating Rate Junior Subordinated Deferrable Interest Debentures due September 15, 2036 to Comanche Statutory Trust I ("Trust"). The trust is considered a variable interest entity for which the Corporation is not the primary beneficiary. Accordingly, the accounts of the trust are not included in the Corporation's consolidated financial statements. See Note 2 – Summary of Significant Accounting Policies for additional information about the Corporation's consolidation policy. Details of the Corporation's transactions with this trust are presented below.

On August 9, 2006, Trust issued 6,000 Floating Rate Capital Securities with each Security having a liquidation amount of $1,000 (total of $6,000,000). The securities represent preferred beneficial interests in the assets of the trust. The trust preferred securities will mature on September 15, 2036 and are redeemable with the approval of the Federal Reserve Board in whole or in part at the option of the Corporation at any time after September 15, 2011, and in whole at any time upon the occurrence of certain events affecting their tax or regulatory capital treatment. These Floating Rate Securities had an initial interest rate of 7.04%, which is payable quarterly, beginning September 15, 2006. The initial interest rate was fixed until September 15, 2011 (first five years). Effective September 15, 2011, the interest rate adjusts quarterly and is equal to the 3-month LIBOR rate plus 1.65%. As of December 31, 2016, the interest rate was 2.61344%. Trust also issued 186 Common Securities with each Security having a liquidation amount of $1,000 (total of $186,000). These Common Securities were issued to Comanche National Corporation.

Note 10 Debentures, continued

The proceeds of the offering of trust preferred securities and common equity securities were used to purchase $6,186,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures, which have terms substantially similar to the trust preferred securities. There are no principal payments due on these debentures during the next five years.

During 2016 and 2015, the Corporation made principal payments totaling $500,000 on the debentures which resulted in an outstanding balance of $3,811,000 and $4,311,000 at December 31, 2016 and 2015, respectively. The Trust used the proceeds from these payments to redeem 484 shares of its Capital Securities and 16 shares of its Common Securities which resulted in outstanding Capital Securities totaling $3,701,000 and $4,185,000 and Common Securities totaling $110,000 and $126,000 at December 31, 2016 and 2015, respectively.

Note 11 Income Taxes

The components of the federal income tax provision were as follows:

	2016	2015
Current tax	$ 651,869	$ 829,245
Deferred tax benefit	(82,815)	(110,055)
Tax Provision – Consolidated	$ 569,054	$ 719,190

The principal factors causing a variation from the statutory tax rate are as follows:

	2016	2015
Statutory tax on income (at 34%)	$ 1,163,535	$ 1,284,591
Tax effect of tax exempt interest	(547,040)	(518,701)
Tax effect of other items	(47,441)	(46,700)
Total	$ 569,054	$ 719,190

Note 11 Income Taxes, continued

At December 31, 2016 and 2015, the net deferred tax asset (liability) is comprised of the following temporary differences and their related tax effect as follows:

	2016	2015
Deferred Tax Asset		
Loan loss provisions and allowances for financial reporting purposes in excess of amount allowed for tax	$ 481,508	$ 481,508
Deferred compensation	234,361	147,125
Interest accrued for tax purposes on loans not accruing for financial purposes	19,955	19,527
Unrealized loss on available-for-sale securities	661,073	-
Total Deferred Tax Asset	1,396,897	648,160
Deferred Tax Liability		
Excess of depreciation taken for tax purposes over the amount for financial reporting purposes	(116,521)	(120,667)
Accretion on securities recognized for financial purposes	(70,491)	(61,631)
Stock dividends recognized for financial purposes	(918)	(782)
Unrealized gain on available-for-sale securities	-	(890,520)
Total Deferred Tax Liability	(187,930)	(1,073,600)
Net Deferred Tax Asset (Liability)	$ 1,208,967	$ (425,440)

Note 12 Related Party Transactions

During 2016 and 2015, The Comanche National Bank had transactions made in the ordinary course of business with certain of its officers, directors and principal shareholders. All loans included in such transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

A summary of these transactions follows:

	Balance Beginning of Year	Additions	Amounts Collected	Balance End of Year
For the year ended **December 31, 2016**	$ 4,146,039	$ 12,417,784	$ (13,491,619)	$ 3,072,204
For the year ended **December 31, 2015**	$ 2,593,754	$ 20,781,869	$ (19,229,584)	$ 4,146,039

Note 12 Related Party Transactions, continued

The Corporation held deposits of approximately $6,145,000 and $6,366,000 for related parties at December 31, 2016 and 2015, respectively.

Note 13 Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Corporation has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Corporation uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk were approximately as follows:

	2016	2015
Commitments to extend credit	$ 12,428,900	$ 12,173,300
Standby letters of credit	308,300	308,300

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties.

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

The Corporation has not been required to perform on any financial guarantees during the past two years. The Corporation has not incurred any losses on its commitments in either 2016 or 2015.

Note 14 Commitments and Contingent Liabilities

Comanche National Corporation and Subsidiaries are subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Corporation.

Note 15 Compensated Absences

Employees of the Corporation are entitled to paid vacation and paid sick days, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Corporation's policy is to recognize the costs of compensated absences when actually paid to employees.

Note 16 Employee Benefit Plans

Profit-Sharing 401(k) Plan

The Comanche National Bank amended its profit-sharing plan in 2003 to add a 401(k) provision whereby employees can contribute to the plan a percentage of their salary on a pre-tax basis. This plan merged into the Comanche National Corporation Profit Sharing 401(k) Plan effective July 1, 2007. The Corporation has chosen the safe harbor provision requiring a mandatory 3% contribution of eligible compensation to eligible employees. In addition, The Comanche National Bank may make a discretionary contribution to the plan determined annually by its Board of Directors. The total charge to operations under this plan was $254,845 and $238,997 for the years ended December 31, 2016 and 2015, respectively.

Deferred Compensation Plans

During 2014, the Corporation established a deferred compensation plan for selected officers and a salary continuation plan for the CEO. The deferred compensation plan includes provisions that the deferred compensation is eligible for payout on the fourth anniversary after the deferral if the officer is still employed by the Corporation. The salary continuation plan is designed to supplement retirement benefits for the CEO. The life insurance policies referred to in Note 8 are available to fund these plans. At December 31, 2016 and 2015, deferred compensation accruals totaled $574,061 and $357,257, respectively. At December 31, 2016 and 2015, salary continuation accruals totaled $115,239 and $75,463, respectively. Accruals for both of these plans are included in salaries and employee benefits in 2016 and 2015 totaling $256,580 and $229,081, respectively.

Note 17 Lines of Credit

The Comanche National Bank has established approximately $21,129,500 in unsecured lines of credit for overnight purchase of federal funds. These lines may be cancelled without any prior notification. There were no outstanding balances on these lines of credit at December 31, 2016 and 2015.

Note 17 Lines of Credit, continued

The Comanche National Bank has also established a borrowing line with FHLB. At December 31, 2016, there were available funds of approximately $51,538,200 on this borrowing line. This line is secured by a blanket pledge of eligible loans with a carrying amount of approximately $113,772,000 at December 31, 2016. There were no outstanding balances on this line at December 31, 2016 and 2015.

Note 18 Concentrations of Credit Risk

The Corporation maintains its cash accounts with several correspondent banks. Generally, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. At December 31, 2016, there were uninsured deposits in correspondent banks totaling $1,284,637. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

The Corporation grants agribusiness, commercial, consumer and real estate loans to customers within Comanche, Palo Pinto, Parker and Jack Counties, Texas and the surrounding areas. A substantial portion of its debtors' ability to honor their contracts is dependent upon the agribusiness and real estate economic sectors in that geographic area. Concentrations of credit by loan type are set forth in Note 5.

Note 19 Restrictions on Dividends

In the ordinary course of business, the Corporation is dependent upon dividends from The Comanche National Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. At December 31, 2016, The Comanche National Bank had dividends of approximately $3,154,500 available to pay without prior regulatory approval.

Note 20 Regulatory Matters

Banks are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: Total Risk-Based capital, Tier 1 capital and Common Equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and Leverage capital, which is Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's Tier 1 capital consists of shareholder's equity excluding unrealized gains and losses on securities available-for-sale, goodwill and other intangible assets.

The Comanche National Bank has been notified by its regulator that, as of its most recent regulatory examination, the Bank is regarded as well capitalized under the regulatory framework for prompt corrective action. Such determination has been made based on the Bank's Common Equity Tier 1, Tier 1, total capital and leverage ratios. There have been no conditions or events since this notification that management believes would change the Bank's categorization as well capitalized under the ratios listed on the next page.

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule recently adopted by federal banking agencies (commonly referred to as Basel III). The new rule establishes a new regulatory capital framework that incorporates revisions to the Basel capital framework, strengthens the definition of regulatory capital, increases risk-based capital requirements and amends the methodologies for determining risk-weighted assets. These changes are expected to increase the amount of capital required by community banking organizations. Basel III includes a multi-year transition period from January 1, 2015 through December 31, 2019.

Management believes that, as of December 31, 2016 and 2015, the Bank would meet all capital adequacy requirements under the Basel III Capital rules on a fully phased-in basis as if such requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

Note 20 Regulatory Matters, continued

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 38,133	23.39%	$ 13,044	8.00%	$ 16,305	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 36,083	22.13%	$ 9,783	6.00%	$ 13,044	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 36,083	22.13%	$ 7,380	4.50%	$ 10,660	6.50%
Leverage Capital (to Adjusted Total Assets)	$ 36,083	11.40%	$ 12,663	4.00%	$ 15,829	5.00%
As of December 31, 2015:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 36,469	25.41%	$ 11,481	8.00%	$ 14,351	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 34,661	24.15%	$ 8,611	6.00%	$ 11,481	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 34,661	24.15%	$ 6,510	4.50%	$ 9,404	6.50%
Leverage Capital (to Adjusted Total Assets)	$ 34,661	11.32%	$ 12,250	4.00%	$ 15,312	5.00%

Note 21 Fair Values of Financial Instruments

The estimated fair values of the Corporation's financial instruments are as follows:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 19,214,405	$ 19,214,405	$ 8,029,329	$ 8,029,329
Investment securities	170,590,465	170,559,205	189,529,285	189,541,834
FHLB and Fed stock	328,450	328,450	328,050	328,050
Loans, net	122,655,747	123,369,000	108,952,349	110,252,000
Bank-owned life insurance	6,567,159	6,567,159	6,380,007	6,380,007
Accrued interest receivable	1,782,325	1,782,325	1,835,205	1,835,205
Financial liabilities:				
Deposits	289,910,338	289,902,000	280,810,716	280,789,000
Debentures	3,811,000	3,811,000	4,311,000	4,311,000
Accrued interest payable	123,893	123,893	117,076	117,076

The carrying amounts in the preceding table are included in the consolidated balance sheets under the applicable captions.

Note 22 Fair Value Measurements

The Corporation has adopted authoritative guidance issued by the FASB regarding fair value measurements for financial assets and financial liabilities. The authoritative guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

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

Note 22 Fair Value Measurements, continued

The authoritative guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

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

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

Note 22 Fair Value Measurements, continued

Securities Available-for-Sale: U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans: Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Other Real Estate: Other real estate represents foreclosed assets that are reported at the fair value less estimated selling costs of the underlying property. The fair values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on information obtained from customized discounting criteria.

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

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2016:				
Available-For-Sale				
Obligations of states and political subdivisions	$ -	$ 52,925,838	$ -	$ 52,925,838
U.S. government agency mortgage-backed securities	-	107,668,931	-	107,668,931
Collateralized mortgage obligations	-	9,494,792	-	9,494,792
Totals	$ -	$ 170,089,561	$ -	$ 170,089,561
December 31, 2015:				
Available-For-Sale				
Obligations of states and political subdivisions	$ -	$ 52,437,604	$ -	$ 52,437,604
U.S. government agency mortgage-backed securities	-	128,936,420	-	128,936,420
Collateralized mortgage obligations	-	7,546,513	-	7,546,513
Totals	$ -	$ 188,920,537	$ -	$ 188,920,537

Note 22 Fair Value Measurements, continued

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

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

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2016:				
Impaired loans	$ -	$ 1,190,578	$ -	$ 1,190,578
Less valuation allowance for possible loan losses	-	(178,587)	-	(178,587)
Impaired loans, net	$ -	$ 1,011,991	$ -	$ 1,011,991
December 31, 2015:				
Impaired loans	$ -	$ 521,360	$ -	$ 521,360
Less valuation allowance for possible loan losses	-	(86,483)	-	(86,483)
Impaired loans, net	$ -	$ 434,877	$ -	$ 434,877

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate, which subsequent to their initial recognition, were remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2016 and 2015, the Corporation had other real estate totaling $32,760 and $138,488, respectively. Fair values were determined using Level 2 measurements.

Note 22 Fair Value Measurements, continued

The following table presents foreclosed assets that were remeasured and reported at fair value:

	2016	2015
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ 118,827	$ 138,488
Charge-offs recognized in the allowance for loan losses	(20,067)	-
Fair Value	$ 98,760	$ 138,488
Foreclosed assets remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ -	$ -
Writedowns included in other non-interest expense	-	-
Fair Value	$ -	$ -

Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Corporation's provision for loan losses. Regulatory guidelines require the Corporation to reevaluate the fair value of other real estate owned on at least an annual basis.

OTHER FINANCIAL INFORMATION

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016

	COMANCHE NATIONAL CORP.	COMANCHE NATIONAL CORP. OF DELAWARE	THE COMANCHE NATIONAL BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2016
ASSETS					
Cash and due from banks	$ 1,969,570	$ 10,738	$ 6,487,880	$ (1,969,570)	$ 6,498,618
Interest-bearing deposits maturing					
in less than three months	-	-	12,715,787	-	12,715,787
Investment securities:					
Available-for-sale	-	-	170,089,561	-	170,089,561
Held-to-maturity	-	-	500,904	-	500,904
Federal Home Loan Bank and					
Federal Reserve Bank stock, at cost	-	-	328,450	-	328,450
Investment in subsidiaries	38,737,057	38,616,067	-	(77,243,124)	110,000
Loans, net of deferred loan fees and					
allowance for loan losses	-	-	122,655,747	-	122,655,747
Premises and equipment, net of					
accumulated depreciation	30,939	-	5,689,897	-	5,720,836
Other foreclosed and repossessed assets	-	-	39,096	-	39,096
Net deferred tax asset	-	-	1,208,967	-	1,208,967
Goodwill	-	-	3,814,844	-	3,814,844
Bank-owned life insurance	-	-	6,567,159	-	6,567,159
Accrued interest receivable	136	-	1,782,189	-	1,782,325
Other assets	35,978	252	319,671	(21,817)	334,084
Total Assets	$ 40,773,680	$ 38,627,057	$ 332,200,152	$ (79,234,511)	$ 332,366,378
LIABILITIES					
Deposits	$ -	$ -	$ 291,879,908	$ (1,969,570)	$ 289,910,338
Other liabilities:					
Dividends payable	502,690	-	-	-	502,690
Accrued interest payable	4,703	-	119,190	-	123,893
Deferred compensation plans	-	-	689,300	-	689,300
Other accrued expenses	-	-	873,870	-	873,870
Federal income tax payable:					
Current	-	-	21,817	(21,817)	-
Debentures payable	3,811,000	-	-	-	3,811,000
Total other liabilities	4,318,393	-	1,704,177	(21,817)	6,000,753
Total Liabilities	4,318,393	-	293,584,085	(1,991,387)	295,911,091
SHAREHOLDERS' EQUITY					
Common stock, no par value, stated value					
$2 per share:					
Authorized - 2,000,000 shares					
Issued - 450,000 shares	900,000	5	900,000	(900,005)	900,000
Capital surplus	17,446,851	28,981,906	5,238,270	(34,220,176)	17,446,851
Retained earnings	22,087,408	10,928,405	33,761,056	(44,689,461)	22,087,408
Accumulated other comprehensive					
loss, net of tax benefit of $661,073	(1,283,259)	(1,283,259)	(1,283,259)	2,566,518	(1,283,259)
Treasury stock at cost - 47,848 shares	(2,695,713)	-	-	-	(2,695,713)
Total Shareholders' Equity	36,455,287	38,627,057	38,616,067	(77,243,124)	36,455,287
Total Liabilities and Shareholders' Equity	$ 40,773,680	$ 38,627,057	$ 332,200,152	$ (79,234,511)	$ 332,366,378

See Independent Auditor's Report.

COMANCHE NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016

	COMANCHE NATIONAL CORP.	COMANCHE NATIONAL CORP. OF DELAWARE	THE COMANCHE NATIONAL BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2016
Interest income					
Interest and fees on loans	$ -	$ -	$ 7,016,617	$ -	$ 7,016,617
Interest on investment securities:					
Taxable	-	-	2,555,703	-	2,555,703
Exempt from federal income tax	-	-	1,581,111	-	1,581,111
	-	-	4,136,814	-	4,136,814
Interest on federal funds sold and deposits in correspondent banks	-	-	28,230	-	28,230
Other interest	2,976	-	-	-	2,976
Total interest income	2,976	-	11,181,661	-	11,184,637
Interest expense					
On deposits	-	-	1,264,352	-	1,264,352
On borrowings	101,895	-	1,086	-	102,981
Total interest expense	101,895	-	1,265,438	-	1,367,333
Net interest income (expense)	(98,919)	-	9,916,223	-	9,817,304
Provision for loan losses	-	-	-	-	-
Net interest income (expense) after provision for loan losses	(98,919)	-	9,916,223	-	9,817,304
Non-interest income					
Service charges on deposit accounts	-	-	772,224	-	772,224
Equity in undistributed income of subsidiaries	1,422,945	1,423,435	-	(2,846,380)	-
Dividend income from subsidiaries	1,500,000	1,500,000	-	(3,000,000)	-
Net gain on sales of investment securities (includes $126,701 of accumulated other comprehensive gain reclassifications for unrealized net gains on available-for-sale securities)	-	-	212,265	-	212,265
Gain on sale of other real estate	-	-	6,684	-	6,684
Earnings on bank-owned life insurance	-	-	187,152	-	187,152
Other	-	-	485,607	-	485,607
Total non-interest income	2,922,945	2,923,435	1,663,932	(5,846,380)	1,663,932
Non-interest expense					
Salaries and employee benefits	-	-	5,337,901	-	5,337,901
Occupancy expense	700	-	581,732	-	582,432
Furniture and equipment expense	-	-	481,205	-	481,205
Other	6,200	742	1,650,599	-	1,657,541
Total non-interest expense	6,900	742	8,051,437	-	8,059,079
Income before income taxes	2,817,126	2,922,693	3,528,718	(5,846,380)	3,422,157
Federal income tax (benefit)	(35,977)	(252)	605,283	-	569,054
Net Income	$ 2,853,103	$ 2,922,945	$ 2,923,435	$ (5,846,380)	$ 2,853,103

See Independent Auditor's Report.

THE COMANCHE NATIONAL BANK
NON-INTEREST EXPENSE
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Salaries and employee benefits:		
Salaries, bonuses and deferred compensation	$ 4,188,480	$ 3,976,105
Payroll taxes	263,658	255,517
Employee insurance premiums	630,918	610,137
Contribution to profit-sharing plan	254,845	238,997
Total	5,337,901	5,080,756
Occupancy expense:		
Depreciation - building	202,647	193,206
Maintenance and repairs	54,025	43,452
Utilities	86,008	92,920
Insurance - building	55,793	32,038
Taxes - ad valorem	98,522	97,625
Janitorial expense	84,737	63,265
Total	581,732	522,506
Furniture and equipment expense:		
Depreciation - furniture and equipment	129,014	164,839
Machine maintenance and rental	344,910	357,020
Fixed assets direct expense	4,275	4,397
Data processing expense	3,006	3,003
Total	481,205	529,259
Other expense:		
Directors fees	60,925	65,075
Advertising	98,489	89,059
Contributions	38,590	37,869
Dues and subscriptions	39,731	38,992
Examination fees	102,766	104,822
FDIC assessment	155,898	171,266
Insurance and bonds	33,106	42,722
Legal and professional	190,620	180,446
Loan expense	25,512	34,116
Postage and freight	113,754	113,206
Stationery, printing and supplies	73,212	64,578
Taxes - franchise and other	5,058	7,991
Telephone	206,104	191,676
Travel and automobile	20,952	18,060
Federal Reserve Bank charges	26,860	25,972
Depreciation - auto	10,422	10,422
Internet banking expense	46,404	54,761
Other expenses	402,196	375,232
Total	1,650,599	1,626,265
Total Non-Interest Expense	$ 8,051,437	$ 7,758,786

See Independent Auditor's Report.